

# Länsförsäkringar Liv

Annual Report

# 2018



# About us

## Contents

### Introduction

2 Statement by the President

### Operations

4 Board of Directors' Report

8 Sustainability Report

12 Total return table

13 Five-year summary

### Financial statements

15 Income statement

15 Statement of comprehensive income

16 Performance analysis

18 Balance sheet

20 Statement of changes in equity

21 Cash-flow statement

22 Notes

49 Auditor's report

### Other information

52 Corporate Governance Report

58 Board of Directors and auditor

60 Executive management

61 Definitions

61 Address

## Länsförsäkringar Liv



## Managing SEK 109 billion in traditional life assurance

Länsförsäkringar Liv is the Länsförsäkringar Alliance's life-assurance company for traditional management. Länsförsäkringar Liv manages a total of SEK 109 billion divided into four management forms: New Trad, Old Trad, New World and Insured Pension. The opera-

tions are conducted according to mutual principles, which entails that earnings are not distributed to owners; they remain with the company's customers. The company is closed for new business.

## Länsförsäkringar in brief

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

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB and its subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through their regional insurance company. The regional insurance companies are owned by the insurance customers – there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary task. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has 3.9 million customers and 6,700 employees.

3.9 million customers

23 local regional insurance companies

Länsförsäkringar AB

Länsförsäkringar  
Sak Försäkrings AB

Länsförsäkringar  
Bank AB

Länsförsäkringar  
Fondliv Försäkrings AB

Länsförsäkringar  
Liv Försäkrings AB<sup>1)</sup>

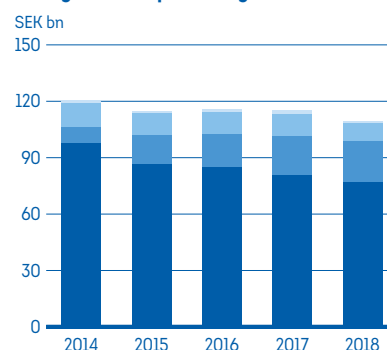
<sup>1)</sup>The company is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

# The 2018 fiscal year

## Earnings 2018 Figures in parentheses pertain to 2017

- Weak capital markets with low interest rates and falling stock markets at the end of the year presented challenges for traditional insurance. Despite this, Länsförsäkringar reported positive earnings and a capital situation that remained stable.
- Operating profit for Länsförsäkringar Liv amounted to SEK 609 M (3,121). A positive risk result, transitions to New Trad and changed assumptions for calculating technical liabilities contributed positively to earnings. The change in earnings compared with the preceding year was primarily the result of lower investment income.
- The total return for New Trad amounted to -0.6% (6.4) and for Old Trad to 0.9% (2.7). Collective consolidation was 105% (117) for New Trad and 124% (123) for Old Trad.
- The bonus rate for New Trad was lowered from 6% to 5% on 1 October. In connection with this reduction, an extra bonus of 5% was allotted. The bonus rate for Old Trad was raised from 2% to 3% from 1 September.
- Transitions to New Trad remained a priority activity in strengthening the company's balance sheet. Insurance policies with a total insurance capital of more than SEK 17 billion have transitioned to New Trad since 2013.
- The solvency ratio calculated according to Solvency II amounted to 200% and own funds to SEK 23,485 M.

### Managed assets per management form<sup>1)</sup>

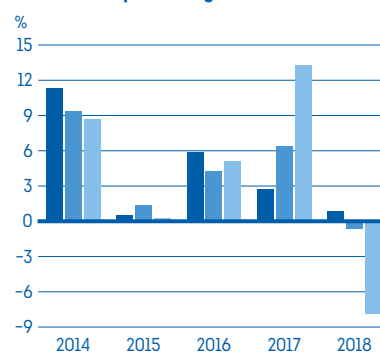


Länsförsäkringar Liv's New Trad management form has increased to SEK 22 billion since it was started in 2013.

● New World ● New Trad ● Old Trad

<sup>1)</sup> Excluding Insured Pension.

### Total return per management form<sup>1)</sup>



The diagram above shows the total return over the past five years per management form.

● New World ● New Trad ● Old Trad

<sup>1)</sup> Excluding Insured Pension.

Managed assets, SEK billion

# 109

Number of policies, thousand

# 650

## Key figures

SEK M	2018	2017	2016	2015	2014
Investment assets, New Trad	21,836	20,803	17,983	15,004	8,591
Investment assets, Old Trad	76,631	80,572	84,718	86,636	97,572
Investment assets, New World	9,890	11,881	11,349	11,737	12,703
Solvency ratio, %	200	207	195	182 <sup>1)</sup>	-
Collective consolidation ratio, New Trad, %	105	117	114	114	120
Collective consolidation ratio, Old Trad, %	124	123	125	120	120
Total return, New Trad, %	-0.6	6.4	4.3	1.4	9.4
Total return, Old Trad, %	0.9	2.7	5.9	0.5	11.3
Total return, New World, %	-7.8	13.3	5.1	0.3	8.7

<sup>1)</sup> Opening balance on 1 January 2016 under Solvency II.

# Favourable conditions continue for our customers

**Statement by the President** A traditional life-assurance portfolio with a healthy balance and diversification must also be able to perform in a volatile market. Conscious risk-taking combined with solid reserves will provide even and stable dividends to our customers.

## Market trend

First, a few words about the capital markets, which were marked by turbulence during the year and uncertainty regarding the direction of the economy. The global equities markets rose at the start of the year, followed by a correction in February and subsequently an upturn until September. Global stock markets fell sharply in the final quarter of the year due to greater concern about protectionism and a slowdown in the global economy.

We saw signs of decline in growth of the global economy and greater disparities between regions. The US economy grew as a result of its expansive fiscal policy, while Europe and emerging market countries levelled off. Swedish growth slowed during the year due to reduced housing investments and lower private consumption. Inflation, driven by higher energy prices, rose until September but slowed at the end of the year.

Market interest rates, which are very important to a company such as ours, increased in the US following rate rises by the Fed, whereas long-term interest rates fell in Europe on the back of economic concern. In Sweden, short-term interest rates increased when the Riksbank lifted the repo rate in December. However, global rates declined in the final quarter of the year driven by growing stock-market turmoil. The currency market was dominated by a stronger USD with interest-rate differentials increasing in relation to surrounding countries. The SEK declined during the year but stabilised slightly in December following the rate hike by the Riksbank.

Overall, it was a relatively volatile year in the financial markets.

## The past year

Returns for our three largest portfolios were impacted by the volatility and turmoil arising at the end of the year. The equities-heavy New World portfolio generated a return of a negative 7.8%, the interest-rate-heavy Old Trad portfolio a positive 0.9% and the mixed New Trade portfolio a negative 0.6%. Earnings were affected by stock-market declines as well as the strong USD, where we decided to hedge parts of mainly the New World portfolio.

With a strong solvency margin, we could still pay a favourable bonus rate in the traditional portfolios for the year. The bonus for New Trad was at 6% and 5% during the year and an extra one-off payment of 5% was made to customers who transitioned from Old Trad to New Trad. It was a good year for these savers.

For Old Trad, we could raise the bonus rate to 3% for the first time since 2011, despite its high guarantee levels based on a cautious approach to risk-taking and investment mix.

A traditional life-assurance portfolio with a healthy balance and diversification, such as New Trad, must also be able to perform in a volatile market. Conscious risk-taking combined with solid reserves will provide even and stable dividends to our customers.

We developed further opportunities to transfer to New Trad, mainly from the New World and Insured Pension portfolios. These offers generated widespread interest and a high number of customers accepted the offer. A key measure of customer value and customer care is allowing customers to voluntarily choose an option based on facts about individual circumstances.

## Sustainability is part of our business

Our work to become even more sustainable and develop our strategy for sustainable investments is continuing and will be further improved. There is great interest in the market for green investments and the offering is somewhat limited, but the objective of our portfolios and focus is to increase the number of sustainable investments. We know that this is a necessity over time and that we bear a great responsibility in this respect, which will also create favourable conditions for high returns for our customers. We see no conflict of interests between returns and sustainability – quite the opposite in fact.

Länsförsäkringar has a strong brand as regards sustainability and was named Sweden's most sustainable insurance company by Sustainable Brand Index for the fourth time – and this mindset will also characterise our investing activities.

## The future

We closed for new business in September 2011 after the sharp fall in interest rates in the wake of the European debt crisis. We could not justify accepting new customers with the high guaranteed interest rates that our traditional portfolios offer and that could not be adjusted. Since then, the company has worked intensively and conscientiously to stabilise our most important key figures, restructure the four pension portfolios and adapt the organisation and costs to the prevailing interest-rate scenario and expected future return potential.

We now maintain a good balance between risk and returns. We are seeing success in our transfers from Old Trad, which has high guarantee commitments with limited return potential, to New Trad, with lower guarantee levels and a favourable and diversified asset mix.

The number of customers and managed assets will naturally decline over time since we are closed for new business. This pres-



” All focus will now remain on creating the best possible conditions for the existing customer groups. We are well-equipped for the future!

ents new challenges in terms of cost efficiency and opportunities for well-diversified management portfolios.

All focus will now remain on creating the best possible conditions for the existing customer groups in our portfolios based on the prerequisites of each individual portfolio. This will take place based on well-balanced risk-taking, an efficient organisation and sustainability in everything that we do.

We are well-equipped for the future!

I am now stepping down according to agreement after having worked at Länsförsäkringar Liv for 15 years, 11 of which as President. I am very grateful for having been part of Länsförsäkringar's development for such a long and exciting period. I will be succeeded by our current CFO Jakob Carlsson on 1 May, who after working for 10 years at Länsförsäkringar has extensive experience that will enable him to lead Länsförsäkringar Liv.

Stockholm, March 2019

Jörgen Svensson  
President of Länsförsäkringar Liv

# Board of Directors' Report

The Board of Directors and the President of Länsförsäkringar Liv Försäkringsaktiebolag (publ), Corporate Registration Number 516401-6627, hereby submit the Annual Report for the 2018 fiscal year.

## Ownership and Group structure

Länsförsäkringar Liv Försäkringsaktiebolag (publ), referred to below as Länsförsäkringar Liv, is a wholly owned subsidiary of Länsförsäkringar AB (Corp. Reg. No. 556549-7020), which in turn is owned by the 23 regional insurance companies together with 16 local insurance companies. The company is operated in accordance with mutual principles, which means that the earnings remain with the customers. The company is not consolidated in the Länsförsäkringar AB Group's income statement and balance sheet.

## Focus of operations

Länsförsäkringar Liv is licensed to conduct life-assurance and non-life insurance operations. The company conducts life-assurance operations with mixed savings and risk insurance in three management forms: New Trad, Old Trad and New World, specialist savings insurance in the Insured Pension management form and specialist risk insurance with health and mortality products. The company's non-life insurance commitments, which represent a small part of the company's business activities, comprise products in accident cover and invalidity benefit. The company is closed for new business but receives premiums for existing insurance policies.

In traditional life assurance, customers' capital is normally invested in interest-bearing securities, equities, properties and alternative investments. Old Trad, where the main focus is to meet relatively high guarantee levels over the long term, largely comprises interest-bearing assets. New Trad, which has lower guarantee levels, has greater scope for flexibility in investments that can be expected to generated higher returns in the short term. 30% of investments in New World normally comprise interest-bearing securities and 70% equities, but the percentage of equities may vary between 60% and 80%. The percentage of equities at year-end was 66%.

## Financial markets

The global economy performed relatively well in 2018 with growth of just under 4%. However, global growth slowed in the second half of the year following the economic boom and high growth in GDP of the last few years. The US reported the strongest trend with healthy GDP growth and high confidence among both consumers and companies. The most important driver was the expansive fiscal policy that includes tax reductions. The Fed lifted its key interest rate by 0.25 percentage points four times during the year and has indicated that two additional hikes can be expected in 2019. The US economy is expected to contract going forward in line with both fiscal and monetary policy becoming less expansive. Growth in China declined slightly in 2018, mainly driven by new regulations that slowed credit growth. Due to the weaker economic outlook, both fiscal and monetary policy changed track in a more expansive direction in a bid to stimulate the economy. The growth rate in the Eurozone clearly decelerated but still ended up at close to 2%. The ECB left its key interest rate unchanged at 0% during the year and indicated that the first hike would not be until the second half of 2019 at the earliest. Nonetheless, the ECB unwound its monetary stimulus programmes by gradually reducing its net purchases of bonds and subsequently ended them at the end of the year.

2018 was a significantly more dramatic year for the financial markets than the real economy appeared to suggest. The trend in the financial markets for the first three quarters of the year was relatively stable, but the last quarter was dominated by uncertainty and considerably higher volatility. The change in sentiment was driven by such factors as concern for growth related to the trade war between the US and China, uncertainty surrounding Brexit and Italy's government finances. Stock markets tumbled sharply in the fourth quarter and the Stockholm Stock Exchange ended the

full-year down almost 8%. This trend resulted in lower expectations about future key interest rates, falling long-term government bond rates and greater differences between rates for corporate and government bonds. Rates on covered bonds also declined during the year.

The Swedish economy performed relatively well, with both growth and employment reporting positive trends, and unemployment declined despite a growing labour force. The housing market stabilised during the year following a weaker initial trend and housing prices have risen slightly for the country as a whole. Housing construction remained at relatively high levels and more housing units were completed in 2018 than in 2017, although the number of started housing units declined. In December, the Riksbank raised the repo rate by 0.25 percentage points to -0.25% since inflation and inflation expectations were deemed to have become established at about 2%.

## Significant events during the year

Swedish long-term interest rates that impact the value of liabilities remained at historically low levels in 2018. The Swedish ten-year rate fell by about 20 basis points, which increased the value of liabilities. Returns in mainly New Trad and New World were also impacted by falling stock markets at the end of the year.

Measures continued to be taken to strengthen the balance sheet and key figures in 2018. Transitions to New Trad is one of the most important activities in this work. Such transitions to New Trad are offered to the customer groups for which such a change is expected to be advantageous. In this way, the transition benefits both the customers who change to New Trad and all of the company's customers due to strengthened key figures.

The offer to transfer to New Trad has been sent to customers with a total insurance capital of SEK 38 billion. Customers with a total insurance capital of more than

SEK 17 billion have transferred their insurance to New Trad, of which more than SEK 1.7 billion was changed in 2018. Customers with insurance in New World and Insured Pension also received the transition offer in 2018. The interest shown in the offer was high and a total of SEK 1.4 billion was moved from these management forms.

Since the company is closed for new business and the insurance portfolio is gradually decreasing, operating expenses must follow the same trend so that the charge per insurance policy does not increase over time. As part of this work, a decision was made to sign a long-term service agreement with Länsförsäkringar AB and Länsförsäkringar Fondliv for deliveries of services at a fixed price per year.

Länsförsäkringar Liv, as one of several owners, participated in the restructuring of Bergvik Skog, which involves the Swedish forest assets in Bergvik Skog AB being divided between the owners. Together with a consortium of most of the large owners of Bergvik Skog, Länsförsäkringar Liv also signed an agreement with Stora Enso to divest part of the holdings in Bergvik Skog. The restructuring and sale process are expected to be completed in 2019 and have a positive contribution to Länsförsäkringar Liv's returns.

### **Earnings and financial position**

Profit for Länsförsäkringar Liv amounted to SEK 609 M (3,121). The change in profit compared with 2017 was largely due to lower investment income, as a result of weaker stock markets in the fourth quarter, and the negative interest rate trend in 2018.

Despite weak capital markets at the end of the year, earnings for 2018 were positive, mainly due to the risk result of SEK 503 M, transitions to New Trad and changed assumptions for calculating technical liabilities. Transitions to New Trad made a positive contribution to earnings in 2018 based on lower technical provisions. In addition, increases in value of alternative

assets, mainly properties and forest, contributed to profit for the year.

Profit was negatively impacted by a decline in the discount rate for the liability during the year. Changes in market interest rates affect Länsförsäkringar Liv's earnings with falling market interest rates leading to higher liabilities since future commitments are discounted with the market interest rate. However, the company can largely protect itself from interest-rate changes impacting earnings by applying a strategy whereby assets and liabilities are matched against each other. The effect is achieved by matching the investment assets with liabilities to protect earnings from falling interest rates. About 75% of the regulatory interest-rate risk is protected by using this strategy. It also entails that, in periods of rising rates, matching will reduce the positive effect that an increase in interest rates otherwise would have had on earnings. Apart from falling market interest rates, discounting was negatively impacted by the Ultimate Forward Rate (UFR) being lowered by 0.15 percentage points from 4.2% to 4.05%. The UFR affects the discounting of liabilities with terms of more than ten years. In total, falling interest rates, negative interest rates and a lower UFR had a net impact of SEK -0.9 billion on profit for 2018.

Net investment income recognised in profit or loss was SEK -527 M (5,479). The total return in Länsförsäkringar Liv's Old Trad portfolio was 0.9% (2.7). The total return for New Trad amounted to -0.6% (6.4) and for New World to -7.8% (13.3).

### **Premium income**

Premium income in Länsförsäkringar Liv in 2018 amounted to SEK 1,685 M (1,711), down 2%. The company has been closed for new business since 2011, meaning that the portfolio of premium-paying policies has gradually declined. Paid-up insurance and external transfers, combined with no additional new insurance policies, meant that the portfolio continued to decline.

### **Claims payments**

Claims payments amounted to SEK 4,939 M (5,404). The amount includes the value of transfers of SEK 358 M (492) from Länsförsäkringar Liv.

### **Change in technical provisions**

Technical provisions declined SEK 3,433 M in 2018 to SEK 80,863 M (84,296). The main reason was a negative cash flow with payouts and external transfers of capital exceeding premium income. Transitions to New Trad and changed assumptions also contributed to the decline.

### **New Trad**

Existing Länsförsäkringar Liv customers have had the opportunity to transition their insurance to New Trad. The transition to New Trad means new conditions for the insurance policy, including lower fees and lower guarantees than in Old Trad. The reduced guarantee allows capital to be invested in other types of assets that have higher expected returns.

New Trad had managed assets of SEK 21.8 billion (20.8) at year-end. On 31 December 2018, the allocation of investment assets in the New Trad portfolio was: 59% interest-bearing securities, 34% equities, 5% alternative investments and 2% property. The return on the various asset classes was as follows: interest-bearing securities 0.9% (2.5), equities -5.6% (17.3), alternative investments 7.7% (1.2) and properties 16.8% (19.7). Investment return for New Trad amounted to -0.6% (6.4) in 2018. Interest-bearing investments made a positive contribution of 0.6%, while equities contributed a negative 1.9%. The average return has been 4.9% per year since the start in 2013.

Collective consolidation in New Trad amounted to 105% (117) at year-end.

The bonus rate for New Trad on 31 December 2018 was 5% (6). The bonus rate was lowered from 6% to 5% on 1 October 2018. In connection with this, an extra bonus of 5% was allotted. The bonus rate for New

Trad was lowered from 5% to 3% on 1 January 2019.

The average bonus rate since New Trad started in 2013 has been 7.1%.

### **Old Trad**

The primary aim of risk-taking in the Old Trad investment portfolio is to ensure that the guaranteed pension levels can also be realised in the event of a negative market trend. At the same time, balanced risk-taking is applied to facilitate a reasonable return on customers' savings. Uncertainty in the financial markets combined with low market interest rates meant that the percentage of fixed-income investments remained high for Old Trad. The total risk level declined slightly at the end of the year. On 31 December 2018, asset allocation in Old Trad was as follows: 88% interest-bearing securities, 6% equities, 4% alternative investments and 2% properties. The return on the various asset classes was as follows: interest-bearing securities 0.9% (2.2), equities -1.8% (14.6), alternative investments 7.4% (1.2) and properties 15.7% (21.7). Managed assets in Old Trad amounted to SEK 76.6 billion (80.6) and the investment return was 0.9% (2.7).

Collective consolidation in Old Trad amounted to 124% (123) at year-end.

The bonus rate for Old Trad on 31 December 2018 was 3% (2). The bonus rate was raised from 2% to 3% on 1 September 2018. The average bonus rate for Old Trad over the past ten years was 2.2%.

### **New World**

New World is a traditional insurance policy whereby customers benefit from changes in value in the equities market, while at the same time are guaranteed to recoup over time at least the premiums paid, after deductions for expenses and yield tax.

The investment mix for the New World management form can vary within defined intervals, with the percentage of equities comprising 60–80% and the remainder

comprising interest-bearing investments. The percentage of equities on 31 December 2018 was 66%. The percentage of equities fell 4 percentage points in November.

Managed assets amounted to SEK 9.9 billion (11.9) and investment income was -7.8% (13.3).

### **Insured Pension**

Savings in Insured Pension comprise two parts, firstly a bond that extends over the entire savings period and secondly an equities derivatives fund that tracks the equities markets. Insured Pension thus offers savers the opportunity to profit from stock-market upswings, while protecting them from stock-market slumps. The savings perform differently for different savers depending on the share of bonds in each policy. The return for the year for a typical customer with 12 years until retirement was -2.4%. In 2018, Insured Pension customers were invited to transfer to New Trad. This offer was well received and a total of more than SEK 800 M in customer capital was transferred to New Trad. Managed assets in Insured Pension amounted to SEK 1.0 billion (1.9).

### **Risk operations**

Risk operations for Länsförsäkringar Liv comprise products for life-assurance cover, survivor's protection, accident and health-insurance cover and invalidity benefit. Risk operations are largely integrated with the company's savings and occupational-pension products. The risk result after reinsurance amounted to SEK 503 M (218). The claims ratio totalled 13% (50). The result was positively affected by dissolutions of reserves of about SEK 300 M for the year. The company's agreement on excess loss reinsurance for mobility and mortality risks was terminated for 2018. Claims that occurred under the agreement prior to 2018 will be managed in run-off, meaning that Länsförsäkringar Liv and the reinsurer will share responsibility for these claims in accordance with the agreement. Premium

income for own account increased year-on-year to SEK 656 M (525).

### **Capital situation**

Länsförsäkringar Liv's primary measure of its capital situation has comprised the solvency ratio under Solvency II since 2016. This performance measure shows the ratio between own funds and a risk-based capital requirement according to an approved partial internal model. The company has worked actively on measures to strengthen the company's balance sheet and own funds for several years. The company has followed a plan, which contains several measures for enhancing the efficiency of the company's operations and strengthening the balance sheet. A strengthened balance sheet provides the company with greater flexibility and opportunities to invest in asset classes with higher expected returns. These measures contributed to the company's equity strengthening from SEK 10.9 billion to SEK 24.0 billion between 2012 and 2018.

The company has pursued a strategy whereby the investment portfolio was largely matched against liabilities to protect the company's surplus against falling interest rates. Part of the matching strategy was to generate a certain surplus when interest rates rise. ALM analyses are used to optimise the investment portfolios so that the correlation between risk and return is as advantageous as possible. Transitions to New Trad since 2013 have also been an important part in the work on strengthening the balance sheet, while lower guarantees and thus a reduced need for reserves have led to a higher surplus.

Länsförsäkringar Liv's own funds according to Solvency II declined SEK 1.6 billion during the year from SEK 25,129 M to SEK 23,485 M, due to such factors as paid surplus. Surplus is paid together with pension payments and impacts the company's own funds. Surplus of SEK 1.1 billion was paid in 2018. The capital requirement amounted to SEK 11,742 M (12,170). The capital requirement



fell as a result of reduced managed assets and a lower share of equities. The solvency ratio amounted to 200%, down 7 percentage points in 2018.

### Risks and risk management

A central task for Länsförsäkringar Liv is to ensure that the company can meet its guaranteed commitments to customers by a satisfactory margin. This particularly applies to the Old Trad management form where guarantees are high. The continued low interest rates place even higher requirements on the company's risk management. Accordingly, risk-taking is an integrated part of the governance of the operations, and aims at maintaining a satisfactory balance between the level of risk and the conditions for generating returns. The company also works with prospective analyses to ensure long-term capitalisation. Länsförsäkringar Liv is primarily exposed to market risks and life-assurance risks. Among market risks, the risks that entail the highest capital requirements include equities risk, credit risk (spread risk) and interest-rate risk. Market risks are restricted by applying limits to capital requirements from the investment activities. The operations are characterised by a low risk profile and Länsförsäkringar Liv meets legal and supervisory capital requirements by a healthy margin. Länsförsäkringar Liv applies Solvency II to the entire operations and calculates the solvency capital requirement for market risk according to the partial internal model approved by the Swedish Financial Supervisory Authority and the capital requirement for other risks is calculated by applying the standard formula. A more detailed description of the risks to which the company is exposed and how these risks are managed is presented in note 2 Risk and risk management.

### Significant events after the end of the fiscal year

New assumptions regarding the long-term discount rate: the discount rate curve used

to calculate technical provisions regarding longer terms is based on the assumption of an Ultimate Forward Rate (UFR). Calculations of long-term technical provisions for both accounting purposes under IFRS and for solvency calculations under Solvency II are based on this UFR. The rules for determining the UFR under Solvency II have been updated with the rate being lowered by 0.15 percentage points on 1 January 2019. This rate reduction will increase both the technical liabilities under IFRS and under Solvency II by about SEK 320 M.

### New President of Länsförsäkringar Liv

On 1 May 2019, Jörgen Svensson will step down as President of Länsförsäkringar Liv according to agreement. The Board has appointed Jakob Carlsson, who currently serves as CFO and Executive Vice President, as the new President. Jakob Carlsson has worked at Länsförsäkringar Liv for ten years, eight of which in his current role as CFO of Länsförsäkringar Liv.

### Expectations regarding future development

The company has worked for many years on strengthening the balance sheet and improving opportunities for future returns. This work was initiated in 2011 and the situation has improved considerably since then, with the balance sheet strengthening and the risk scope in primarily Old Trad increasing. However, the company's capital situation remains sensitive to very negative scenarios. Accordingly, work on further strengthening the company's balance sheet will continue in 2019.

A review of the collective consolidation fund's distribution between lines of business has been initiated. This review is expected to be completed in 2019 and overall the company will not be affected but the distribution between lines of business may be adjusted.

Work aimed at discounting certain premiums in the risk operations commenced. These risk operations have accumulated

a surplus, which means that a discount can be justified for most of the company's risk products to thereby reduce the accumulated surplus.

### Proposed appropriation of profit

The proposed appropriations will be presented to the Annual General Meeting in May 2019.

The Board of Directors and the President propose that net profit for the year be appropriated as follows, SEK:

Net profit for the year	609,032,192
<b>Total</b>	<b>609,032,192</b>

Of the above net amount, withdrawals from (-) and provision to (+) the collective consolidation fund are proposed as follows, SEK.

Defined-contribution occupational pension insurance	266,769,660
Occupation-linked health insurance and premium exemption	186,250,421
Individual traditional life assurance	77,713,189
Non-cancellable accident and health insurance and premium exemption	71,247,833
Accident and health	7,051,089
<b>Total</b>	<b>609,032,192</b>

The Board of Directors proposes that the Annual General Meeting authorise the Board in the 2019 fiscal year to use up to SEK 1,200 M of the funds in the collective consolidation fund for final allocations in connection with payments of pension and other claims payments to policyholders, transfers of insurance capital and repurchases as well as up to SEK 300 M for discounting premiums for certain risk products.

# Sustainability Report

## **Sustainability Report for Länsförsäkringar Liv for 2018 fiscal year**

This Sustainability Report has been prepared based on the requirements of Chapter 6, Section 11 of the Swedish Annual Accounts Act regarding sustainability reporting.

### **Governance documents**

Länsförsäkringar AB's, including Länsförsäkringar Liv's, governance documents form the basis of sustainability activities and related risks. Governance documents that include sustainability are:

- Sustainability policy
- Code of Conduct for Employees
- Personnel policy
- Equality and diversity plan
- Purchasing and procurement policy
- Code of Conduct for Suppliers
- Policy on anti-money laundering and terror financing
- Guidelines on identifying and managing conflicts of interest
- Policy on improper benefits

The sustainability policy includes the material sustainability topics and aim to provide managers and employees with guidance in their daily sustainability work. The sustainability policy was updated in 2018 to clarify the link to the UN initiatives signed by Länsförsäkringar AB, the link to internal guidelines and policies and the responsibility for sustainability in the operations.

Länsförsäkringar AB, on behalf of Länsförsäkringar Liv, is a signatory of the UN Global Compact's Ten Principles on human rights, labour, environment and anti-corruption and seeks to ensure that the operations comply with these principles. The sustainability policy, Code of Conduct for Employees and Code of Conduct for Suppliers incorporate the principles of the UN Global Compact. Länsförsäkringar AB has also signed the UN Principles for Responsible Investment (PRI), which, together with the UN Global Compact, form the basis of the corporate governance pol-

icy that governs investments. Policies and guidelines are revised annually.

Material sustainability risks are identified and prioritised in cooperation with priority stakeholders: owners and the Board, customers, employees, suppliers, partners, trade organisations, civil society organisations, authorities and investors.

### **Monitoring**

Employees are informed about the content of the sustainability policy and other relevant guidelines in the induction programme for new employees. All employees are also to complete a mandatory e-course that includes the Code of Conduct, security and sustainability every year. The Code of Conduct and e-course are available in Swedish and English. The e-course was updated for 2018.

Self-assessments and operational procedures are applied for the ongoing monitoring of compliance with these policies and guidelines.

### **Governance of sustainability activities**

Länsförsäkringar Liv's Board assumes the overall responsibility for governing sustainability activities and decides on the policies that form the basis of such work. A Sustainability Committee, comprising Group management of Länsförsäkringar AB and the Head of Sustainability for Länsförsäkringar AB, meets at least four times a year to discuss, decide on and follow up priority sustainability topics. The President of Länsförsäkringar Liv is a member of Group management and the Sustainability Committee.

### **General sustainability risks in the investing activities**

Länsförsäkringar Liv invests in Länsförsäkringar's own funds, in externally managed funds and in discretionary mandates. The investment philosophy is based on using leading managers with a variety of management approaches. Sustainability requirements are included in the procurement of

new managers and their work is graded based on various criteria. The aim is to select external managers that integrate sustainability into their asset management and corporate governance. Managers are evaluated every year to ensure that they continuously improve their work on integrating sustainability into asset management.

The basis of the investment strategy is a conviction that the best investments over time are those made in well-managed companies that apply a systematic and integrated approach to sustainability, and that these will be the companies that best manage and identify solutions to local and global social challenges.

Länsförsäkringar Liv's investments have an indirect impact on people, society and the environment through the operations of the individual companies. Länsförsäkringar Liv endeavours to reduce its indirect impact through a systematic process for manager selection procedures, investment analyses, choice of investments, company analysis and dialogue.

### **Company analysis and engagement**

Work related to responsible investments is based on the UN Global Compact's principles and international conventions signed by Sweden in the areas of the environment, human rights, labour laws, corruption and controversial weapons. A consultancy is engaged to review and analyse listed company holdings based on conventions. Starting from these analyses, Länsförsäkringar Liv strives to engage in dialogue with companies that breach these conventions. The aim is that the analysed company will stop committing breaches and take measures to prevent similar incidents from being repeated. If the dialogue does not achieve the desired results, the holdings in the company may, as a last resort, be divested. By encouraging companies to follow the principles of the UN Global Compact, Länsförsäkringar helps reduce their negative impact on people, society and the surrounding environment.

Länsförsäkringar also engages in preventive dialogue on sustainability topics with various companies and often partners with other investors in these dialogues.

### Environmental and climate risks

Climate risk is Länsförsäkringar's greatest sustainability risk. Climate change can impact companies by altering market conditions and through physical climate change. From a reverse perspective, there are investment opportunities in companies that restrict climate change and apply climate-adjustment solutions. Investment opportunities are identified by integrating sustainability topics into investment analyses and decisions. The aim is to contribute to the sustainable development of society within the framework of established asset management targets. Länsförsäkringar Liv can contribute to several of the UN's Sustainable Development Goals (SDGs) through its investment and engagement.

### Coal company exclusions

Länsförsäkringar sees financial risks in investing in companies that base their operations on fossil fuels and other companies that have a major impact on the environment. Mining companies and energy companies that derive more than 20% of sales from thermal coal are divested from Länsförsäkringar's own funds and discretionary mandates in the Länsförsäkringar Liv's portfolios. At year-end 2018, 134 coal companies had been divested.

### Green bonds

Länsförsäkringar also endeavours to reduce climate risks in investments through engagement with companies and by increasing the share of climate-smart investments. Investments in green bonds are an example of investments that aim to finance climate and environment-related projects. Investments in green bonds increased in 2018 from SEK 1.4 billion to SEK 2.6 billion.

The aim for 2019 is to further increase the share of investments in green bonds and extend the investment orientation to include other sustainable bonds than merely green bonds.

### Carbon footprint in investments

The carbon footprint of equities investments in Länsförsäkringar Liv's portfolios is measured every year and reported on the website. The results for 2017 are available at [www.lansforsakringar.se/koldioxidavtryck](http://www.lansforsakringar.se/koldioxidavtryck).

The results of the carbon footprint in Länsförsäkringar Liv's portfolios on 31 December 2018 will be published in the first half of 2019.

### Scenario analysis on climate risk

A climate-scenario analysis of the investment portfolios was performed during the year supported by the "2 degrees initiative" think tank, focusing on the current sector compositions of the equities and credit portfolio. The weight of the sectors was compared with future scenarios and the target of limiting global warming to 2 degrees. For fossil fuels, the portfolio composition was in line with or well below the 2 degree target. There were mixed results for the power supply sector, with gas companies meeting the target while renewable energy had a lower weight than is predicted to be necessary for attaining the climate goal.

Climate risks in companies in two US credit portfolios were analysed. Such analyses are challenging due to a lack of data. Of about 300 companies analysed, carbon data was reported in the external analysis system for about one-third of them. Of this third, ten companies accounted for slightly more than 50% of the carbon footprint in the credit portfolios. In 2018, Länsförsäkringar signed on to the Climate Action 100+ initiative to engage important greenhouse gas emitters, a couple of which are found in the credit portfolios. The institutional portfolios will be subject to a more extensive climate scenario analysis in the future.

Investments	2018	2017
Number of fossil companies excluded from investments	134	129
Number of reactive and proactive company dialogues on environment	37	33
Number of reactive and proactive company dialogues on human rights	83	87
Number of reactive and proactive company dialogues on business ethics	20	21

The table provides information for the Länsförsäkringar AB Group. Dialogues takes place through the company itself and via an ethics consultant.

### Direct environmental impact

Länsförsäkringar Liv's direct environmental impact is relatively limited and primarily comprises business travel, heating and electricity in office premises, and paper print-outs.

Länsförsäkringar AB's office properties, including Länsförsäkringar Liv's, are environmentally classified as energy-efficient. Renewable electricity and district heating are used in these properties. Work methods are continuously reviewed to bring about more energy-efficient electricity consumption and heating. Continuous efforts are made to enhance efficiency in order to reduce the negative environmental impact of the office operations in several areas as regards materials, recycling and waste.

The guidelines for business travel recommend that digital meetings be used in the first instance. If travel is necessary, employees are to travel by rail rather than air. Business travel involving journeys of less than 3.15 hours must always be made by rail and eco-friendly taxis are to be used.

The volume of paper-based communication to customers can be reduced by increasing digital services, thus reducing environmental impact while making information more accessible.

### **Social and personnel-related risks**

Employees are Länsförsäkringar Liv's most important resource. They possess specialist and professional expertise that is vital to carrying out and developing the operations. Being an attractive employer is a focus area for Länsförsäkringar Liv. Diversity and equality, skills development, learning, health and work environment are deemed important for employer attractiveness. Diversity centres on business value and helps to strengthen competitiveness and thus increase profitability.

The personnel policy, Code of Conduct for Employees and the equality and diversity plan form the basis of HR. The equality and diversity plan includes the application of the Equal Opportunity Act and Discrimination Act, as well as targets, action plans and follow-up methods.

### **Diversity and equality**

Länsförsäkringar's definition of diversity and inclusion are the seven grounds for discrimination and everything that makes people different and unique. The importance of an inclusive culture is considered to be critical for benefiting from diversity and welcoming different perspectives and approaches. Different ways of thinking is a key factor for success for learning and innovation, adds value to the business and strengthens competitiveness and profitability. Diversity initiatives also play an important role in being an attractive and responsible employer and broadening the recruitment pool.

A salary survey is performed every year to ensure that no gender discrimination exists for equal positions. Employees have the option of receiving supplementary salary as a complement to the state parents' allowance. The aim of the recruitment process is to ensure a more even gender distribution in working groups and various managerial positions.

Several internal information meetings were arranged in 2018 to highlight the

importance of diversity. Films and checklists for diversity in connection with recruitment were produced. A three-person recruitment team was employed at Länsförsäkringar AB in 2018 and Länsförsäkringar Liv has access to this team for recruitment. One of the team's tasks is to ensure that diversity is an integral part of the recruitment processes.

All business units and departments have diversity-related activities in the Länsförsäkringar AB Group's 2019 business plan. Equality efforts in working groups are continuing. Activity-based working centring on people, IT and flexibility will start to be implemented.

### **Health and work environment**

Länsförsäkringar AB has applied a long-term approach to health and the organisational, social and physical work environment for many years. Proactive work is undertaken to create the conditions to ensure well-being and job satisfaction among employees in a healthy work environment that allows everyone to contribute their commitment, good performance and efficiency in order to attain business targets.

Managers are responsible for addressing employee and health issues arising according to the systematic work-environment process, as well as equality, diversity and discrimination. Employers, managers, employees and health and safety representatives work together on work-environment issues. The organisational and social work environment is regularly monitored to prevent stress and unhealthy work loads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4).

Health care insurance is offered to all employees that includes medical consultations, counselling, preventive health services and rehabilitation. An agreement is in place with occupational health care services for rehabilitation support and work-related ill health, as well as ergonomic advice and regular medical check-ups. One hour of fitness activities during work hours is offered

every week. Länsförsäkringar AB's premises, where the majority of employees work, have a gym and the staff canteen has a focus on sustainability. Employees at other workplaces are offered a fitness subsidy.

The Work Environment and Equality Committee performs overall monitoring of the equality and diversity plan, sickness absence, occupational injuries and near-accidents, and the employee survey. Sickness absence in 2018 was 0.9%.

### **Human rights**

#### ***Risks linked to human rights in the investing operations***

There is a market and business risk that the companies that Länsförsäkringar Liv has invested in could be linked to violations of human rights. To minimise this risk, all holdings are analysed and company engagement is used as the main tool to encourage them to stop such contraventions, assume their responsibility and take action to prevent violations from happening again. Länsförsäkringar also sets requirements and monitors managers' efforts to integrate sustainability aspects, including human rights, into their investment analyses. Länsförsäkringar AB also encourages managers to engage in dialogue with companies.

#### ***Risks in the supplier chain***

Länsförsäkringar AB has a purchasing department, whose function is to leverage Länsförsäkringar AB's total purchasing power. Purchases are made through procurements to find the suppliers that offer services and products of the right quality and the least environmental impact at a cost that is the most financially advantageous in the long term.

Länsförsäkringar Liv's purchases primarily comprise services in IT and telecommunications, financial services, investments and consulting. The largest sustainability risk is deemed to be in the area of work conditions.

The purchasing and procurement policy stipulates the rules and methods for pur-

chasing and procurement. The Code of Conduct for Suppliers has been included in purchasing agreements with all new suppliers since 2016. The Code is based on the principles of the UN Global Compact, and defines requirements regarding human rights, labour, environment and business ethics. This Code applies to potential and existing suppliers and their sub-suppliers. Suppliers are expected to comply with the Code of Conduct. Each contract manager in the operations has the main responsibility for monitoring suppliers.

Sustainability risks in Länsförsäkringar AB's largest purchasing categories were analysed in 2018 and a self-assessment form accompanied by a risk assessment model was produced based on the results. This form serves as a fundamental risk assessment of large suppliers. The model was tested in the autumn of 2018.

### **Risks associated with business ethics and corruption**

Money laundering and terror financing are international problems that pose serious threats to the financial system and its institutions, and ultimately the real economy and national safety. Confidence in the financial system is quickly tarnished if financial institutions are associated with illegal assets and money laundering or used to finance terrorism. The finance industry is subject to rules that seek to prevent and counteract the financial system being utilised for money laundering and terror financing.

The finance industry must also comply with strict rules and regulatory requirements aimed at protecting its customers and maintaining confidence and stability in the financial market.

The rules also seek to prevent and counteract the financial system being utilised for money laundering and terror financing.

The guiding governance documents are the Code of Conduct for Employees, policies and guidelines on anti-money laundering

and terror financing, guidelines for identifying and handling conflicts of interest, and policies on improper benefits.

For Länsförsäkringar Liv, it is essential to apply full regulatory compliance and optimally prevent the operations from being utilised for corruption, fraud, money laundering or terror financing.

Länsförsäkringar Liv makes extensive efforts to limit these risks. Systematic work is conducted to reduce the risk of money laundering and terror financing, such as building up in-depth customer knowledge, active monitoring and transaction reporting.

The general risk assessment performed within the business operations is regularly evaluated and updated as required, and also forms the basis of the governance documents, procedures and other anti-money laundering and terror financing measures. The Compliance function monitors and checks risk-assessment compliance. A new risk assessment is carried out when new products, services and distribution channels are introduced and re-organisations are implemented.

The Länsförsäkringar Alliance has a shared system for reporting deviations.

All employees and contractors working in the life-assurance operations must be familiar with the content of the governance documents and the relevant procedures for anti-money laundering and terror financing. Employees in the life-assurance operations undergo mandatory and regular training on the subject.

### **Corruption risks in the investing activities**

Corruption risk is a risk found in all companies regardless of industry and country. There is a market and business risk that the companies that Länsförsäkringar Liv has invested in could be linked to corruption. To minimise this risk, all holdings are analysed and company engagement is used as the main tool to encourage them to assume their responsibility and take action to prevent violations from happening again. Läns-

försäkringar also sets requirements and monitors managers' efforts to integrate sustainability aspects, including business ethics, into their investment analyses. Länsförsäkringar Liv also encourages managers to engage in dialogue with companies.

### **Corruption risks in Länsförsäkringar's own operations**

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

The Compliance function regularly performs a risk and vulnerability analysis at Länsförsäkringar AB and its subsidiaries to evaluate the risk of bribery or other forms of improper influence. The areas addressed are the operations of each company, size and organisation of each company, market, customers, distribution channels, partners, sponsoring and purchasing. The result of the 2018 risk and vulnerability analysis showed that Länsförsäkringar AB and its subsidiaries are at low risk of being exposed to bribery.

## Total return table

Investment assets in Old Trad, SEK M	Total return, %	Market value, 31 Dec 2018	%	Market value, 31 Dec 2017	%
Interest-bearing	0.9	67,149	87.6	70,029	86.9
Equities	-1.8	4,607	6.0	5,923	7.4
Alternative investments <sup>1)</sup>	7.4	3,361	4.4	3,382	4.2
Properties	15.7	1,514	2.0	1,238	1.5
<b>Total</b>	<b>0.9</b>	<b>76,631</b>	<b>100</b>	<b>80,572</b>	<b>100</b>

Investment assets in New Trad, SEK M	Total return, %	Market value, 31 Dec 2018	%	Market value, 31 Dec 2017	%
Interest-bearing	0.9	12,768	58.5	12,491	60.0
Equities	-5.6	7,419	34.0	7,048	33.9
Alternative investments <sup>1)</sup>	7.7	1,118	5.1	843	4.1
Properties	16.8	531	2.4	421	2.0
<b>Total</b>	<b>-0.6</b>	<b>21,836</b>	<b>100</b>	<b>20,803</b>	<b>100</b>

Investment assets in New World, SEK M	Total return, % <sup>2)</sup>	Market value, 31 Dec 2018	%	Market value, 31 Dec 2017	%
Interest-bearing	1.2	3,402	34.4	3,610	30.4
Equities	-9.1	6,488	65.6	8,271	69.6
<b>Total</b>	<b>-7.8</b>	<b>9,890</b>	<b>100</b>	<b>11,881</b>	<b>100</b>
<b>Total</b>		<b>108,357</b>		<b>113,256</b>	

<sup>1)</sup> The valuation of alternative investments on 31 December is based on the most recent information from fund managers.

<sup>2)</sup> The total return is based on the net asset value (NAV) of the portfolio, while the return per asset class is calculated based on the closing rates in each market.

## Reconciliation total return table with balance sheet

	31 Dec 2018	31 Dec 2017
Shares and participations in Group companies	30	30
Interest-bearing securities issued by Group companies and loans to Group companies	3,056	3,128
Shares and participations in associated companies	0	0
Shares and participations	21,279	21,791
Bonds and other interest-bearing securities	76,644	78,793
Derivatives	5,666	5,766
<b>Total investment assets according to balance sheet</b>	<b>106,675</b>	<b>109,508</b>
Assets for conditional bonus	3,987	5,869
Cash and bank balances	3,978	5,381
Derivatives, liabilities	-3,828	-3,804
Shares and participations in Group and associated companies and loans to Group companies	-33	-38
Non-liquidity-settled purchases and sales of investment assets	-1,360	-1,790
Cash and cash equivalents not included in total return table	-32	-15
Insured Pension	-1,015	-1,872
Other	-15	17
<b>Total according to total return table</b>	<b>108,357</b>	<b>113,256</b>

## Five-year summary

	2018	2017	2016	2015	2014
<b>Earnings measure, SEK M</b>					
Premium income for own account	1,684	1,533	1,720	1,919	2,639
Investment income, net	-527	5,479	5,652	373	12,075
Claims payments	-4,939	-5,404	-5,683	-5,959	-6,627
Disbursed and balanced bonus	-1,075	-1,012	-1,032	-1,222	-1,475
Technical result for insurance operations	798	3,182	2,463	5,386	2,302
Net profit for the year	609	3,121	2,359	5,143	1,966
<b>Financial position, SEK M</b>					
Investment assets measured at fair value	110,662	115,377	116,753 <sup>4)</sup>	115,128	122,188
Technical provisions	84,850	90,165	92,218	93,498	103,009
Solvency capital	24,043	24,477	23,142	21,503	17,651
Of which, surplus value in Group and associated companies	0	0	716	334	341
Of which, deferred tax	-	-	-	-	-
Collective consolidation capital	14,542	16,753	17,956	15,471	16,895
Own funds	23,485	25,129	22,308	20,606 <sup>2)</sup>	-
Own funds (according to FRL wording on 31 Dec 2015) <sup>3)</sup>	-	-	-	21,169	17,310
Minimum capital requirement	2,964	3,042	3,238	3,246 <sup>2)</sup>	-
Solvency capital requirement	11,742	12,170	11,433	11,345 <sup>2)</sup>	-
Own funds, group (Länsförsäkringar AB) <sup>3)</sup>	43,870	44,172	40,602	36,905 <sup>2)</sup>	-
Solvency capital requirement, group (Länsförsäkringar AB) <sup>3)</sup>	33,874	33,441	30,121	28,233 <sup>2)</sup>	-
Required solvency margin (according to FRL wording on 31 Dec 2015) <sup>3)</sup>	-	-	-	3,872	4,214
Own funds, insurance group (according to FRL wording on 31 Dec 2015) <sup>3)</sup>	-	-	-	9,437	7,619
Required solvency margin, insurance group (according to FRL 2010:2043 wording on 31 Dec 2015) <sup>3)</sup>	-	-	-	6,072	6,293
<b>Key figures for Parent Company, % unless otherwise specified</b>					
Management cost ratio	0.4	0.3	0.4	0.4	0.4
Direct yield	0.8	0.9	1.3	1.8	1.5
Total return, Old Trad	0.9	2.7	5.9	0.5	11.3
Total return, New World	-7.8	13.3	5.1	0.3	8.7
Total return, New Trad	-0.6	6.4	4.3	1.4	9.4
Collective consolidation ratio, Old Trad	124	123	125	120	120
Collective consolidation ratio, New Trad	105	117	114	114	120
Solvency rate (according to FRL wording on 31 Dec 2015)	-	-	-	128	122
Solvency ratio, multiple (according to FRL wording on 31 Dec 2015) <sup>3)</sup>	-	-	-	5.6	4.2
Solvency ratio	200	207 <sup>5)</sup>	195	182 <sup>2)</sup>	-
Average bonus rate before tax and expenses, Old Trad	2.3	2.0	2.0	2.0	1.0
Average bonus rate after tax, Old Trad					
Endowment insurance (tax rate 30%)	1.9	1.6	1.6	1.7	0.4
Pension insurances (tax rate 15%)	2.2	1.9	1.9	1.8	0.7
Average bonus rate before tax and expenses, New Trad	10.8 <sup>6)</sup>	5.0	5.5	9.2	6.6
Average bonus rate after tax, New Trad					
Pension insurances (tax rate 15%)	10.7	4.9	5.4	8.9	6.3

<sup>1)</sup> The group under the insurance-operation rules comprises the Parent Company Länsförsäkringar AB, all of the insurance companies in the Group, Länsförsäkringar Bank AB, Wasa Kredit AB, Länsförsäkringar Hypotek AB and Länsförsäkringar Fondförvaltning AB and Länsförsäkringar Liv Försäkrings AB, despite the Länsförsäkringar Liv Group not being consolidated in the Länsförsäkringar AB Group. As stated in the EU Solvency II Directive, the calculations are made in accordance with the consolidation method, except where the insurance-operation rules require deductions from surplus capital in subsidiaries that are not transferable to another company unless the subsidiary in question is an insurance company.

<sup>2)</sup> Opening balance on 1 January 2016 under Solvency II. There are no comparative figures since the regulations came into effect on 1 January 2016.

<sup>3)</sup> An insurance group for Länsförsäkringar AB (publ) together with Länsförsäkringar Liv, Länsförsäkringar Sak and Länsförsäkringar Fondliv due to the amendment of the Swedish Insurance Business Act (2010:2043) effective 1 January 2014.

<sup>4)</sup> Comparative figures for 2016 (but not 2014–2015) have been restated because accrued interest is recognised together with financial instruments measured at fair value. See note 1 for further information.

<sup>5)</sup> Excluding changed assumption on operating expenses, including the changed assumption the solvency ratio is estimated at 200%.

<sup>6)</sup> Of which 5% pertains to a one-off payment that took place in September 2018.

# Financial statements

Income statement	15
Statement of comprehensive income	15
Performance analysis	16
Balance sheet	18
Statement of changes in equity	20
Cash-flow statement	21
<b>Note 1</b> Accounting policies	22
<b>Note 2</b> Risks and risk management	27
<b>Note 3</b> Premium income	33
<b>Note 4</b> Investment income per measurement category	33
<b>Note 5</b> Investment income, revenue	33
<b>Note 6</b> Unrealised gains on investment assets	33
<b>Note 7</b> Claims paid before ceded reinsurance	33
<b>Note 8</b> Operating expenses	34
<b>Note 9</b> Fees and remuneration of auditors	34
<b>Note 10</b> Employees, staff costs and remuneration of senior executives	34
<b>Note 11</b> Investment income, expenses	36
<b>Note 12</b> Unrealised losses on investment assets	36
<b>Note 13</b> Taxes	36
<b>Note 14</b> Shares and participations in Group companies	37
<b>Note 15</b> Interest-bearing securities issued by Group companies and loans to Group companies	37
<b>Note 16</b> Shares and participations in associated companies	38
<b>Note 17</b> Shares and participations	38
<b>Note 18</b> Bonds and other interest-bearing securities	38
<b>Note 19</b> Derivatives	39
<b>Note 20</b> Information about offsetting	39
<b>Note 21</b> Assets and provisions for conditional bonus	39
<b>Note 22</b> Other receivables	39
<b>Note 23</b> Deferred acquisition costs	40
<b>Note 24</b> Share capital	40
<b>Note 25</b> Life-assurance reserve	40
<b>Note 26</b> Provision for claims outstanding	40
<b>Note 27</b> Liabilities, direct insurance	40
<b>Note 28</b> Other liabilities	40
<b>Note 29</b> Financial assets and liabilities by category	41
<b>Note 30</b> Fair value valuation techniques	42
<b>Note 31</b> Transition to IFRS 9 Financial instruments	43
<b>Note 32</b> Recovery dates	44
<b>Note 33</b> Pledged assets and contingent liabilities	44
<b>Note 34</b> Disclosures on related-party transactions, etc.	45
<b>Note 35</b> Significant events after the end of the fiscal year	47
<b>Note 36</b> Proposed appropriation of profit	47
Board's signatures	48
Auditor's report	49



<b>Income statement</b>			
<b>Technical recognition of life-assurance operations, SEK M</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Premium income</b>			
Premium income before ceded reinsurance	3	1,685	1,711
Premiums for ceded reinsurance		-1	-178
<b>Total premium income after ceded reinsurance</b>		<b>1,684</b>	<b>1,533</b>
<b>Investment income, revenue</b>	4, 5	<b>2,524</b>	<b>6,281</b>
<b>Unrealised gains on investment assets</b>	4, 6	<b>47</b>	<b>952</b>
<b>Claims payments</b>			
Claims paid before ceded reinsurance	7	- 5,224	-5,579
Reinsurers' portion		56	114
<b>Total claims paid after ceded reinsurance</b>		<b>-5,168</b>	<b>-5,465</b>
Change in provision for claims outstanding before ceded reinsurance		304	66
Reinsurers' portion		-75	-5
<b>Total change in provision for claims outstanding after ceded reinsurance</b>		<b>229</b>	<b>61</b>
<b>Total claims payments after ceded reinsurance</b>		<b>-4,939</b>	<b>-5,404</b>
<b>Change in other technical provisions after ceded reinsurance</b>			
Life-assurance reserve	25	3,128	3,052
<b>Technical provisions for life assurance for which the policyholder bears the risk</b>			
Conditional bonus		1,864	-1,062
<b>Operating expenses</b>	8, 9, 10	<b>-412</b>	<b>-417</b>
<b>Investment income, expenses</b>	4, 11	<b>-1,978</b>	<b>-1,579</b>
<b>Unrealised losses on investment assets</b>	4, 12	<b>-1,120</b>	<b>-175</b>
<b>Technical result, life-assurance operations</b>		<b>798</b>	<b>3,182</b>
<b>NON-TECHNICAL RECOGNITION</b>			
Technical result, life-assurance operations		798	3,182
Other non-technical expenses		-	-
<b>Profit before appropriations and tax</b>		<b>798</b>	<b>3,182</b>
Tax allocation reserve		-14	61
<b>Profit before tax</b>		<b>784</b>	<b>3,243</b>
Taxes	13	-175	-122
<b>NET PROFIT FOR THE YEAR</b>		<b>609</b>	<b>3,121</b>

<b>Statement of comprehensive income</b>		
<b>SEK M</b>	<b>2018</b>	<b>2017</b>
<b>Net profit for the year</b>	<b>609</b>	<b>3,121</b>
<b>Other comprehensive income</b>	<b>0</b>	<b>-</b>
<b>Items that cannot be transferred to profit or loss</b>		
Change in fair value of equity instruments measured at FVOCI	0	-
<b>Total other comprehensive income for the year, net after tax</b>	<b>0</b>	<b>-</b>
<b>Comprehensive income for the year</b>	<b>609</b>	<b>3,121</b>

## Performance analysis 2018

Direct insurance in Sweden			
Occupational pension insurance			
SEK M	Total	Defined-contribution traditional insurance	Health insurance and premium exemption insurance
<b>Premium income before ceded reinsurance</b>	1,685	839	290
Premiums for ceded reinsurance	-1	-	-1
<b>Total premium income after ceded reinsurance</b>	<b>1,684</b>	<b>839</b>	<b>289</b>
<b>Investment income, revenue</b>	<b>2,524</b>	<b>1,293</b>	<b>39</b>
<b>Unrealised gains on investment assets</b>	<b>47</b>	<b>19</b>	<b>-</b>
<b>Claims payments</b>			
Claims paid before ceded reinsurance	-5,224	-2,526	-181
Reinsurers' portion	56	2	30
<b>Total claims paid after ceded reinsurance</b>	<b>-5,168</b>	<b>-2,524</b>	<b>-151</b>
Change in provision for claims outstanding before ceded reinsurance	304	-	180
Reinsurers' portion	-75	-	-56
<b>Total change in Provision for claims outstanding after ceded reinsurance</b>	<b>229</b>	<b>-</b>	<b>124</b>
<b>Total claims payments after ceded reinsurance</b>	<b>-4,939</b>	<b>-2,526</b>	<b>-27</b>
<b>Change in other technical provisions before ceded reinsurance</b>			
Life-assurance reserve	3,128	1,399	1
<b>Technical provisions for life assurance for which the policyholder bears the risk</b>			
Conditional bonus	1,864	1,093	-
<b>Operating expenses</b>	<b>-412</b>	<b>-169</b>	<b>-53</b>
<b>Investment income, expenses</b>	<b>-1,978</b>	<b>-1,016</b>	<b>-</b>
<b>Unrealised losses on investment assets</b>	<b>-1,120</b>	<b>-623</b>	<b>-</b>
<b>Technical result, life-assurance operations</b>	<b>798</b>	<b>311</b>	<b>249</b>
Tax allocation reserve	-14	-	-10
Taxes	-175	-44	-53
<b>NET PROFIT FOR THE YEAR</b>	<b>609</b>	<b>267</b>	<b>186</b>
Run-off result	321	-	229
<b>Technical provisions, before ceded reinsurance</b>			
Life-assurance reserves	79,012	43,996	2
Provision for claims outstanding	1,851	26	1,026
<b>Total</b>	<b>80,863</b>	<b>44,022</b>	<b>1,028</b>
<b>Provisions for life assurance for which the policyholder bears the insurance risk</b>			
Conditional bonus	3,987	2,932	-
<b>Reinsurers' portion of technical provisions</b>			
Provision for claims outstanding	397	2	246
<b>Collective consolidation funds</b>	<b>23,695</b>	<b>6,253</b>	<b>1,857</b>

## Performance analysis 2018, cont.

SEK M	Direct insurance in Sweden		
	Other life assurance		Accident and health insurance
	Individual traditional insurance	Health and premium exemption	Accident and health
<b>Premium income before ceded reinsurance</b>	457	75	24
Premiums for ceded reinsurance	0	-	-
<b>Total premium income after ceded reinsurance</b>	<b>457</b>	<b>75</b>	<b>24</b>
<b>Investment income, revenue</b>	<b>1,166</b>	<b>24</b>	<b>2</b>
<b>Unrealised gains on investment assets</b>	<b>28</b>	-	-
<b>Claims payments</b>			
Claims paid before ceded reinsurance	-2,403	-101	-13
Reinsurers' portion	1	23	-
<b>Total claims paid after ceded reinsurance</b>	<b>-2,402</b>	<b>-78</b>	<b>-13</b>
Change in provision for claims outstanding before ceded reinsurance	-1	117	8
Reinsurers' portion	-	-19	-
<b>Total change in Provision for claims outstanding after ceded reinsurance</b>	<b>-1</b>	<b>98</b>	<b>8</b>
<b>Total claims payments after ceded reinsurance</b>	<b>-2,401</b>	<b>20</b>	<b>-5</b>
<b>Change in other technical provisions before ceded reinsurance</b>			
Life-assurance reserve	1,728	0	-
<b>Technical provisions for life assurance for which the policyholder bears the risk</b>			
Conditional bonus	771	-	-
<b>Operating expenses</b>	<b>-154</b>	<b>-24</b>	<b>-12</b>
<b>Investment income, expenses</b>	<b>-962</b>	-	-
<b>Unrealised losses on investment assets</b>	<b>-497</b>	-	-
<b>Technical result, life-assurance operations</b>	<b>134</b>	<b>95</b>	<b>9</b>
Tax allocation reserve	0	-4	0
Taxes	-56	-20	-2
<b>NET PROFIT FOR THE YEAR</b>	<b>78</b>	<b>71</b>	<b>7</b>
Run-off result	-	92	-
<b>Technical provisions, before ceded reinsurance</b>			
Life-assurance reserves	35,012	2	-
Provision for claims outstanding	46	682	71
<b>Total</b>	<b>35,058</b>	<b>684</b>	<b>71</b>
<b>Provisions for life assurance for which the policyholder bears the insurance risk</b>			
Conditional bonus	1,055	-	-
<b>Reinsurers' portion of technical provisions</b>			
Provision for claims outstanding	5	144	-
<b>Collective consolidation funds</b>	<b>14,473</b>	<b>1,047</b>	<b>65</b>

## Balance sheet

ASSETS, SEK M	Note	31 Dec 2018	31 Dec 2017
<b>Investment assets</b>			
Investments in Group companies and associated companies			
Shares and participations in Group companies	14	30	30
Interest-bearing securities issued by Group companies and loans to Group companies	15	3,056	3,128
Shares and participations in associated companies	16	0	0
<b>Other financial investment assets</b>			
Shares and participations	17	21,279	21,791
Bonds and other interest-bearing securities	18	76,644	78,793
Derivatives	19, 20	5,666	5,766
<b>Total investment assets</b>		<b>106,675</b>	<b>109,508</b>
<b>Investment assets for which the life-assurance policyholder bears the investment risk</b>			
Assets for conditional bonus	21	3,987	5,869
<b>Reinsurers' portion of technical provisions</b>			
Provision for claims outstanding		397	472
<b>Receivables</b>			
Other receivables	22	1,399	1,217
<b>Total receivables</b>		<b>1,399</b>	<b>1,217</b>
<b>Other assets</b>			
Tangible assets		1	2
Current tax assets		-	39
Cash and bank balances		3,978	5,381
<b>Total other assets</b>		<b>3,979</b>	<b>5,422</b>
<b>Prepaid expenses and accrued income</b>			
Deferred acquisition costs	23	71	102
Other prepaid expenses and accrued income		1	3
<b>Total prepaid expenses and accrued income</b>		<b>72</b>	<b>105</b>
<b>TOTALASSETS</b>		<b>116,509</b>	<b>122,594</b>

## Balance sheet, cont.

<b>EQUITY, PROVISIONS AND LIABILITIES, SEK M</b>	<b>Note</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
<b>Equity</b>			
Share capital	24	8	8
Consolidation fund		23,082	21,021
Fair value reserve		4	-
Net profit for the year		609	3,121
<b>Total equity</b>		<b>23,703</b>	<b>24,150</b>
<b>Untaxed reserves</b>			
Tax allocation reserve		340	327
<b>Technical provisions before ceded reinsurance</b>			
Life-assurance reserve	25	79,012	82,140
Provision for claims outstanding	26	1,851	2,157
<b>Total technical provisions</b>		<b>80,863</b>	<b>84,296</b>
<b>Provisions for life assurance for which the policyholder bears the investment risk before ceded reinsurance</b>			
Conditional bonus	21	3,987	5,869
<b>Provisions for other risks and expenses</b>			
Provision for pensions and similar commitments		23	22
Other provisions		7	54
<b>Total provisions for other risks and expenses</b>		<b>30</b>	<b>76</b>
<b>Deposits from reinsurers</b>		<b>397</b>	<b>472</b>
<b>Liabilities</b>			
Liabilities, direct insurance	27	133	165
Liabilities, reinsurance		33	8
Derivatives	19, 20	3,828	3,804
Other liabilities	28	3,012	3,238
<b>Total liabilities</b>		<b>7,006</b>	<b>7,215</b>
<b>Accrued expenses and deferred income</b>			
Other accrued expenses and deferred income		183	189
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>		<b>116,509</b>	<b>122,594</b>

## Statement of changes in equity

SEK M	Share capital	Collective consolidation fund	Fair value reserve	Retained earnings incl. net profit for the year	Total
<b>Opening equity, 1 January 2017</b>	<b>8</b>	<b>19,671</b>	-	<b>2,359</b>	<b>22,038</b>
Net profit for the year	-	-	-	3,121	3,121
Other comprehensive income for the year	-	-	-	-	-
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,121</b>	<b>3,121</b>
Appropriation of profit	-	2,359	-	-2,359	-
Transfer conditional bonus to collective consolidation fund	-	3	-	-	3
Disbursed bonus	-	-1,012	-	-	-1,012
<b>Closing equity, 31 December 2017</b>	<b>8</b>	<b>21,021</b>	-	<b>3,121</b>	<b>24,150</b>
Effect of change in accounting policy <sup>1)</sup>			4	-4	
<b>Opening equity, 1 January 2018</b>	<b>8</b>	<b>21,021</b>	<b>4</b>	<b>3,117</b>	<b>24,150</b>
Net profit for the year	-	-	-	609	609
Other comprehensive income for the year	-	-	0	-	0
<b>Comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>609</b>	<b>609</b>
Appropriation of profit	-	3,121	-	-3,121	-
Transfer conditional bonus to collective consolidation fund	-	19	-	-	19
Disbursed bonus	-	-1,075	-	-	-1,075
<b>Closing equity, 31 December 2018</b>	<b>8</b>	<b>23,086</b>	<b>4</b>	<b>605</b>	<b>23,703</b>

<sup>1)</sup> Effect of the change in accounting policy from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 Financial Instruments.

All equity is classified as restricted.

<b>Cash-flow statement</b>		
<b>SEK M</b>	<b>2018</b>	<b>2017</b>
Net profit for the year before tax	784	3,244
Income and yield tax paid	-167	-162
Disbursed bonus and pension collective agreements from collective consolidation fund	-1,075	-1,012
Adjustment for non-cash items	-4,514	-4,753
<b>Total</b>	<b>-4,972</b>	<b>-2,683</b>
<b>Change in other operating receivables and liabilities</b>		
Assets	3,230	5,245
Liabilities	-428	-1,041
<b>Cash flow from operating activities</b>	<b>2,802</b>	<b>1,521</b>
<b>Investing activities</b>		
Divestment of subsidiaries	-	115
Loans to Group and associated companies	767	-781
Investments in property and equipment	0	0
<b>Cash flow from investing activities</b>	<b>767</b>	<b>-666</b>
<b>Net cash flow for the period</b>	<b>-1,403</b>	<b>855</b>
Cash and cash equivalents, 1 January	5,381	4,527
<b>Change in cash and cash equivalents</b>	<b>-1,403</b>	<b>855</b>
Cash and cash equivalents, 31 December	3,978	5,381

Cash and cash equivalents pertains to balances of bank accounts and Plusgiro, the amount is recognised in the balance sheet under Cash and cash equivalents.

<b>Supplementary information about cash flows</b>		
<b>SEK M</b>	<b>2018</b>	<b>2017</b>
Interest payments, inward	2,119	2,511
Interest payments, outgoing	-603	-729
Dividends received	120	137
<b>Specification of non-cash items:</b>		
Changes in technical provisions	-3,357	-3,052
Change in value and results of investment assets	662	-2,743
Value changes in investment assets for which the policyholder bears the risk	-1,864	1,062
Other	45	-20
<b>Total</b>	<b>-4,514</b>	<b>-4,753</b>

Both interest payments and dividends are recognised in the operating activities.

# Notes to the financial statements

All figures in SEK M unless otherwise stated.

## Note 1 Accounting policies

### Company information

The Annual Report for Länsförsäkringar Liv Försäkringsaktiebolag (publ), Corp. Reg. No. 516401-6627, pertains to the fiscal year 1 January–31 December 2018. Länsförsäkringar Liv Försäkringsaktiebolag (publ) is a mutual limited liability insurance company, with its registered office in Stockholm. The company's address is Tegeluddsvägen 11-13, SE-106 50 Stockholm, Sweden. The company is a wholly owned subsidiary of Länsförsäkringar AB (publ), Corp. Reg. No. 556549-7020, with its registered office in Stockholm. The company and its subsidiaries are not consolidated in Länsförsäkringar AB's consolidated financial statements since Länsförsäkringar Liv's earnings accrue in their entirety to the policyholders.

Länsförsäkringar Liv mostly has life-assurance commitments, but also a small number of non-life insurance commitments in its life-assurance operations, in the form of accident and health insurance. Accordingly, the entire business operations are presented as life-assurance operations in the income statement. The portion comprising non-life insurance commitments is recognised in the performance analysis under Accident and health. Since these commitments represent less than 1% of the total operations, they have not been specified by occupational pension in this Annual Report.

### Compliance with standards and legislation

The Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (ÅRFL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual reports in insurance companies (FFFS 2015:12) and the amendments introduced through FFFS 2016:13. Länsförsäkringar Liv applies legally restricted IFRS. These accounting policies comply with International Financial Reporting Standards (IFRS) as adopted by the EU as far as possible within the framework of Swedish law. This means that the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities is also applied.

No consolidated financial statements have been prepared in accordance with the Annual Accounts Act for Insurance Companies (1995:1560) since the subsidiaries are not of material significance either individually or jointly.

### Conditions relating to the preparation of the company's financial statements

The company's functional currency is Swedish kronor (SEK) and the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest million (SEK M). Assets and liabilities are recognised at cost, except for most financial assets and liabilities, which are measured at fair value.

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

### Judgements and estimates in the financial statements

The preparation of accounts in accordance with IFRS requires that corporate management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the recognised amounts of income, expenses, assets, liabilities and contingent liabilities. These judgements and estimates are based on previous knowledge and experiences and the information available on the balance-sheet date. The actual outcome may deviate from these estimates and judgements, but estimates are regularly evaluated to reduce deviations.

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

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

An area in which corporate management makes significant judgements is the classification of insurance contracts. Under IFRS 4, contracts that transfer significant insurance risk are classified as insurance contracts. Länsförsäkringar Liv has assessed all insurance contracts. The level of insurance risk was assessed by considering whether one or more scenarios of commercial significance exist in which Länsförsäkringar Liv would be obligated to pay a significant amount of compensation. The company's traditional life assurance and the insurance component of the financial agreements are classified as insurance contracts in accordance with IFRS 4. For further information, see the section on Insurance contracts below.

Länsförsäkringar Liv assesses the business model used to manage financial assets, which determines the classification. The categories of financial assets and liabilities are described below under the section Financial assets and liabilities, which also describes the company's assessed classification.

### Significant sources of estimation uncertainty

The assumptions used in the calculation of the technical provisions have the most significant effect on the amounts recognised in the financial statements. In calculating the life-assurance reserve, assumptions are made regarding the discount rate, mortality, morbidity and expenses. An actuarial estimate of future costs for incurred health claims and claims that have not yet been reported is made when calculating provisions for claims outstanding. Statistical methods are used to estimate future claims costs. The valuation of the company's provisions is described in the section below concerning the recognition of technical provisions and in note 2 Risks and risk management.

### Amended accounting policies applied from 1 January 2018

From 1 January 2018, the Group applies IFRS 9 Financial Instruments. Other amended accounting policies did not have any impact on the consolidated financial statements.

### IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 and contains new requirements for the classification and measurement of financial instruments, an expected loss impairment model and simplified conditions for hedge accounting. The new rules on hedge accounting did not have any effect on Länsförsäkringar Liv since hedge accounting is not applied.

### Effect of transition to IFRS 9

Länsförsäkringar Liv has made use of the exemption to not restate comparative information for prior periods. Note 31 states that IFRS 9 did not entail any differences for the measurement of balance-sheet items compared with previous carrying amounts under IAS 39. Changes in value of equity instruments that previously impacted retained earnings and that are measured at fair value through other comprehensive income under IFRS 9 were transferred to the fair value reserve and are presented as transition effects of IFRS 9 in the statement of changes in equity as per 1 January 2018.

A description of the policies for recognising financial instruments is provided in the section *Financial assets and liabilities* under *Description of significant accounting policies*. For a description of comparative figures calculated in accordance with IAS 39, refer to the 2017 Annual Report.

### New accounting regulations that have not yet been applied

A number of new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements. The expected effects that the application of these new or amended standards may have on Länsförsäkringar Liv's financial statements are described below. Other amendments did not have any impact on the financial statements. Other than those, no other new or revised IFRS and interpretations not yet in force are deemed to have any material effect on the financial statements.



### **IFRS 16 Leases**

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard comes into effect on 1 January 2019 and early adoption is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. IFRS 16 has been adopted by the EU.

For lessees, the new standard means that essentially all lease agreements are to be recognised in the statement of financial position. Leases are not to be classified as operating or finance for the lessee. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a term of 12 months or less. The standard contains more extensive disclosure requirements. Länsförsäkringar Liv intends to use the option in RFR 2 to not apply IFRS 16 to legal entities due to the relationship between accounting and taxation, which is why the new lease standard is not deemed to have any impact on the statement of financial position.

### **IFRS 17 Insurance Contracts**

IFRS 17 Insurance Contracts was published on 18 May 2017 and will replace the existing standard IFRS 4 Insurance Contracts. The new standard has not yet been approved by the EU but is expected to come into effect for fiscal years beginning on or after 1 January 2022. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. The new standard will also impose expanded disclosure requirements to increase comparability between different companies.

Länsförsäkringar is running a project in the Group to analyse the effects of the new standard. Länsförsäkringar Liv does not intend to apply full IFRS and thus will be impacted by the changes of IFRS 17 on legally restricted IFRS.

### **IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 Uncertainty over Income Tax Treatments clarifies how IAS 12 Income Taxes is to be applied if there are uncertainties about how tax legislation is to be applied to a certain transaction or under certain circumstances. An example is whether a deduction claimed in a tax return will be accepted by the body or bodies (tax authority) that has the right to decide in such matters.

IFRIC 23 has been approved by the EU and is to be applied to fiscal years beginning on or after 1 January 2019. Early adoption is permitted. Länsförsäkringar Liv has not yet fully evaluated the effect of the interpretation on the company's financial statements.

### **Related parties**

Related legal entities include the Länsförsäkringar AB Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB and the 23 regional insurance companies. All of these companies combined comprise the Länsförsäkringar Alliance. Related key persons are Länsförsäkringar Liv's Board members, senior executives and their close family members and companies owned by them. See note 34 Disclosures on related-party transactions, etc. for more information.

### **Translation of foreign currencies**

Transactions in foreign currency are translated to SEK at the exchange rate on the transaction date. Assets and liabilities in foreign currency are translated to SEK by applying the exchange rates on the balance-sheet date. Non-monetary assets and liabilities are recognised at the rate in effect on the date of the transaction.

Unrealised exchange-rate differences thus arising are recognised in profit or loss as exchange-rate gains/losses net under Investment income, revenue or Investment income, expenses.

The currency futures utilised to financially hedge currency exposure in the balance sheet are measured at fair value and effects on earnings are recognised under both interest income and exchange-rate gains/losses.

### **Insurance contracts**

Insurance contracts are contracts in which Länsförsäkringar Liv undertakes a significant insurance risk for the policyholder by committing to compensate the policyholder if a predetermined, insured event were to occur.

In accordance with IFRS 4 Insurance Contracts, insurance contracts are divided into either insurance contracts or non-insurance contracts based on

the level of insurance risk. Insurance products that do not involve a significant level of insurance risk are to be classified as non-insurance contracts. The level of insurance risk was assessed by considering whether one or more scenarios of commercial significance exist in which Länsförsäkringar Liv would be obligated to pay a significant amount of compensation.

### **Contracts with discretionary participation features**

Traditional life assurance at Länsförsäkringar Liv comprises contracts with discretionary participation features. This means that the policyholders have a preliminary distributable surplus. However, this preliminary distributable surplus is not guaranteed. Accordingly, these contracts are recognised in accordance with the policies applied for insurance contracts. The preliminary distributable surplus is recognised as equity.

### **Premium income**

Premiums for the insurance contracts are recognised as premium income in line with premiums being paid. Premiums pertain to direct life assurance and direct accident and health insurance and comprise periodic premiums and single premiums. Premium income is recognised as the total gross premium for direct insurance deposited or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year.

### **Claims payments**

Claims paid correspond to compensation to policyholders and cancellations, repurchases and external transfers during the accounting period. Such compensation is recognised by the guaranteed portion being expensed and the bonus portion reducing equity. Expenses for claims adjustment are also included in claims paid.

### **Investment income**

#### **Investment income, revenue and expenses**

Investment income includes interest income, interest expense, exchange-rate gains and exchange-rate losses on investment assets as well as cash and bank balances. Dividends received, any impairment of shares and participations in Group companies, asset management expenses including costs for own personnel and premises, etc. that can be attributed to asset management, and other financial expenses including various fees and external expenses for asset management are included in investment income. Investment income also includes realised gains or losses on investment assets. Realised profit or loss is calculated as the difference between the purchase consideration received and the cost of the asset.

#### **Unrealised gains and losses on investment assets**

Unrealised gains and losses on investment assets are included in the items Unrealised gains and Unrealised losses on investment assets. Unrealised gains or losses comprise changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised change in value is reversed as an unrealised gain or loss, except for shares and participations that the company has decided to measure at fair value through other comprehensive income.

### **Operating expenses**

All operating expenses are classified in profit or loss according to the following functions: acquisition, change in the item deferred acquisition costs, administration, commission and profit shares in ceded reinsurance. Operating expenses for claims adjustment are recognised under Claims paid. Operating expenses for financial management are recognised under Investment income, expenses.

### **Leases**

Länsförsäkringar Liv leases equipment from its Parent Company Länsförsäkringar AB. These agreements are limited in scope and recognised in their entirety as operating leases. These rental changes are recognised straight-line over the lease term.

## Tax

### Yield tax

Tax objects comprise the value of the net assets managed on behalf of the policyholders at the start of the fiscal year. Yield tax is recognised as tax in profit or loss.

### Taxes

Income tax comprises current tax and deferred tax. Income tax is recognised in profit or loss, except when the underlying transaction is recognised through other comprehensive income or directly against equity, whereby the related tax effect is recognised through other comprehensive income or in equity.

Current tax is tax to be paid or received in the current year, with the application of the tax rates established or decided in practice on the balance-sheet date, and any adjustments of current tax attributable to prior periods.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities. Temporary differences are not taken into account for initial recognition of goodwill or for initial recognition of assets and liabilities that are not business combinations and, at the time of the transaction, do not affect recognised or taxable earnings. The valuation of deferred tax is based on how underlying assets and liabilities are expected to be realised or settled. Deferred tax is calculated with the application of the tax rates and tax rules established or decided in practice on the balance-sheet date.

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

## Investment assets

### Financial assets and liabilities

#### Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contract in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or – when the assets are transferred – no longer has any significant risks or benefits from the assets and also when the company loses control of the asset. A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the trading date, which is the time when the significant risks and rights are transferred between the parties.

#### Offsetting financial assets and liabilities

A financial asset and a financial liability are offset and reported as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to simultaneously realise the asset and settle the liability or to settle the items in a net amount. Information about offsetting conducted in the balance sheet is provided in note 20 on Information about offsetting.

#### Classification and measurement

All financial assets and liabilities are measured at fair value through profit or loss on the initial valuation date. Subsequent measurement and recognition take place depending on the measurement category to which the financial instrument belongs.

Länsförsäkringar Liv's financial assets comprise:

- Debt instruments
- Derivative instruments
- Equity instruments

Financial assets are classified and recognised in one of the three measurement categories in accordance with the provisions of IFRS 9.

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

### Debt instruments

Financial assets that are debt instruments comprise in the balance sheet Interest-bearing securities issued by Group companies and loans to Group companies. Shares and participations (refers to mutual fund whereby the fund must repay the fund units when the units are to be redeemed), Bonds and other interest-bearing securities, loans and receivables classified as Other receivables, and Cash and bank balances. The business model used to manage a debt instrument and its contractual cash flow characteristics determines the classification of a debt instrument.

A requirement for a financial asset to be measured at amortised cost or fair value through other comprehensive income is that the contractual cash flows solely comprise outstanding payment of the principal and interest on the principal. Debt instruments that do not meet the requirement are measured at fair value through profit or loss regardless of the business model to which the asset is attributable. All debt instruments measured at amortised cost meet these cash flow characteristics.

### Amortised cost

Länsförsäkringar Liv manages loans and receivables in a business model whose objective is to realise the assets' cash flows by receiving contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are therefore measured at amortised cost.

Amortised costs refers to the discounted present value of all future payments attributable to the instrument with the discount rate comprising the effective interest rate of the asset on the acquisition date.

### Fair value through profit or loss

Länsförsäkringar Liv manages its holdings of interest-bearing securities issued by Group companies, mutual funds classified as shares and participations and bonds and other interest-bearing securities in a business model that entails measurement at fair value through profit or loss since the assets are managed and evaluated based on the fair values of the assets, and since the fair value comprises the basis for the internal monitoring and reporting to senior executives.

### Derivative instruments

Derivative instruments measured at fair value through profit or loss. Derivatives with positive market values are recognised as assets in the balance sheet and derivatives with negative market values are recognised as liabilities.

### Equity instruments

An equity instrument is every form of agreement that entails a residual right to a company's assets after deductions for all its liabilities. All holdings of equity instruments that comprise holdings of a more strategic nature and that are not held for the purpose of generating investment income are measured at fair value through other comprehensive income.

Gains/losses on the sale of equity instruments measured at fair value through other comprehensive income are recognised as a transfer in equity from the fair value reserve to retained earnings and thus do not impact profit or loss.

### Financial liabilities

Financial liabilities in the balance sheet comprise Other liabilities and Accrued expenses and deferred income. Länsförsäkringar Liv measures all financial liabilities that are not derivatives at amortised cost.

### Reclassification of financial instruments

Financial assets are not normally reclassified after initial recognition. However, a change in business model would entail reclassification.

### Method for determining fair value

The methods for determining fair value and the level of the valuation hierarchy from which inputs are used for calculating the fair value are stated in note 30 Fair value valuation techniques.

### Financial instruments quoted in an active market

The largest portion of the company's financial instruments are measured at fair value using prices quoted in an active market. No additions for transaction

costs (for example, brokerage commission) or future transaction costs in connection with potential divestment are made. A financial instrument is considered to be quoted in an active market when transactions take place at sufficient frequency and volume in order to provide continuous price information. If the market for the asset or liability is the most advantageous market and if a company on the measurement date can perform a transaction with the asset or liability at this price on this market, the holding is classified as Level 1 in the fair value hierarchy. Instruments quoted in an active market and found in Level 1 of the fair value hierarchy are found in the balance sheet as Interest-bearing securities issued by Group companies and loans to Group companies (loans to Group companies are not quoted in an active market and are measured according to Level 2), Shares and participations, Bonds and other interest-bearing securities and Derivatives.

#### *Financial instruments not quoted in an active market*

If the market for a financial instrument is not active, the fair value is determined by using a valuation technique. The company has OTC derivatives, for example, that are not traded in an active market. The valuation techniques applied are based on market data as far as possible, while company-specific information is used as little as possible. The instruments for which all material inputs required for measurement at fair value are observable are found in Level 2 of the fair value hierarchy. Instruments whose fair value has been determined by using a valuation technique based on market data are found in the balance sheet as the items: Interest-bearing securities issued by Group companies and loans to Group companies (debt securities in issue by Group companies are quoted in an active market and are found in Level 1) and Derivatives. If one or more significant inputs are not based on observable market data, the instrument in question is classified as Level 3 in the fair value hierarchy. Instruments whose fair value has not been able to be determined based on observable market data are found in the balance sheet as Shares and participations and Bonds and other interest-bearing securities.

#### **Expected credit losses**

Reserves for expected credit losses ("loss allowance") are recognised for financial assets measured at amortised cost. The initial loss allowance is calculated and recognised on initial recognition and is subsequently continuously adjusted over the lifetime of the financial asset. Balance-sheet items measured at amortised cost comprise loans and receivables as well as cash and bank balances.

The reserve for financial assets measured at amortised cost is recognised as a reduction of the recognised gross carrying amount of the asset. Loss allowance is presented in the income statement as investment income, expenses.

#### **Confirmed losses**

Confirmed credit losses are those losses whose amount is finally established and where the assessment is that the possibility of receiving additional payments is very small. The receivable is then derecognised from the balance sheet and recognised as a confirmed loss in profit or loss on this date.

#### **Deferred acquisition costs**

Costs that have a clear connection to underwriting insurance contracts are capitalised as Deferred acquisition costs in the balance sheet and are depreciated over the useful life. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs intended to be capitalised. These acquisition costs pertain to operating expenses, for example, commission and expenses for sales that are directly related to acquisitions or renewals of insurance contracts. Costs are depreciated straight-line over ten years. The asset is impairment tested every year.

#### **Shares and participations in Group and associated companies**

Shares and participations in Group and associated companies are recognised at cost adjusted for impairment requirements.

On each reporting occasion, the company assesses whether there is any indication of an impairment requirement. If so, the recoverable amount is calculated. If the carrying amount exceeds the recoverable amount, the asset is

impaired with the impairment loss recognised in profit or loss. If the recoverable amount increases again, the impairment is reversed in profit or loss.

#### **Technical provisions**

Technical provisions comprise a life-assurance reserve and a provision for claims outstanding. All changes in technical provisions are recognised in profit or loss.

#### **Life-assurance reserve**

The life-assurance reserve corresponds to the anticipated capital value of the company's guaranteed commitments as per current insurance contracts after deduction of the anticipated capital value of future contractual premium payments. The life-assurance reserve is calculated in accordance with standard actuarial principles based on assumptions regarding interest, mortality, morbidity premium changes, repurchases/transfers, changed payment periods, operating expenses, and applicable tax rates for yield tax.

The discount rate curve defined by the EIOPA is applied to the calculation of technical provisions. This curve has been produced to correspond to a risk-free interest rate term structure and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 4.05% (4.20) is also included. A differentiated addition to the provisions for occupational pension insurance and other life assurance entails a difference between prudent and satisfactory provisions.

Assumptions regarding mortality are structured as generation mortality and include a trend-based increase in life expectancy in relation to year of birth. These assumptions are based on the company's experience of mortality in its own portfolio and on Statistics Sweden's assumptions for future increases in life expectancy.

Assumptions regarding premium changes, repurchases/transfers, changed payment periods and operating expenses including asset management expenses are determined based on the company's experience and, in certain cases, by applying expert judgement regarding future outcomes. Länsförsäkringar Liv's life expectancy and operating expenses assumptions are satisfactory and prudent, respectively, and other assumptions are considered to be realistic or, in certain cases, prudent.

#### **Provision for claims outstanding**

The provision for claims outstanding comprises provision for disability annuities, established claims and non-established claims.

The provision for disability annuities corresponds to the discounted capital value of the company's commitments in accordance with the insurance contract. For disability annuities at fixed amounts, the nominal interest-rate assumption was determined based on the EIOPA's yield curve for Solvency II. A yield curve for break-even inflation, calculated as the difference between nominal and real government bond rates, was used for indexed disability annuities. The provision for established claims corresponds to the expected capital value of the company's future expenses due to the incurred health claim. It includes reported and approved claims that have not yet been paid and future operating expenses. It also includes the fixed-income operations. The provision for non-established claims pertains to claims that have not yet been reported but which have been made using statistical methods based on previous experience for the respective products.

#### **Provisions for life assurance for which the policyholder bears the investment risk**

##### **Conditional bonus**

The provision for conditional bonus for the Insured Pension management form is determined as the difference on an aggregated level between the market value of investment assets on behalf of the policyholders and the life-assurance reserves. The provision for conditional bonus for New World is determined as the difference between insurance capital and the life-assurance reserves on an individual level. Provisions for conditional bonus may not be negative for the specific insurance.

#### **Reinsurance**

Contracts signed between Länsförsäkringar Liv and reinsurers through which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts as

stated above are classified as ceded reinsurance. For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the Reinsurers' portion of technical provisions, which corresponds to the reinsurers' liability. Deposited funds from reinsurers comprise the liability item Deposits from reinsurers. Receivables from and liabilities to reinsurers are valued in the same manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Annual earnings are primarily settled through deductions in accordance with reinsurance contracts.

Länsförsäkringar Liv does not underwrite assumed reinsurance.

## **Remuneration of employees**

### **Current remuneration**

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received. No variable salary is paid to employees of Länsförsäkringar Liv.

### **Remuneration for termination of employment**

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value. Remuneration not expected to be fully paid within 12 months are recognised in accordance with long-term remuneration.

### **Defined-contribution pension plans**

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

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

The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan. Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for the plan in future years.

### **Defined-benefit pension plans**

The company has a defined-benefit pension plan. The plan is a pension agreement from 2006 for the insurance sector whereby persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at the age of 62. The plan has been calculated on an actuarial basis according to assumptions on average annual pensions per age group and a probability assessment of the utilisation of early retirement.

### **Shareholders' and Group contributions**

Shareholders' contributions are recognised in the equity of the recipient and in shares and participations in Group companies with the donor. Group contributions are recognised in accordance with the main rule of RFR 2. Group contributions received from subsidiaries are recognised according to the same principles as for recognising dividends. Group contributions paid to a subsidiary are recognised as an increase in Shares and participations in Group companies. Group contributions that have been paid to or received from the Parent Company are recognised directly in equity after deductions for their current tax effects since Group contributions are accounted for according to the policies for dividends and shareholders' contributions.

### **Untaxed reserves**

Changes in untaxed reserves are recognised in profit or loss under appropriations (Tax allocation reserve). Untaxed reserves are offset, where appropriate, against loss carryforwards or are subject to taxation when they are dissolved.

An accounting unit can make a provision to the tax allocation reserve to reduce its taxable earnings during an income year, but must reverse the same tax allocation reserve for taxation during the sixth year following the provision year.

### **Cash-flow statement**

The cash-flow statement is reported using the indirect method, which means that operating profit is adjusted for transactions that do not involve receipts or payments during the period specified by the various insurance classes.

### **Contingent liabilities**

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

**Risk-management system at Länsförsäkringar Liv**

Länsförsäkringar Liv is operated according to mutual principles and the company's risks are borne by the policyholders. The management of risk-taking is to contribute to the provision of insurance products at a controlled risk level with a reasonable return. One of the key objectives of the risk-management system is to ensure that Länsförsäkringar Liv can meet its guaranteed commitments to customers with a satisfactory margin. Accordingly, the most critical risks are those that could contribute to the company's insolvency, which could lead to the company not being able to meet the commitments to its policyholders.

Therefore, the aim is for Länsförsäkringar Liv to have an efficient and robust risk-management system to continuously identify, measure, monitor, manage and report the risks associated with the business activities. The company's risk-management system comprises an organisation with well-defined authorities and responsibilities, and includes risk strategy, risk appetite, risk-management processes, risk-measurement methods, the process for an Own Risk and Solvency Assessment (ORSA) governance documents and reporting procedures.

A shared risk-management system, which forms part of the internal-control system, has been established in the Länsförsäkringar AB Group. The risk-management system is defined as the strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the company is able to continuously identify, measure, monitor, govern, manage, report and have control over the risks to which the companies are, or could become, exposed to.

Prospective analyses in the form of scenario analyses and ORSAs are performed at least once a year. The overall aim of an ORSA is to ensure that own funds are and remain sufficient for bearing the risks associated with realising the business plan. Ongoing activities include handling known risks and identifying new risks. A complete report of all risks in the company's operations is submitted every quarter to the Risk and Capital Committee, Audit Committee and Board.

**Risk-management organisation**

A shared risk-management system has been established in the Länsförsäkringar AB Group. The Group's risk-management system is described in the Group instructions and a Group-wide risk policy adopted by the Board of Länsförsäkringar AB and approved by the Board of Länsförsäkringar Liv. Each insurance subsidiary then prepares a company-specific risk policy based on the Group-wide policy. Based on this Group-wide risk-management system, Länsförsäkringar Liv also prepares more detailed rules for managing company-specific risks.

The risk-management system comprises an integrated part of the organisational structure and decision-making processes help the operations to meet its targets with a higher degree of certainty. In addition to risk management in the operations, it also encompasses the independent risk-management function, the Compliance function and the Actuarial function.

The President is responsible for incorporating the governance documents decided by the Board and each manager in the company is responsible for risks in their field of operations.

The independent risk-management function is responsible for independent risk control and provides support for the President, management and operating units in fulfilling their responsibility to conduct operations with a high level of risk management. Regular risk reports are submitted to the President, management and the Risk and Capital Committee and Audit Committee, and to the Board.

The Actuarial function is responsible for coordinating and ensuring the quality of the technical calculations and investigations and assisting the Board and President in actuarial matters. The Actuarial function is also responsible for reporting, on its own initiative, to the Board and President on matters pertaining to methods, calculations and assessments of the technical provisions, the valuation of insurance risks, reinsurance cover and other risk-reducing techniques.

The Compliance function is an independent control function responsible for monitoring and controlling regulatory compliance in the licensable operations. The function identifies and reports on risks that may arise as a result of non-compliance with regulations and provides recommendations for action to relevant personnel, the President and the Board.

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

The Internal Audit function, Compliance function and Risk management function are affiliated to Länsförsäkringar AB in the organisation and are independent from the operations that are controlled.

## Solvency II

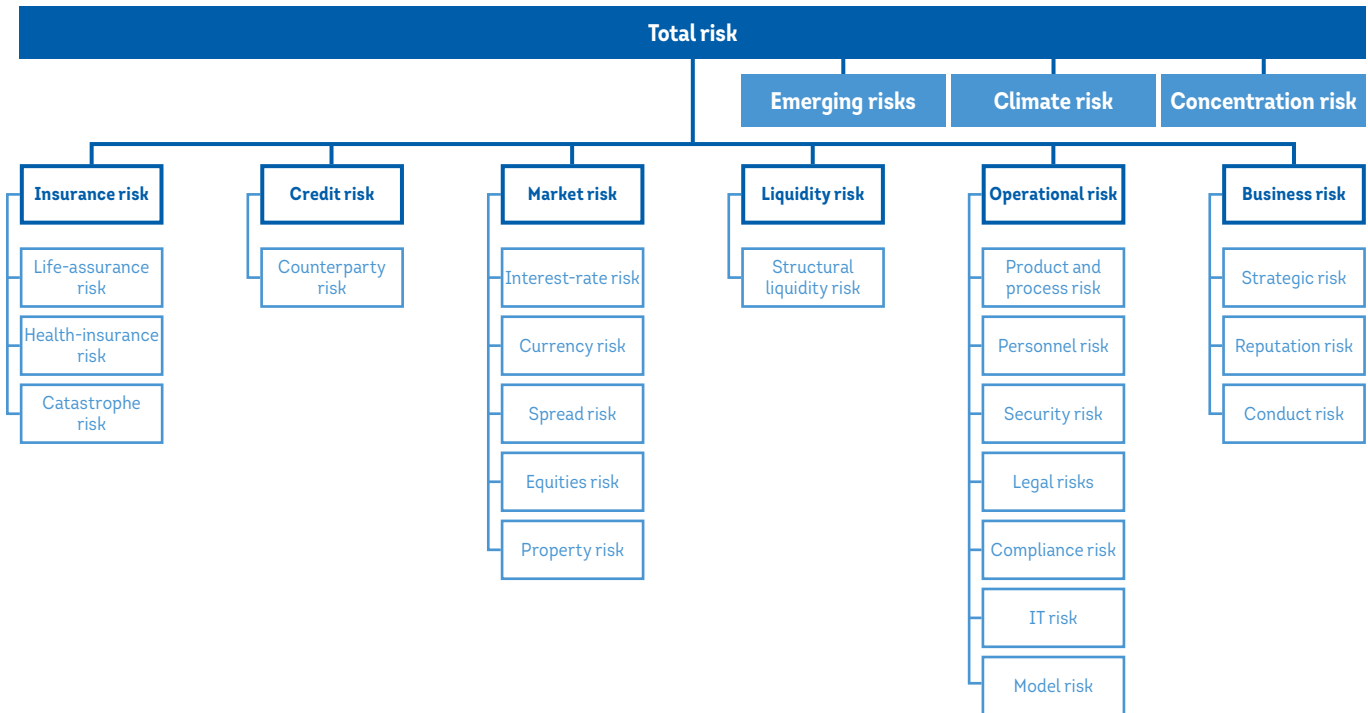
Länsförsäkringar Liv applies Solvency II to the entire operations from 1 January 2016. Länsförsäkringar AB has developed a partial internal model to measure risk and has received approval from the Swedish Financial Supervisory Authority to use this model. Länsförsäkringar Liv calculates the solvency capital requirement for interest-rate risk, equities risk, property risk, spread risk and currency risk by using the internal model. Other risks are calculated in accordance with the standard formula.

## Risk profile and risk map

Länsförsäkringar Liv is primarily exposed to market risks and life-assurance risks, which are described more in the company's Solvency and Financial Condition Report.

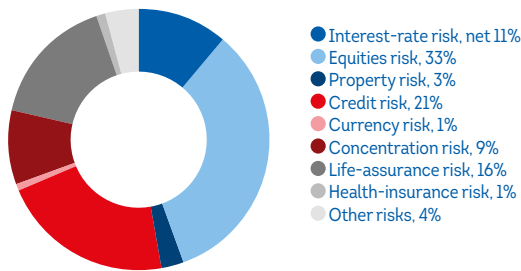
The diagram below shows Länsförsäkringar Liv's risk map.

Figure 1. Classification of risk at Länsförsäkringar Liv

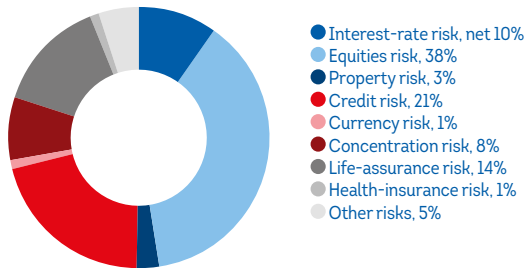


The diagram below shows the company's risk profile where equities risk comprises the largest risk.

**Figure 2. Risk profile (under Solvency II) 2018**



2017



### Life-assurance and health-insurance risk

Insurance risk (underwriting risk) refers to the risk of loss or negative change in the value of underwriting liabilities due to incorrect tariffs and provisions assumptions.

- Life-assurance risk refers to the risk of losses in connection with the insurance of a specific person's life and health.
- Mortality risk is the risk of losses arising due to mortality among the insured being higher than assumed. Longevity risk is the risk of losses arising due to the insured living longer than assumed.
- Disability and morbidity risk is the risk of losses arising due to the insured's disability and morbidity being higher than assumed.
- Expenses risk is the risk of losses arising due to the estimated operating expenses for conducting the company's operations being higher than assumed.
- Cancellation risk is the risk of losses arising due to a change in the premium payments, repurchases or transfers deviating from that which has been assumed.
- Catastrophe risk refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to very large claims payments.
- Health-insurance risk refers to the risk of losses arising due to the insured's disability and morbidity being higher than assumed. Health-insurance risk also includes catastrophe risk.

### Exposure to life-assurance and health-insurance risk

Länsförsäkringar Liv issues products in its life-assurance and health-insurance operations that also include a small portion of non-life insurance commitments in the form of products in accident cover and invalidity benefit. Länsförsäkringar Liv conducts life assurance with traditional management in its Trad (Old), New Trad, New World and Insured Pension portfolios. Länsförsäkringar Liv is operated according to mutual principles, which entails that the earnings are not distributed to the owner; they remain with the customers. Länsförsäkringar Liv stopped new sales in the autumn of 2011, which essentially means that all new sales have ceased. Exposure to underwriting risk is measured as the combined best estimate of the company's technical provisions based on data from the insurance systems.

For traditional management, investments are normally made on a discretionary basis in interest-bearing securities, equities, properties and alternative investments. Traditional management contains a guaranteed value that grows at a guaranteed interest rate. In addition, customers will receive bonuses if the total return is favourable over time. From May 2013, Länsförsäkringar Liv has two portfolios in traditional management: New Trad and Old Trad. The New World management form is a management form that combines a guarantee element with the opportunity for better returns through investments in equities. The guarantee means that after five years, or death, the policyholder is guaranteed to recover the money invested after fees and taxes. The guaranteed interest rate is 0%.

Länsförsäkringar Liv targets private individuals, employees and self-employed persons working in small and medium-sized businesses, and has few commitments with large companies. A geographic distribution throughout Sweden is created since all 23 regional insurance companies brokered the company's products. The collective consolidation fund contains policyholders' surplus capital. The amount of the surplus capital for the individual policyholders varies. The surplus capital in the collective consolidation fund is regularly analysed, for example, by studying transfer options, payment times and/or age in order to assess the scope of future payouts. No material concentrations were identified. For this reason, Länsförsäkringar Liv does not have any material risk concentrations.

### Management of life-assurance and health-insurance risks

The former excess loss reinsurance was terminated in 2018. Länsförsäkringar Liv has also taken out catastrophe reinsurance to further limit its risks. The retention is SEK 20 M and encompasses amounts up to SEK 700 M.

Longevity risk can mainly be limited by making a variety of changes, for example, by reducing the payment period, making payment at an earlier date, repurchases or transfers. To reduce this risk, a change rule framework is in place that may entail the requirement of a medical examination. Long-life expectancy risk is managed by regularly updating life-expectancy assumptions and monitoring trends in increases in life expectancy.

Disability and morbidity risks are limited when new policies are sold by assessing risk according to the company's risk assessment regulations. Another measure to reduce risk takes place in connection with claims adjustment, by regularly checking information provided in accordance with the company's claims-adjustment policy. Risk is also managed by regularly updating assumptions regarding illness incidence and recovery. Other factors that influence underwriting risks are product composition, the content of terms and conditions and risk selection rules.

The company regularly monitors trends in insurance risks and the company's sensitivity to various insurance risks is presented in table 1 below. The capital requirement for life-assurance and health-insurance risks under Solvency II is measured using the standard formula and is described in greater detail in the company's Solvency and Operations report. The company is most sensitive to low interest rates and long-life expectancy risks that impact technical provisions. A sensitivity analysis to discount rates is performed for falling interest rates.

Since the company is closed for new business and the insurance portfolio is gradually decreasing, operating expenses must follow the same trend so that the charge per insurance policy does not increase over time. Accordingly, the company signed a service agreement with Länsförsäkringar AB and Länsförsäkringar Fondliv for deliveries of services at a fixed price per year. This agreement limits the company's expenses risk.

**Table 1. Sensitivity analysis, life-assurance and health-insurance risks (SEK M)**

Assumption	Change in assumption	Earnings effect before tax	
		31 Dec 2018	31 Dec 2017
Mortality	20% lower mortality	-1,527	-1,427
Morbidity	50% increase in morbidity	-183	-201
Expense ratio	10% higher operating expenses	-509	-531
Nominal discount rate <sup>1)</sup>	50 bp lower discount rate	-2,906	-3,062

The earnings effect is the same effect on equity.

<sup>1)</sup> With the transition to the Solvency II regulations, the company changed its discount rate curve for calculating life-assurance reserves and provisions for disability annuities at fixed amounts. The sensitivity analysis is based on the discount rate curve defined by the EIOPA, including a macroeconomic assumption of a long-term interest rate UFR of 4.05% for the calculation of technical provisions, with the UFR level not impacted by the stress.

#### Follow-up of assumptions made regarding life-assurance and health-insurance risks

The technical provisions are calculated per insurance contract after assumptions are made for mortality, interest, morbidity, the probability of recovery, cancellations and operating expenses. Assumptions made are followed up at least once annually in connection with the Actuarial function's reports to the Swedish Financial Supervisory Authority.

#### Market risk

Market risk is the risk of losses arising due to changes, in level or volatility, of interest rates, financial asset prices and exchange rates. Market risk encompasses equities risk, property risk, interest-rate risk, credit-spread risk and currency risk.

#### Exposure to market risk

Market risk primarily arises through management of investment assets that are to cover insurance commitments. The value of insurance commitments is calculated by discounting using a yield curve, which means that the market risk is also recognised on the liability side of the balance sheet.

The main asset classes in Länsförsäkringar Liv's investment portfolio are interest-bearing securities, equities funds, alternative investments and property. Derivative instruments are increasingly utilised in the management of investment assets in order to reduce market risks or to enhance the efficiency of the management of the company's assets and liabilities and to achieve the desired risk profile.

The company's equities exposure is primarily attributable to the equities funds found in the New Trad and New World portfolios. In addition, equities risk is also found to a certain extent in unquoted shares, known as private equity.

The company has credit-spread risk exposure in Swedish mortgage bonds and in European and US corporate loans. Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit risk are made in light of prevailing market conditions and the desired level of risk-taking in the investment portfolio. Table 4 below shows that most of the interest-bearing investments have an AAA rating.

**Table 2. Sensitivity analysis, market risks (SEK M)**

The table shows the net sensitivity in assets and liabilities before tax.

Assumption		Earnings effect before tax	
		31 Dec 2018	31 Dec 2017
Interest-rate risk, net <sup>1)</sup>	50 basis point lower interest rates	-757	-884
Credit-spread risk	1% higher credit spread	-2,596	-2,775
Equities risk <sup>2)</sup>	10% lower share prices	-2,230	-2,400
Property risk <sup>3)</sup>	100 bp lower market value	-171	-144

<sup>1)</sup> Länsförsäkringar Liv's earnings are more negatively affected by falling interest rates than by rising interest rates. Interest-rate risk takes into consideration price risk, including accrued interest. Net changes in value of investment assets including accrued interest rates, less changes in technical provisions. The sensitivity analysis is based on the discount rate curve defined by the EIOPA, including a macroeconomic assumption of a long-term interest rate of 4.05% for the calculation of technical provisions.

<sup>2)</sup> Shares and participations adjusted for property equities.

<sup>3)</sup> Market value of holdings of property equities.

The currency exposure that exists is due to investment assets in other currencies and the risk being limited by the use of currency derivatives. The table below shows the currency exposure for the currencies where the earnings effect of the SEK strengthening by 10% is larger than SEK 10 M and currencies that are normally hedged. Other currencies includes other currencies apart from SEK that the company is exposed to through its investment assets and where the earnings effect of the individual currency is less than SEK 10 M. The total currency exposure as a percentage of market value on 31 December 2018 amounted to 4.4% (2.8) of total investment assets.

**Table 3. Earnings effect at year-end of SEK strengthening by 10%**

Currency <sup>1)</sup>	Earnings effect before tax	
	31 Dec 2018	31 Dec 2017
BRL	-16	-11
HKD	-79	-45
INR	-29	-16
KRW	-43	-30
TWD	-35	-21
USD	-198	-128
ZAR	-13	-11
Other currencies	-59	-60
<b>Total</b>	<b>-472</b>	<b>-322</b>

<sup>1)</sup> Pertains to currency exposure in directly-owned holdings quoted in each currency and indirect exposure via analysis of funds.

#### Management of market risk

The main risk-reduction technique applied to the management of assets is diversification. Investments are spread over several classes of assets and segments in these classes, leading to exposure to various risk factors that react in different ways to fluctuations in the financial markets. This means that as a whole the portfolio is less sensitive to market fluctuations than its portfolio components. The diversification effect is modelled using the internal model and is regularly measured as an integrated part of these calculations.

Länsförsäkringar Liv governs its own risk-taking by considering the sensitivity of the insurance undertakings to changes in interest rates, with conscious choices about the extent to which the undertakings are matched against assets with corresponding properties. This primarily takes place by using various types of interest-rate derivatives. Fixed-income futures and forwards and interest-rate swaps are used in management to reduce interest-rate risk, mainly debt matching. By using these instruments, interest-rate sensitivity can be effectively reduced without needing to sell the underlying bonds and thus retaining any coupons and excess returns of spread exposure. The effect of these derivative strategies is continuously monitored by measuring the resulting interest-rate duration and interest-rate sensitivity (DV01) of the portfolio on a daily basis.

Management uses equity index derivatives when it needs to temporarily reduce equities risk. In this way, the company can avoid the need to sell holdings in equities funds, while the portfolio is protected from major falls in prices in the equities markets. The effect of this risk-reducing strategy is measured by equities allocation (including derivatives) being reconciled continuously to ensure the desired regional allocation.

Management makes regular use of derivative instruments to reduce currency risk in the portfolio. This means that established limits on currency exposure can be considered without having to refrain from investing in desirable assets that have a different currency risk than SEK.

To ensure long-term stability, ALM analyses are performed by simulating future capital requirements based on projecting the liability and asset sides given several plausible scenarios.

#### Counterparty risk

Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that any collateral provided will not cover the receivable. Counterparty risk derives from counterparties for financial derivatives, cash balances and counterparties in reinsurance.

Länsförsäkringar Liv's exposure to counterparty risk is low but arises through the use of financial derivatives. Derivatives are purchased to protect



the balance sheet against, for example, interest-rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes.

Länsförsäkringar Liv's exposure to counterparty risk is low but arises through the use of financial derivatives. Derivatives are purchased to protect the balance sheet against, for example, interest-rate risk, equities risk and currency risk and entail that the counterparty undertakes, through derivative contracts, to compensate for negative results arising from changes in, for example, market interest rates, share prices or exchange rates. As a result, a receivable from the counterparty may arise in the event of market changes.

Reinsurance cover was discontinued in 2018 but in the past the company has taken out reinsurance to avoid assuming greater individual liability than that stated in the insurance guidelines and reinsurance policy. Accordingly, the company remains exposed to counterparty risk from reinsurers. The exposure to counterparty risks is measured as the consolidated total of potential losses if these counterparties were to default.

The exposures that the company has to the reinsurer Sweden Re are covered through bank account collateral.

Credit risk that arises via counterparties in financial derivatives is managed by limits for derivative exposures per counterparty, and by signing agreements with all companies regarding OTC derivatives. These agreements regulate receivables in derivatives contracts between the contract parties, for example, the amount of receivables permitted, how they are to be paid and at what frequency. In practice, this means that for the majority of cases the collection and provision of collateral takes place on a daily basis. The size of the permitted exposure depends on the rating of the counterparty. Counterparty risk in ceded reinsurance was limited by selecting counterparties with high credit ratings. Sweden Re has an A rating from Standard & Poor's and the outstanding receivable on 31 December 2018 totalled SEK 397 M (472). Table 4 shows the market value consideration of credit enhancement and corresponds to the carrying amount of the assets on the balance-sheet date.

The method for how expected credit losses are determined for different types of assets is described in the note Accounting policies in the section on expected credit losses. Other receivables comprise both internal and external receivables that have historically shown a low share of defaulted receivables and no confirmed losses for different groups of counterparties. Considering this and the short term of the receivables, the loss given default is very low, which is why the reserve requirement is zero or almost zero.

**Table 4. Länsförsäkringar Liv's exposure by credit quality step**

	Market value, SEK M	
	31 Dec 2018	31 Dec 2017
<b>Cash and bank balances and cash and cash equivalents classified as other receivables</b>		
A	3,978	5,381
<b>Total</b>	<b>3,978</b>	<b>5,381</b>
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA – Swedish Government	6,125	6,439
AAA – Government securities other than those issued by the Swedish Government	2,262	2,307
AAA – other	49,769	46,920
AA	3,232	3,406
BBB	6,062	8,007
BB or lower	4,763	5,096
No rating available	4,971	4,706
<b>Total</b>	<b>79,968</b>	<b>81,001</b>
<b>Derivatives</b>		
AA	69	27
A	278	50
BB	41	42
BBB	1	0
<b>Total</b>	<b>389</b>	<b>119</b>
<b>Total</b>	<b>84,335</b>	<b>86,500</b>

<sup>1)</sup> Market value including accrued interest for directly-owned holdings, which also includes analysed fixed-income funds.

## Business risk

Business risk pertains to the risk of lower earnings, higher expenses or loss of confidence from customers or other stakeholders. Strategic risk is thus included as a sub-category of business risk. Business risk also includes reputation risk, meaning the risk of a decline in income due to negative rumours about either Länsförsäkringar or the industry in general. Business risk also includes conduct risk, meaning the risk of improper conduct.

The company's exposure to business risks follows the business strategies decided where the business planning process and results from business risk analyses comprise important instruments in adjusting the risk level to the company's conditions and changes in the business environment.

Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations, and in the annual business planning process. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

## Operational risk

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

The forms of operational risk to which the Länsförsäkringar AB Group is exposed are product and process risks, personnel risks, legal risks, compliance risks, IT risks, model risks and security risks.

Work on operational risk is based on Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk.

The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting.

The Group has a shared framework (BARB) for identifying, measure and documenting risks in the decision-making process for decisions that could be expected to have a material impact on profitability, risk profile, organisation, customer or brand. The purpose is to ensure efficient decision-making through proactive and appropriate management of the risks so as to thereby achieve established targets with a higher degree of certainty, to ensure compliance with applicable laws and regulations and to create customer value.

The Group's continuity management involves preparing business contingency, continuity and restoration plans to manage incidents before, during and after a crisis has occurred. The overall goal for security work is to protect the organisation's assets from all types of threats – internal or external, intentional or unintentional. Security work is conducted in accordance with the ISO standards on information security and continuity management.

## Liquidity risk

Liquidity risk is the risk of losses arising due to the company's own payment commitments not being fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss.

The business activities of Länsförsäkringar Liv are based on premiums being paid in advance and being managed until insurance compensation is to be paid out. A lack of liquidity could lead to the company not being able to fulfil its commitments to customers. Liquidity risk is closely associated with the investment assets found in the company's investment portfolios and is measured and monitored through daily forecasts of liquidity requirements, taking into account both inflows and outflows, including liquidity requirements for signed derivative agreements.

The company's liquidity requirements are also forecasted for the medium term, up to five years, based on annual actuarial cash-flow forecasts within the framework of the company's ORSA. A liquidity reserve is maintained to ensure favourable short-term access to funds that also takes into account the need for cash and surplus liquidity based on established liquidity forecasts for the payment of securities transactions and claims payments and, where necessary, other inward and outward payments, such as premiums and operating expenses.

Assets are classified into pre-defined liquidity classes, of which the liquidity reserve may comprise only assets in the highest liquidity class. Clear rules also apply to life-assurance companies regarding how assets are to be deposited to ensure that they are readily available to the company and can thus be realised as needed.

**Table 5. Discounted net cash outflows for technical provisions**

Duration, year	Percentage of cash flow, %	
	2018	2017
0-5	32.0	32.3
5-10	25.9	26.1
10-15	18.5	18.6
15-20	11.0	11.1
20-30	9.2	8.9
30-	3.4	3.0

**Table 6. Maturity analysis for interest-bearing financial assets and liabilities and insurance undertakings**

The table shows the cash flows for each period, based on the remaining contractual maturities.

SEK M	2018						2017					
	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total
<b>Assets</b>												
Interest-bearing securities issued by Group companies and loans to Group companies	0	293	2,784	0	0	<b>3,077</b>	-21	680	2,476	24	0	3,159
Bonds and other interest-bearing securities	322	4,269	35,613	16,039	17,404	<b>73,648</b>	34	4,385	35,012	16,977	18,952	75,359
Loans with collateral in fixed property	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	1,399	-	-	-	-	<b>1,399</b>	1,159	-	-	-	-	1,159
<b>Liabilities</b>												
Technical provisions <sup>1)</sup>	1,333	4,180	21,616	21,983	35,738	<b>84,850</b>	1,449	4,512	23,121	23,553	37,532	90,167
Other liabilities	2,868	-	-	-	-	<b>2,868</b>	2,982	-	-	-	-	2,982
Accrued expenses and deferred income	169	-	-	-	-	<b>169</b>	176	-	-	-	-	176
<b>Total cash flows, net</b>	<b>-2,649</b>	<b>382</b>	<b>16,781</b>	<b>-5,944</b>	<b>-18,334</b>	<b>-9,764</b>	<b>-3,435</b>	<b>553</b>	<b>14,367</b>	<b>-6,552</b>	<b>-18,580</b>	<b>-13,648</b>
Derivatives, in and outflows, net	0	-293	-2,784	0	0	3,077	384	390	1,075	1,652	714	4,215
<b>Total cash flows, net</b>	<b>-2,649</b>	<b>89</b>	<b>13,997</b>	<b>-5,944</b>	<b>-18,334</b>	<b>-12,841</b>	<b>-3,051</b>	<b>943</b>	<b>15,442</b>	<b>-4,900</b>	<b>-17,866</b>	<b>-9,433</b>

<sup>1)</sup> Technical provisions are recognised gross, before ceded reinsurance.

## Capital management

Länsförsäkringar Liv is a limited liability life-assurance company with a prohibition against issuing dividends and that is operated according to mutual principles. Länsförsäkringar Liv is a subsidiary of Länsförsäkringar AB, but is not consolidated in the Länsförsäkringar AB Group. The company's profit is not distributed to the owner and instead stays in the company and accrues to Länsförsäkringar Liv's policyholders. Different conditions apply to Länsförsäkringar Liv due to the company's special position in the Länsförsäkringar AB Group.

## Capital planning process

Unlike profit-making subsidiaries in the Group that are to contribute to value growth and dividends to the owners of Länsförsäkringar AB, the capital in Länsförsäkringar Liv is controlled only to secure commitments to customers and to generate as high returns on investment assets for customers as possible. Given its corporate form, it is also vital for Länsförsäkringar Liv to maintain sufficient capital. The possibility of raising capital via direct capital contributions is considered to be limited due to the prohibition against issuing dividends. A capital target is decided every year by the Board in connection with the ORSA, which is expressed as a solvency ratio calculated in accordance with Solvency II. The Board also decides on the minimum level for capitalisation.

The purpose of the ORSA is to ensure that own funds are sufficient for bearing the risks associated with realising the business plan. The analysis is based on the business plan activities and the base scenario, but also includes a demanding negative scenario and stress tests. The analysis is to be performed in such a manner that the Board and management gain greater joint understanding of issues relating to capital structure, capital requirement and business contingency to reduce risks.

**Table 7. Capital situation under Solvency II**

Länsförsäkringar Liv's solvency ratio is measured in accordance with Solvency II and exceeds the statutory requirement by a healthy margin. The solvency ratio amounted to 200% (207).

As seen in table 6 below, the capital situation weakened slightly during the year as an effect of adjusted expense assumptions and lower earnings. Own funds for Länsförsäkringar Liv fell SEK 1,644 M during the reporting period to SEK 23,485 M.

SEK M	31 Dec 2018	31 Dec 2017
Own funds	23,485	25,129
Capital requirement	11,742	12,170
Solvency ratio	200	207 <sup>1)</sup>

<sup>1)</sup> Excluding changed assumption on operating expenses. Including the changed assumption on operating expenses, the solvency ratio is estimated at 200%.

<b>Note 3</b>	<b>Premium income</b>	
	2018	2017
<b>Gross premium income before ceded reinsurance is distributed as follows in the life-assurance operations</b>		
Direct life assurance	1,296	1,282
Direct accident and health insurance	389	429
<b>Total</b>	<b>1,685</b>	<b>1,711</b>
<b>Gross premium income for direct life assurance is distributed in the following categories</b>		
Premiums for individual life assurance	1,296	1,282
Group insurance premiums	-	-
<b>Total</b>	<b>1,296</b>	<b>1,282</b>
Periodic premiums	1,163	1,127
Single premiums	133	155
<b>Total</b>	<b>1,296</b>	<b>1,282</b>
Premiums for contracts that do not carry bonus rights	270	260
Premiums for contracts that carry bonus rights	1,026	1,021
<b>Total</b>	<b>1,296</b>	<b>1,282</b>

All premiums pertain to insurance in Sweden.

<b>Note 4</b>	<b>Investment income, per measurement category</b>	
	2018	2017
<b>Profit/loss by measurement category</b>		
Financial assets measured at FVPL	37	4,505
Financial assets measured at amortised cost	-8	-36
<b>Items not distributed by category</b>		
Exchange-rate gains/losses, net	-442	357
Dividends in Group and associated companies	0	2
Capital gains/losses from limited partnerships	-	-101
Depreciation/amortisation and impairment of shares and participations	-	-78
Asset management expenses	-99	-110
Other financial expenses	0	-
Non-financial items included in investment income, net	-14	940
<b>Total</b>	<b>-527</b>	<b>5,479</b>

<b>Note 5</b>	<b>Investment income, revenue</b>	
	2018	2017
<b>Rental income</b>	<b>0</b>	<b>0</b>
<b>Dividends</b>		
Dividends received	120	135
Dividends received from Group and associated companies	-	2
<b>Total dividends</b>	<b>120</b>	<b>137</b>
<b>Interest income</b>		
Interest-bearing securities issued by and loans to Group companies	19	31
Bonds and other interest-bearing securities <sup>1)</sup>	1,255	1,328
Derivatives	301	432
Other interest income <sup>2)</sup>	51	85
<b>Total interest income</b>	<b>1,626</b>	<b>1,876</b>
<b>Exchange-rate gains/losses, net</b>	<b>-</b>	<b>356</b>
<b>Capital gains, net</b>		
Interest-bearing securities issued by and loans to Group companies	8	12
Shares and participations	533	2,241
Shares and participations in associated companies	-	3
Shares and participations in Group companies	-	950
Bonds and other interest-bearing securities	236	702
Other investment assets	1	3
<b>Total capital gains</b>	<b>778</b>	<b>3,912</b>
<b>Investment income, revenue</b>	<b>2,524</b>	<b>6,281</b>

<sup>1)</sup> Of which negative interest rate on interest-bearing securities of SEK 20 M (31).

<sup>2)</sup> Of which negative interest rate on cash and bank balances of SEK 13 M (11).

<b>Note 6</b>	<b>Unrealised gains on investment assets</b>	
	2018	2017
Shares and participations	-	590
Bonds and other interest-bearing securities	-	354
Derivatives	47	-
Other financial investment assets	-	8
<b>Total</b>	<b>47</b>	<b>952</b>

<b>Note 7</b>	<b>Claims paid before ceded reinsurance</b>	
	2018	2017
Claims payments	-4,757	-4,954
Cancellations, repurchases and external transfers	-459	-616
Claims adjustment costs	-8	-9
<b>Total</b>	<b>-5,224</b>	<b>-5,579</b>

<b>Note 8</b>	<b>Operating expenses</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating expenses in life-assurance operations distributed according to functions</b>		
Acquisition	-30	-96
Change in the deferred acquisition costs item	-31	-41
Administration expenses	-351	-354
Commission and profit shares in ceded reinsurance	0	74
<b>Total</b>	<b>-412</b>	<b>-417</b>
Of which, purchasing from the Länsförsäkringar AB Group	-126	-126
<b>Total amount of direct insurance commission</b>	<b>-86</b>	<b>-110</b>

The item Acquisition below consists of total of the items Acquisition and Change in the deferred acquisition costs. The item Administration below consists of the total of the items Administration expenses and Commission and profit shares in ceded reinsurance.

#### Total expenses comprise the following

	<b>2018</b>	<b>2017</b>
Acquisition	-62	-137
Claims adjustment	-8	-9
Administration	-351	-280
Asset management	-99	-110
<b>Total</b>	<b>-520</b>	<b>-536</b>

Costs for acquisition and administration are recognised in profit or loss under operating expenses, claims adjustment costs are recognised under claims payments in note 7 Claims paid, and costs for asset management are recognised in note 11 Investment income, expenses under asset management expenses.

#### Total costs are distributed as follows

	<b>2018</b>	<b>2017</b>
Staff costs, etc.	-65	-58
Costs for premises, etc.	-0	-0
Amortisation/depreciation, etc.	-38	-50
Other	-417	-428
<b>Total</b>	<b>-520</b>	<b>-536</b>

<b>Note 9</b>	<b>Fees and remuneration of auditors</b>	
	<b>2018</b>	<b>2017</b>
KPMG AB		
Audit assignment	2	2
Audit operations in addition to the audit assignment	0	-
Tax consulting	1	2
<b>Total</b>	<b>3</b>	<b>4</b>

Audit assignments pertain to a review of the Annual Report and accounts, and the administration by the Board of Directors and President, other work assigned to the company's auditors, and advice or other assistance required due to observations made during the review or implementation of such other assignments.

<b>Note 10</b>	<b>Employees, staff costs and remuneration of senior executives</b>	
	<b>2018</b>	<b>2017</b>
<b>Average number of employees</b>		
<i>Sweden</i>		
Men	14	14
Women	18	19
<b>Total number of employees</b>	<b>32</b>	<b>33</b>
<b>Salaries and other remuneration, as well as social security expenses, other employees</b>		
Salaries and remuneration	21.6	19.9
Social security expenses	17.3	13.1
of which, pension costs	8.9	5.6
<b>Total</b>	<b>38.9</b>	<b>33.0</b>
<b>Board of Directors and senior executives, 17 (19)</b>		
Salaries and remuneration	13.7	14.2
of which, fixed salary to the President and Executive Vice President	5.9	3.8
of which, fixed salary to other senior executives	5.1	7.7
Social security expenses	13.6	11.2
of which, pension costs	7.3	5.3
<b>Total</b>	<b>27.3</b>	<b>25.4</b>
<b>Total salaries, other remuneration and social security expenses</b>		
Salaries and remuneration	35.3	34.1
of which, variable salary	-	-
Social security expenses	30.9	24.3
of which, pension costs	16.2	10.9
<b>Total</b>	<b>66.2</b>	<b>58.4</b>

#### Remuneration of the Board

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. Employee representatives and Board members of the Länsförsäkringar AB Group do not receive any directors' fees.

#### Remuneration of senior executives

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

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

Remuneration of senior executives	Pension costs as a percentage of pensionable salary, %					
	2018, SEK M	Basic salary/Board fee	Other remuneration	Pension costs	Total	Defined-contribution
Jörgen Svensson, President		3.9	0.1	4.3	8.3	51
Jakob Carlsson, Executive Vice President		1.9	0.0	0.8	2.7	44
Sten Dunér, Chairman of the Board		0.5	-	-	0.5	
Karl-Olof Hammarkvist, former Chairman of the Board		0.2	-	-	0.2	
Anna Söderblom, Deputy Chairman		0.3	-	-	0.3	
Gunnar Wetterberg, former Board member		0.3	-	-	0.3	
Henrik Perlmutter, Board member		0.2	-	-	0.2	
Eric Grimlund, Board member		0.2	-	-	0.2	
Mats Andersson, Board member		0.2	-	-	0.2	
Olof Wogén, Board member		0.1	-	-	0.1	
Marie-Louise Zetterström, Board member		0.3	-	-	0.3	
Örian Söderberg, Board member		0.3	-	-	0.3	
Ingemar Larsson, former Board member		0.1	-	-	0.1	
Karin Starrin, former Board member		0.1	-	-	0.1	
Other senior executives (3 people)		5.1	0.0	2.2	7.3	44
<b>Total 2018</b>		<b>13.7</b>	<b>0.1</b>	<b>7.3</b>	<b>21.1</b>	

Remuneration of senior executives	Pension costs as a percentage of pensionable salary, %					
	2017, SEK M	Basic salary/Board fee	Other remuneration	Pension costs	Total	Defined-contribution
Jörgen Svensson, President		3.8	-	1.9	5.7	52
Karl-Olof Hammarkvist, Chairman of the Board		0.5	-	-	0.5	
Gunnar Wetterberg, Board member		0.3	-	-	0.3	
Henrik Perlmutter, Board member		0.2	-	-	0.2	
Eric Grimlund, Board member		0.1	-	-	0.1	
Marie-Louise Zetterström, Board member		0.3	-	-	0.3	
Birgitta Carlander, Board member		0.3	-	-	0.3	
Ingemar Larsson, Board member		0.3	-	-	0.3	
Örian Söderberg, Board member		0.2	-	-	0.2	
Anna Söderblom, Board member		0.3	-	-	0.3	
Sten Dunér, Board member		0.2	-	-	0.2	
Karin Starrin, former Board member		0.1	-	-	0.1	
Other senior executives (6 people)		7.6	0.0	3.4	11.0	0
<b>Total 2017</b>		<b>14.2</b>	<b>0.0</b>	<b>5.3</b>	<b>19.5</b>	

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

### Pensions

The retirement age for the President is 60. The pension between 60 and 65 is a defined-contribution plan and the pension premium is to amount to 31% of the pensionable salary. Pensionable salary refers to fixed salary. In addition, the company pays an additional pension premium of SEK 120,000 per year. The pension costs for the President in 2018 include costs for the final pension payment between the age of 60 and 65. Pension from the age of 65 will be subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO and the FTF/SACO. Furthermore, an additional pension premium corresponding to one price base amount is paid every year.

### Severance pay

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

### Preparation and decision-making process applied in relation to the issue of remuneration of corporate management

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management.

The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

### Composition of Remuneration Committee and mandate

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and two Board members.

### Policies for remuneration of corporate management

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

### Fixed remuneration

Fixed remuneration is paid according to the general policy above.

### Pensions

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

### Other benefits

In addition to the above benefits, a company car, individual health care insurance and other benefits are offered to all employees.

### Number of women among senior executives, %

	31 Dec 2018	31 Dec 2017
Board members	33	38
Other senior executives	20	33

<b>Note 11</b>	<b>Investment income, expenses</b>	
	<b>2018</b>	<b>2017</b>
<b>Asset management expenses</b>	<b>-99</b>	<b>-110</b>
<b>Other financial expenses</b>	<b>-153</b>	<b>-150</b>
<b>Interest expense</b>		
Bonds and other interest-bearing securities	-15	-16
Derivatives	-589	-646
Other interest expense	-1	-1
<b>Total interest expense</b>	<b>-605</b>	<b>-663</b>
<b>Impairment</b>		
Shares and participations	-	-78
Capital gains/losses from partnerships	-	-101
<b>Total impairment</b>	<b>-</b>	<b>-179</b>
<b>Exchange-rate losses, net</b>	<b>-442</b>	<b>-</b>
<b>Capital losses, net</b>		
Bonds and other interest-bearing securities	-32	-29
Derivatives	-647	-447
<b>Total capital losses</b>	<b>-679</b>	<b>-476</b>
<b>Investment income, expenses</b>	<b>-1978</b>	<b>-1,579</b>

<b>Note 12</b>	<b>Unrealised losses on investment assets</b>	
	<b>2018</b>	<b>2017</b>
Interest-bearing securities issued by and loans to Group companies	-8	-24
Shares and participations	-639	-
Bonds and other interest-bearing securities	-473	-
Loans with collateral in fixed property	-	-25
Derivatives	-	-126
<b>Total</b>	<b>-1,120</b>	<b>-175</b>

<b>Note 13</b>	<b>Taxes</b>	
	<b>2018</b>	<b>2017</b>
<b>Current tax expense</b>		
Yield tax on pension funds	-100	-96
Tax	-75	-26
Adjustment of tax pertaining to prior years	0	0
<b>Total recognised tax expense</b>	<b>-175</b>	<b>-122</b>
<b>Tax rates applied:</b>		
Yield tax on pension funds, pension insurance	15%	15%
Yield tax on pension funds, endowment insurance	30%	30%
Average government funding rate for taxation, pension insurance	0.51%	0.50%
Government funding rate for taxation, endowment insurance	1.49%	1.25%
Tax rate for calculating income tax	22%	22%

**Note 14** Shares and participations in Group companies

Company name	Corporate Registration Number	Registered office	Number of shares/ participations	Share of equity, %	Equity 2018	Earnings 2018	Carrying amount	Fair value
Länsförsäkringar Komplement AB	556660-1257	Stockholm	1,000	100%	0	0	0	0
Fastighets KB Automobilpalatset	969680-4195	Stockholm	1,000	100%	131	0	30	30
<b>Total 31 December 2018</b>					<b>131</b>	<b>0</b>	<b>30</b>	<b>30</b>
<b>Total 31 December 2017</b>					<b>30</b>	<b>-101</b>	<b>30</b>	<b>30</b>

All shares and participations are unquoted.

<b>Cost</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Opening balance	164	492
Shareholders' contributions	-	183
Added and deducted assets	-	-271
Withdrawals from limited partnerships	-	-139
Capital gains/losses from limited partnerships	0	-101
<b>Closing balance</b>	<b>164</b>	<b>164</b>
<b>Accumulated changes in value</b>		
Opening balance	-134	-57
Impairment	-	-77
<b>Closing balance</b>	<b>-134</b>	<b>-134</b>
<b>Total carrying amount</b>	<b>30</b>	<b>30</b>
<b>Fair value</b>	<b>30</b>	<b>30</b>

**Note 15** Interest-bearing securities issued by Group companies and loans to Group companies

	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Listed bonds issued by Länsförsäkringar Hypotek	2,940	2,730
Listed bonds issued by Länsförsäkringar Bank	116	398
<b>Total fair value</b>	<b>3,056</b>	<b>3,128</b>

**Note 16** Shares and participations in associated companies

Company name	Corporate Registration Number	Registered office	Number of shares/participations	Share of equity, %	Equity 2018	Earnings 2018	Carrying amount	Fair value
FAB S-Holt i Kista	556678-4715	Stockholm	499	49.9	1	0	0	0
<b>Total 31 December 2018</b>					<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total 31 December 2017					1	1	0	0

All shares and participations are unquoted.

It has been assessed that the holdings in associated companies are not of material significance to the Parent Company.

Total amount for associated companies	Income	Earnings	Assets	Liabilities	Equity	Fair value
<b>31 Dec 2018</b>	-	0	1	-	1	0
31 Dec 2017	-	1	1	-	1	0

Cost	31 Dec 2018	31 Dec 2017
Opening balance	0	220
Added and deducted assets	0	-220
<b>Closing balance</b>	<b>0</b>	<b>0</b>

**Note 17** Shares and participations

	31 Dec 2018	31 Dec 2017
Quoted shares and participations	16,252	18,778
Unquoted shares and participations	7,749	6,664
<b>Total</b>	<b>24,001</b>	<b>25,442</b>
Cost	16,253	17,292
Total carrying amount	24,001	25,442
Less, assets for conditional bonus	-2,722	-3,651
<b>Total</b>	<b>21,279</b>	<b>21,791</b>

**Note 18** Bonds and other interest-bearing securities

	31 Dec 2018	31 Dec 2017
<b>Issuer</b>		
Swedish government	6,124	6,437
Swedish mortgage institutions	26,906	25,304
Other Swedish issuers	16,619	18,276
Foreign states	4,618	4,360
Other foreign issuers	23,285	25,836
<b>Total</b>	<b>77,552</b>	<b>80,214</b>
Amortised cost	70,162	72,565
<b>Market status</b>		
Quoted securities	75,463	78,694
Securities unquoted	2,089	1,520
<b>Total</b>	<b>77,552</b>	<b>80,214</b>
<b>Carrying amounts compared with nominal amounts</b>		
Total surplus	6,074	6,431
Total deficit	-169	-79
Total carrying amount	77,552	80,214
Less, assets for conditional bonus	-908	-1,421
<b>Total</b>	<b>76,644</b>	<b>78,793</b>



<b>Note 19</b>		<b>Derivatives</b>			
	<b>Carrying amount</b>		<b>Nominal amount</b>		
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
<b>Derivatives with positive values or valued at zero</b>					
Equity	2	-	0	-	
Interest	5,199	5,297	42,140	44,488	
Currency	484	540	32,230	35,905	
<b>Total</b>	<b>5,685</b>	<b>5,837</b>	<b>74,370</b>	<b>80,393</b>	
<b>Derivatives with negative values</b>					
Equity	11	1	0	0	
Interest	3,621	3,727	14,470	17,484	
Currency	196	76	7,881	-1,726	
<b>Total</b>	<b>3,828</b>	<b>3,804</b>	<b>22,351</b>	<b>15,758</b>	
Total carrying amount for derivatives with positive values	5,685	5,837			
Less, assets for conditional bonus	-19	-71			
<b>Total</b>	<b>5,666</b>	<b>5,766</b>			

<b>Note 20</b>		<b>Information about offsetting</b>	
----------------	--	-------------------------------------	--

The table shows the financial instruments covered by a legally binding agreement regarding netting or a similar agreement, together with related collateral. The company has ISDA and CSA agreements with all derivative counterparties, which means that all exposures are covered by these types of agreements. The agreements entitle the parties to offset liabilities and receivables in the event of suspension of payment or insolvency. The net amount comprises the amount that in the event of suspension of payment or insolvency would be received if the amount is an asset, or paid if the amount is a liability.

<b>Financial assets and liabilities that are offset or subject to netting agreements</b>						
<b>31 Dec 2018</b>	<b>Gross amount</b>	<b>Offset in balance sheet</b>	<b>Net amounts in balance sheet</b>	<b>Related amounts not offset in the balance sheet</b>		<b>Net amount</b>
				<b>Netting framework agreement</b>	<b>Collateral Received (-) / Pledged (+)</b>	
<b>Assets</b>						
Derivatives	5,685	-	5,685	-2,671	-2,648	366
<b>Liabilities</b>						
Derivatives	-3,828	-	-3,828	2,671	1,350	193
<b>Total</b>	<b>1,857</b>	<b>-</b>	<b>1,857</b>	<b>0</b>	<b>-1,298</b>	<b>559</b>

<b>Financial assets and liabilities that are offset or subject to netting agreements</b>						
<b>31 Dec 2017</b>	<b>Gross amount</b>	<b>Offset in balance sheet</b>	<b>Net amounts in balance sheet</b>	<b>Related amounts not offset in the balance sheet</b>		<b>Net amount</b>
				<b>Netting framework agreement</b>	<b>Collateral Received (-) / Pledged (+)</b>	
<b>Assets</b>						
Derivatives	5,836	-	5,836	-2,004	-2,923	909
<b>Liabilities</b>						
Derivatives	-3,804	-	-3,804	2,004	1,134	-666
<b>Total</b>	<b>2,032</b>	<b>-</b>	<b>2,032</b>	<b>0</b>	<b>-1,789</b>	<b>243</b>

<b>Note 21</b>		<b>Assets and provisions for conditional bonus</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Opening balance	5,869	4,810	
Change in value	-1,882	1,059	
<b>Closing balance</b>	<b>3,987</b>	<b>5,869</b>	

Changes in provisions are recognised in profit or loss on the line item Technical provisions for life assurance for which the policyholder bears the risk. The change in value on the asset side is recognised in profit or loss on the rows Investment income, revenue and expense, and Unrealised gains and Unrealised losses.

<b>Note 22</b>		<b>Other receivables</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	
Receivables from Länsförsäkringar AB Group	38	49	
Non-liquidity-settled sales of investment assets	1,351	1,134	
Other receivables	10	34	
<b>Total</b>	<b>1,399</b>	<b>1,217</b>	

The transition from IAS 39 to IFRS 9 entailed that loss allowance for other receivables was established at SEK 0 M for 1 January 2018. The loss allowance on 31 December 2018 amounted to SEK 0 M. All exposures are in stage 1.

<b>Note 23</b> Deferred acquisition costs		
	31 Dec 2018	31 Dec 2017
<b>Insurance contracts</b>		
Opening balance	102	143
Capitalised costs during the year	7	9
Depreciation according to plan for the year	-38	-50
<b>Closing balance</b>	<b>71</b>	<b>102</b>

<b>Note 24</b> Share capital		
	31 Dec 2018	31 Dec 2017
Number of shares, issued and paid	8,000	8,000
Quotient value per share, SEK	1,000	1,000
Number of shares outstanding	8,000	8,000

According to applicable Articles of Association, the company is unable to pay any dividend. The changes in equity, compared with the preceding year's balance sheet, are recognised in the statement of changes in equity.

<b>Note 25</b> Life-assurance reserve		
	31 Dec 2018	31 Dec 2017
Opening balance	82,140	85,192
Payments	1,026	1,023
Claims paid	-4,835	-5,123
Estimated costs withdrawn <sup>1)</sup>	-393	-406
Investment income contributed to life-assurance reserves	-358	-472
Change in reserves due to amended interest-rate assumptions	2,395	1,883
Mortality results	-40	-29
Tax expense withdrawal, life-assurance reserve	-95	-72
Change due to basic change to New Trad	-123	-441
Adjustment of LA (risk margin)	205	28
New methods for future operating expenses	-	685
Other changes <sup>2)</sup>	-910	-128
<b>Closing balance</b>	<b>79,012</b>	<b>82,140</b>

<sup>1)</sup> Of which, costs withdrawn for asset management SEK -129 (-133). Introduced in 2016.

<sup>2)</sup> The largest items included in "Other changes" for 2018 are changes due to internal transfers to New Trad of SEK -206 M and the change in future assumptions of SEK -605 M, of which the largest item refers to future commission of SEK -279 M.

The discount rate curve defined by the EIOPA is used for life-assurance reserves and provision for disability annuities at fixed amounts. This curve has been produced to correspond to a risk-free interest rate term structure and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 4.05% is also included. A yield curve for break-even inflation, calculated as nominal interest minus real interest for government bonds, was used for indexed disability annuities.

<b>Note 26</b> Provision for claims outstanding					
	Established claims	Non-established claims	Provision for claims and disability annuities	Total 31 Dec 2018	Total 31 Dec 2017
Opening balance	58	195	1,904	2,157	2,216
Change	-0	-13	-293	-306	-59
<b>Closing balance</b>	<b>58</b>	<b>182</b>	<b>1,611</b>	<b>1,851</b>	<b>2,157</b>

<b>Note 27</b> Liabilities, direct insurance		
	31 Dec 2018	31 Dec 2017
Liabilities to policyholders	137	156
Liabilities to insurance brokers	-4	9
<b>Total</b>	<b>133</b>	<b>165</b>

<b>Note 28</b> Other liabilities		
	31 Dec 2018	31 Dec 2017
Liabilities to Group companies	44	58
Liabilities to Länsförsäkringar AB Group	108	103
Non-liquidity-settled sales of investment assets	2,648	2,923
Other liabilities	212	154
<b>Total</b>	<b>3,012</b>	<b>3,238</b>

**Note 29** Financial assets and liabilities by category

31 Dec 2018	Financial assets measured at FVPL		Financial assets measured at FVOCI			Total carrying amount	Fair value
	Measured at FVPL	Equity instruments	Financial assets measured at amortised cost	Debt instruments measured at FVOCI	Equity instruments		
<b>Assets</b>							
Interest-bearing securities issued by Group companies and loans to Group companies	3,056	-	-	-	-	3,056	3,056
Shares and participations	23,994 <sup>1)</sup>	-	-	-	7	24,001	24,001
Bonds and other interest-bearing securities	77,552 <sup>1)</sup>	-	-	-	-	77,552	77,552
Derivatives	5,684 <sup>1)</sup>	-	-	-	-	5,684	5,684
Assets for conditional bonus	3,987	-	-	-	-	3,987	3,987
Other receivables	-	-	1,399	-	-	1,399	1,399
Cash and bank balances	-	-	3,978	-	-	3,978	3,978
<b>Total</b>	<b>114,273</b>		<b>5,377</b>		<b>7</b>	<b>119,657</b>	<b>119,657</b>

	Financial liabilities measured at FVPL	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
<b>Liabilities</b>				
Derivatives		3,628	3,628	3,628
Other liabilities		-	2,868	2,868
Accrued expenses and deferred income		-	173	173
<b>Total</b>		<b>3,628</b>	<b>6,669</b>	<b>6,669</b>

The carrying amount of assets classified as Financial assets measured at amortised cost and liabilities classified as Financial liabilities measured at amortised cost comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.

31 Dec 2017	Financial assets measured at FVPL		Loans and receivables	Total carrying amount	Fair value
	Financial assets measured according to fair value option	Held for trading			
<b>Assets</b>					
Interest-bearing securities issued by Group companies and loans to Group companies	3,128	-	-	3,128	3,128
Shares and participations	25,442 <sup>1)</sup>	-	-	25,442	25,442
Bonds and other interest-bearing securities	80,214 <sup>1)</sup>	-	-	80,214	80,214
Derivatives	-	5,837 <sup>1)</sup>	-	5,837	5,837
Assets for conditional bonus					5,869
Other receivables	-	-	1,217	1,217	1,217
Cash and bank balances	-	-	5,381	5,381	5,381
<b>Total</b>	<b>108,784</b>	<b>5,837</b>	<b>6,598</b>	<b>121,219</b>	<b>121,219</b>

	Financial liabilities measured at FVPL		Other financial liabilities	Total carrying amount	Fair value
	Financial liabilities measured according to fair value option	Held for trading			
<b>Liabilities</b>					
Derivatives	-	3,804	-	3,804	3,804
Other liabilities	-	-	3,239	3,239	3,239
Accrued expenses and deferred income	-	-	189	189	189
<b>Total</b>	<b>-</b>	<b>3,804</b>	<b>3,428</b>	<b>7,232</b>	<b>7,232</b>

The fair value of assets classified as Loans and receivables and liabilities classified as Other financial liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.

<sup>1)</sup> Including amounts in the balance sheet recognised as assets for conditional bonus.

## Note 30 Fair value valuation techniques

Financial assets and liabilities measured at fair value in the statement of financial position are presented in the table based on the valuation techniques applied:

Level 1 refers to prices determined from prices quoted in an active market.

Level 2 refers to prices determined by calculated prices of observable market data.

Level 3 refers to prices based on own assumptions and judgements.

31 Dec 2018	Level 1	Level 2	Level 3	Total carrying amount
<b>Assets</b>				
Interest-bearing securities issued by Group companies and loans to Group companies	3,056	-	-	3,056
Shares and participations	13,530	7	7,742	21,279
Bonds and other interest-bearing securities	74,226	329	2,089	76,644
Loans with collateral in fixed property	-	-	-	-
Derivatives	18	5,648	-	5,666
Assets for conditional bonus	3,969	18	-	3,987
<b>Liabilities</b>				
Derivatives	12	3,816	-	3,828

31 Dec 2017	Level 1	Level 2	Level 3	Total carrying amount
<b>Assets</b>				
Interest-bearing securities issued by Group companies and loans to Group companies	2,993	135	-	3,128
Shares and participations	15,127	7	6,657	21,791
Bonds and other interest-bearing securities	77,089	184	1,520	78,793
Derivatives	15	5,751	-	5,766
Assets for conditional bonus	5,799	70	-	5,869
<b>Liabilities</b>				
Derivatives	6	3,798	-	3,804

There were no significant transfers between Level 1 and Level 2 during 2018 or during 2017. There were no transfers from Level 3 in 2018 or 2017.

Shares and participations in Level 3 are measured at equity per share based on the most recent company report. Delisted, insolvent companies are measured at zero, if no other listing can be found.

Holdings in private equity funds classified as shares in Level 3 are valued externally by the manager of each fund. The valuation of each fund is based on the valuation of the fund's holdings in portfolio companies. The valuation of underlying portfolio companies is based on systematic comparisons with market-listed comparable companies or on a value based on a relevant third-party transaction. In certain cases, the valuations are based on discounted cash flows or methods based on other unobservable data. The valuation is performed in accordance with industry practice, for example, International Private

Equity and Venture Capital Valuation Guidelines, which are supported by many industry organisations, such as the EVCA (European Venture Capital Association).

Bonds and other interest-bearing securities that are not quoted in an active market comprise interest-bearing, unquoted loans that are valued using unobservable market data and are classified according to measurement Level 3. Valuations are performed by external managers based on generally accepted valuation techniques, which means that the underlying holdings held by the issuer of the loan are valued based on relevant observable market data wherever available, and holdings for which market data is not available are measured at a fair value corresponding to the cost adjusted for any impairment.

Gains and losses are recognised in profit or loss under Investment income, revenue and Investment income, expenses. For information on determination of fair value, valuation techniques and inputs, see note 1 Accounting policies.

### Change Level 3

	Shares and participations	Bonds and other interest-bearing securities	Total
Opening balance, 1 January 2017	5,186	1,371	6,557
Acquisitions	1,757	278	2,035
Divestments	-137	-101	-239
Recognised in profit or loss	-149	-27	-175
<b>Closing balance, 31 December 2017</b>	<b>6,657</b>	<b>1,520</b>	<b>8,178</b>
Opening balance, 1 January 2018	6,657	1,520	8,178
Acquisitions	454	593	1,047
Divestments	-55	-14	-69
Recognised in profit or loss	686	-10	676
<b>Closing balance, 31 December 2018</b>	<b>7,742</b>	<b>2,089</b>	<b>9,831</b>

**Note 31** Transition to IFRS 9 Financial instruments

Länsförsäkringar Liv began applying IFRS 9 Financial Instruments from 1 January 2018. Changes to accounting policies attributable to IFRS 9 are described in note 1 Accounting policies.

**Financial assets and liabilities by category according to IFRS 9**

SEK M	Carrying amount 1 Jan 2018	Category according to IAS 39	Category according to IFRS 9
<b>Assets</b>			
Interest-bearing securities issued by Group companies and loans to Group companies	3,128	Financial assets measured according to fair value option	FVPL
Shares and participations	25,442		
Of which shares and participations of a strategic nature	7	Financial assets measured according to fair value option	FVOCI
Of which other shares and participations	25,435	Financial assets measured according to fair value option	FVPL
Bonds and other interest-bearing securities	80,214	Financial assets measured according to fair value option	FVPL
Derivatives	5,837	Held for trading	FVPL
Other receivables	1,217	Loans and receivables	Amortised cost
Cash and bank balances	5,381	Loans and receivables	Amortised cost
<b>Total assets</b>	<b>121,219</b>		
<b>Liabilities</b>			
Derivatives	3,804	Held for trading	FVPL
Other liabilities	3,239	Other financial liabilities	Amortised cost
Accrued expenses and deferred income	189	Other financial liabilities	Amortised cost
<b>Total liabilities</b>	<b>7,232</b>		

Expected credit losses are recognised in the item Cash and bank balances and Other receivables measured at amortised cost and the accumulated loss allowance amounted to zero or almost zero.

**Note 32** Recovery dates

	2018		2017	
	Not more than 1 year	More than 1 year	Not more than 1 year	More than 1 year
<b>Assets</b>				
Shares and participations in Group companies	-	30	-	30
Interest-bearing securities issued by Group companies and loans to Group companies	351	2,705	960	2,168
Shares and participations in associated companies	-	-	-	-
Shares and participations	-	21,279	-	21,791
Bonds and other interest-bearing securities	6,668	69,976	7,915	70,878
Derivatives	5,666	-	5,766	-
Other financial investment assets	-	-	-	-
Assets for conditional bonus	194	3,793	173	5,696
Reinsurers' portion of provision for claims outstanding	84	313	144	328
Other receivables	1,399	-	1,217	-
Property and equipment	-	1	-	2
Current tax assets	-	-	39	-
Cash and cash equivalents	3,978	-	5,381	-
Deferred acquisition costs	38	33	50	52
Other prepaid expenses and accrued income	1	-	3	-
<b>Total</b>	<b>18,379</b>	<b>98,130</b>	<b>21,648</b>	<b>100,945</b>
<b>Liabilities</b>				
Life-assurance reserve	5,079	73,933	5,314	76,826
Provision for claims outstanding	349	1,502	372	1,785
Conditional bonus	194	3,793	173	5,696
Provision for pensions and similar commitments	-	23	-	22
Other provisions	7	-	7	47
Deposits from reinsurers	84	313	144	328
Liabilities, direct insurance	133	-	165	-
Liabilities, reinsurance	33	-	8	-
Derivatives	3,828	-	3,804	-
Other liabilities	3,012	-	3,238	-
Other accrued expenses and deferred income	183	-	189	-
<b>Total</b>	<b>12,902</b>	<b>79,564</b>	<b>13,414</b>	<b>84,704</b>

**Note 33** Pledged assets and contingent liabilities

	31 Dec 2018	31 Dec 2017
<b>For own liabilities, pledged assets</b>		
Assets registered for technical provisions:	84,453	89,694
<b>Total</b>	<b>84,453</b>	<b>89,694</b>
<sup>1)</sup> Assets pledged for the benefit of policyholders to cover technical provisions in accordance with Chapter 6, Section 11 of the Insurance Business Act. The amount recognised as pledged assets corresponds to the technical liabilities after deductions for reinsurers' portion. All assets recognised in the benefit register amounted to SEK 108,017 M (114,480).		
Other pledged assets	3	3
<b>Total</b>	<b>3</b>	<b>3</b>
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
<b>Contingent liabilities</b>		
Part-owner of Fastighets KB Automobilpalatset	14	27
<b>Total</b>	<b>14</b>	<b>27</b>
<b>Commitments</b>		
Remaining amount to invest in investment assets	4,391	3,591

**Organisation**

Länsförsäkringar Liv is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies.

Joint operations are conducted in the Länsförsäkringar AB Group, which provides services to Länsförsäkringar Liv. This pertains to development, maintenance, services such as financial, legal, life-assurance administration, asset management, risk control, compliance, security, staff, communication and operation, management and development of joint IT systems. The organisation means that there are a large number of ongoing transactions and a few non-recurring transactions between the companies within the Länsförsäkringar Alliance.

**Related legal entities and related parties**

Länsförsäkringar Liv's operations are conducted according to mutual principles. This means that no profits may be distributed to shareholders.

Related legal entities include all companies within the Länsförsäkringar AB Group, the regional insurance companies and the local insurance companies. All of these companies combined comprise the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members and companies owned by them.

Remuneration of Board members and senior executives in Länsförsäkringar Liv is found in note 10 Employees, staff costs and remuneration of senior executives. In all other respects, no transactions took place between these individuals and their related parties apart from normal customer transactions.

**Guidelines for managing conflicts of interest**

It is important that there is a well-functioning system to prevent disguised dividends or other non-permitted capital use, while utilising policyholders' interest in enjoying economies of scale and other benefits from being part of a group. Länsförsäkringar Liv's Board of Directors has established guidelines for managing conflicts of interest aimed at serving as a tool to promote internal control.

**Cost price policy**

Pricing for service activities within Länsförsäkringar is based on direct and indirect costs. A price list is established in conjunction with the target process. Overall, pricing is intended to distribute costs fairly within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key.

The pricing and cost distribution of services in development and maintenance of general IT systems and other services is currently distributed in groups of basic services (for example, expenses for rents, workplaces and shared functions), mandatory services (for example, joint development and IT) and individual services. The common factor for these is that costs must be distributed as far as possible based on an assessment of actual utilisation.

Basic services include the basic service offering provided by Länsförsäkringar AB to Länsförsäkringar Liv through the Group-wide units. Group overheads pertain to costs consisting of Länsförsäkringar AB's President and staff, as well as expenses that are directly due to the fact that Länsförsäkringar AB and its subsidiaries is a Group. The mandatory services also include common development and service, maintenance and development of the shared brand, as well as management and operation of the Alliance's joint IT systems provided by Länsförsäkringar AB. In addition, there is a price list for individual services, for example, project management. Individual services pertain to services that are individually priced and which Länsförsäkringar Liv may choose to purchase from Länsförsäkringar AB when necessary.

Prices and cost distribution within the Länsförsäkringar AB Group are prepared at bilateral meetings between the purchaser and the seller and in the joint corporate management, which includes the President of Länsförsäkringar Liv. The Board of Länsförsäkringar Liv then decides on the price list and cost distribution for the coming year in conjunction with the annual business planning.

**Decision-making process**

The transactions are based on written agreements at market standards and terms. The decision-making documentation prior to a new agreement with related legal entities must be written and contain a risk assessment for conflicts of interest. The decision-making documentation must also include a brief requirement and impact analysis, as well as the person responsible for the transaction.

There are assignment agreements that regulate the assignments that Länsförsäkringar Liv has undertaken on behalf of Länsförsäkringar AB or another related party. The assignment agreements also state how control and planning of the outsourced operation is to take place. There are also specifications for assignment agreements that describes each assignment's service content, service level and execution.

**Monitoring**

Cost distribution is followed up on a monthly basis. The total costs and internal costs are reported to the Board of Länsförsäkringar Liv and corporate management.

The policies are documented in the finance handbook and prices for purchased services are published on Länsförsäkringar's intranet.

**Länsförsäkringar Liv's transactions with related parties**

The following section provides a description of the most significant related-party transactions in 2018.

**1) IT services and products from Länsförsäkringar AB**

Länsförsäkringar AB provides IT services and products according to a framework agreement since 2004. Pricing is based on the cost-distribution principle. Costs for joint financial infrastructure are distributed according to various keys depending on the service to provide the most accurate picture possible. The framework agreement applies until further notice, with a 12-month period of notice.

**2) Service and development from Länsförsäkringar AB**

A more detailed description of pricing and organisation for these services is available in the above section about regulations for internal transactions of an ongoing nature.

**Mandatory services within Länsförsäkringar Alliance**

Costs for the mandatory services in the Länsförsäkringar AB Group are distributed among the three core business segments Non-life, Life assurance and Bank. The total operational costs are used as the distribution basis between the core businesses where no clear cost driver can be identified.

**Individual service within Länsförsäkringar Alliance**

Prices for individual services are set to reflect consumption of the product or service and invoicing is according to agreement with the customer.

**Basic service in the Länsförsäkringar AB Group**

The service centre and each Group-wide unit that provides basic service within the Länsförsäkringar AB Group prepares an annual documentation displaying the units that are counterparties, the products and services provided, content, service level, price structure and price level. This pertains, for example, to such services as IT, rent for premises and asset management. Länsförsäkringar Liv leases premises from Länsförsäkringar AB and pays market-based rent.

**Costs for Group overhead**

The costs for Group overhead are distributed between the units within the Länsförsäkringar AB Group. For Group overhead, a document must be prepared annually providing details on costs, meaning the services and activities executed and the President's staff/function responsible, how these costs are distributed between the business units, etc.

**3) Bonds in Länsförsäkringar Hypotek AB**

Länsförsäkringar Liv owns listed bonds issued by Länsförsäkringar Hypotek AB with a fair value of SEK 2,940 M (2,730).

**4) Regional insurance companies' distribution remuneration**

Länsförsäkringar Liv pays remuneration to the regional insurance companies for customer care based on capital under management (New Trad), premiums paid and for the change from traditional management to New Trad management. Remuneration levels are regulated through agreements.

**5) Service offerings between Länsförsäkringar Liv and Länsförsäkringar Fondliv**

Länsförsäkringar Liv purchases administrative services from Länsförsäkringar Fondliv. The service offerings are regulated through agreements. Pricing is based on the cost-distribution principle and since 2014 a fixed price per insurance. The contract is extended one year at a time, unless it is cancelled by the parties. Services primarily pertain to life-assurance administration, IT management, administration of risk operations, risk assessment and claims adjustment.

**6) Asset management in Länsförsäkringar AB and with external managers**

Länsförsäkringar AB is commissioned by Länsförsäkringar Liv to manage investment assets through its asset management department and a number of external managers. For management, Länsförsäkringar Liv pays remuneration in relation to its proportion of the asset management department's actual operating expenses. The remuneration is calculated on cost price applicable at any time pursuant to adopted financial control policies within the Länsförsäkringar AB Group. For external management, the companies pay remuneration of a corresponding amount and on the same date as Länsförsäkringar AB pays remuneration to external managers. Some of the external management of the traditional portfolios and New World comprises funds via Länsförsäkringar Fondförvaltning AB. This share (of the total invested via funds) at year-end amounted to 63% for New Trad, 29% for Old Trad and 92% for New World. The remuneration paid to Länsförsäkringar Fondförvaltning AB is market-based. The agreement with Länsförsäkringar AB applies until further notice, with a 12-month period of notice.

#### 7) Management remuneration from Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning provides management remuneration for managing New World products as well as Old Trad and New Trade. The cooperation agreement applies until further notice, with a one-month period of notice.

#### 8) Occupational pensions for employees of the Länsförsäkringar Alliance

Länsförsäkringar Liv provides occupational pensions for employees of the Länsförsäkringar Alliance. These pension benefits are based on agreements in the Swedish labour market and the premiums are market-based.

#### 9) Bonds and subordinated debts in Länsförsäkringar Bank AB

Länsförsäkringar Liv owns listed bonds issued by Länsförsäkringar Bank AB with a fair value of SEK 116 M (398).

#### 10) Cooperation with Länsförsäkringar Sak regarding procurement of catastrophe reinsurance:

Länsförsäkringar Liv has commissioned Länsförsäkringar Sak's Reinsurance department to take responsibility for the procurement and administration of non-proportional reinsurance of catastrophe risks. This cooperation entails that the parties will share the reinsurance cover. The premium amounted to SEK 1.0 M (1.3). No disaster claims were incurred during the year.

#### 11) Agreement with Länsförsäkringar Fondliv and Länsförsäkringar AB regarding compensation for transfer of capital, when customers transfer their insurance, between the companies:

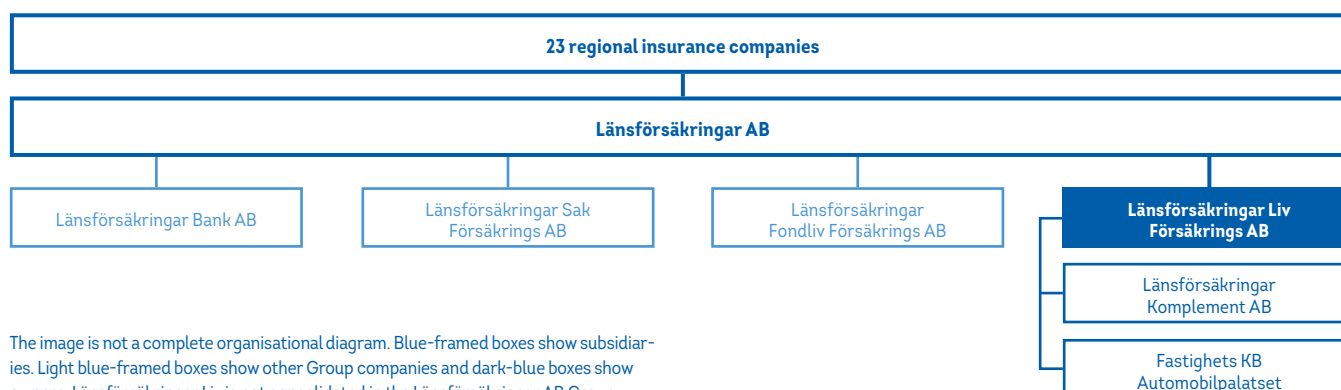
Premium flows currently take place between Länsförsäkringar Liv and Länsförsäkringar Fondliv when management forms are changed. Länsförsäkringar Liv and Länsförsäkringar Fondliv have agreed that the companies will pay compensation to each other based on commercial terms for the expenses arise when insurance capital is transferred between the two companies. This compensation is to be at a level corresponding to the transfer fees that apply at any time for external transfers from each party. Settlement is to take place every quarter between the parties according to separate accounts.

In addition, compensation of SEK 50 M was paid from Länsförsäkringar AB in 2018 for capital transferred from Länsförsäkringar Liv to Länsförsäkringar Fondliv. This compensation is based on an agreement from 2011 signed in connection with the sale of Länsförsäkringar Fondliv.

#### 12) Agreements regarding AML services with Länsförsäkringar Bank AB:

Länsförsäkringar Bank AB provides certain anti-money laundering services and measures to combat terror financing. Länsförsäkringar Liv pays remuneration according to a cost-distribution principle adopted by the Boards of both companies. Costs for AML services were invoiced via Länsförsäkringar Fondliv and Länsförsäkringar AB in 2018.

### Organisational structure



The image is not a complete organisational diagram. Blue-framed boxes show subsidiaries. Light blue-framed boxes show other Group companies and dark-blue boxes show owners. Länsförsäkringar Liv is not consolidated in the Länsförsäkringar AB Group.

The tables below show the significant related-party transactions between companies within Länsförsäkringar Liv and legal entities closely related to the Group, as reported above. All amount are in SEK M.

#### Länsförsäkringar Liv's transactions with related parties

Nature	Counterparty	2018		2017		Reference
		Income	Expenses	Income	Expenses	
IT services and products	Länsförsäkringar AB	-	42	-	33	1
Service and development, of which	Länsförsäkringar AB	-	84	-	89	2.11
- Individual service		-	12	-	12	
- Mandatory services		-	12	-	14	
- Basic service		-	49	-	51	
- Group overhead		-	11	-	12	
Interest	Länsförsäkringar Hypotek AB	23	-	20	-	3
Distribution remuneration including remuneration capital	23 regional insurance companies	-	86	-	110	4
Service offerings	Länsförsäkringar Fondliv AB	3	136	5	159	5
Asset Management	Länsförsäkringar AB	-	99	-	110	6
Management remuneration	Länsförsäkringar Fondförvaltning AB	22	-	30	-	7
Occupational pension premiums for employees of the Länsförsäkringar Alliance	Länsförsäkringar Alliance	26	-	44	-	9
Interest	Länsförsäkringar Bank AB	1	-	1	-	9
Catastrophe reinsurance	Länsförsäkringar Sak AB	-	-	-	2	10
Compensation for transfer of capital	Länsförsäkringar Fondliv AB	2	-	4	-	11
<b>Total</b>		<b>77</b>	<b>444</b>	<b>109</b>	<b>522</b>	



## Note 34 Disclosures on related-party transactions, etc. cont.

### Transactions between Länsförsäkringar Liv and its subsidiaries

Nature	Counterparty	2018		2017	
		Income	Expenses	Income	Expenses
IT services and products	Länsförsäkringar Liv AB's subsidiaries	-	-	1	0
<b>Total</b>		<b>-</b>	<b>-</b>	<b>1</b>	<b>0</b>

### Related-party receivables and liabilities

Counterparty	31 Dec 2018		31 Dec 2017	
	Receivables	Liabilities	Receivables	Liabilities
Länsförsäkringar Hypotek AB	2,940	-	2,575	-
Länsförsäkringar Bank AB	116	-	398	-
Länsförsäkringar AB	35	18	164	21
Länsförsäkringar Fondliv AB	7	88	44	81
Länsförsäkringar Fondförvaltning AB	2	-	2	-
Regional insurance companies	-	13	-	9
Länsförsäkringar Sak AB	-	2	-	1
Fastighets KB Automobilpalatset	-	44	-	58
<b>Total</b>	<b>3,100</b>	<b>165</b>	<b>3,183</b>	<b>170</b>

### Note 35 Significant events after the end of the fiscal year

New assumptions regarding the long-term discount rate: The discount rate curve used to calculate technical provisions regarding longer terms is based on the assumption of an Ultimate Forward Rate (UFR). Calculations of long-term technical provisions for both accounting purposes under IFRS and for solvency calculations under Solvency II are based on this UFR. The rules for determining the UFR under Solvency II have been updated with the rate being lowered by 0.15% on 1 January 2019. This rate reduction will increase both the technical liabilities under IFRS and under Solvency II by about SEK 320 M.

New President of Länsförsäkringar Liv On 1 May 2019, Jörgen Svensson will step down as President of Länsförsäkringar Liv according to agreement. The Board has appointed Jakob Carlsson, who currently serves as CFO and Executive Vice President, as the new President. Jakob Carlsson has worked at Länsförsäkringar Liv for ten year, eight of which in his current role of CFO as Länsförsäkringar Liv.

### Note 36 Proposed appropriation of profit

The proposed appropriations as specified below will be presented to, and the income statement and balance sheet will be adopted at, the Annual General Meeting in May 2019.

Recognised profit for 2018 amounted to SEK 609,032,192.

The Board of Directors and the President propose that net profit for the year be appropriated as follows, SEK:

Net profit for the year	
<b>Total</b>	<b>609,032,192</b>

Of the above net amount, withdrawals from (-) and provision to (+) the collective consolidation fund are proposed as follows, SEK.

Defined-contribution occupational pension insurance	266,769,660
Occupation-linked health insurance and premium exemption	186,250,421
Individual traditional life assurance	77,713,189
Non-cancellable accident and health insurance and premium exemption	71,247,833
Accident and health	7,051,089
<b>Total</b>	<b>609,032,192</b>

The Board of Directors proposes that the Annual General Meeting authorise the Board in the 2019 fiscal year to use up to SEK 1,200 M of the funds in the collective consolidation fund for final allocations to the policyholders in connection with payments of pension and other claims payments, transfers of insurance capital and repurchases. It is also proposed that the General Meeting authorise the Board to discount premiums for certain risk products, with the effect that the collective consolidation fund will be reduced by up to SEK 300 M in 2019.

**The company's income statement and balance sheet will be adopted at the Annual General Meeting in May 2019.**

Stockholm, 6 March 2019

Sten Dunér  
*Chairman*

Anna Söderblom  
*Board member, Deputy Chairman*

Mats Andersson  
*Board member*

Fredrik Bergström  
*Board member*

Eric Grimlund  
*Board member*

Henrik Perlmutter  
*Board member*

Örjan Söderberg  
*Board member*

Olof Wogén  
*Board member*

Marie-Louise Zetterström  
*Board member*

Bitte Franzén Molander  
*Employee representative*

Kristina Padel Roström  
*Employee representative*

Jörgen Svensson  
*President*

My auditor's report was submitted on 6 March 2019  
KPMG AB

Gunilla Wernelind  
*Authorised Public Accountant*

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar Liv försäkringsaktiebolag (publ), corp. id 516401-6627

## Report on the annual accounts

### Opinions

I have audited the annual accounts of Länsförsäkringar Liv försäkringsaktiebolag (publ) for the year 2018, except for the sustainability report on pages 7-11. The annual accounts of the company are included on pages 4-48 in this document.

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies, and present fairly, in all material respects, the financial position of Länsförsäkringar Liv försäkringsaktiebolag (publ) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. My opinions do not cover the sustainability report on pages 7-11. The statutory administration report is consistent with the other parts of the annual accounts.

I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

My opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

I conducted my audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of Länsförsäkringar Liv försäkringsaktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements. This includes that, based on the best of my knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

---

### Key Audit Matters

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

### Technical provisions

See disclosure 25 and 26 and accounting principles on page 25 in the annual account for detailed information and description of the matter.

### Description of key audit matter

The technical provisions in the annual accounts are stated at 80 863 MSEK at December 31, 2018, corresponding to 69 percent of total assets.

This is an area that involves significant judgments.

Life-insurance reserves correspond to the capital value of the guaranteed amounts of ongoing insurance contracts after deduction of the future agreed premiums.

Life-insurance reserves are calculated using generally accepted actuarial methods. The calculations contain assumptions such as interest rates, mortality, tax and operating expenses

Provision for claims outstanding consists of four different technical reserves: Provision for disability annuities, established claims, non-established claims and claims-handling reserve. Significant assumptions are morbidity and settlement period.

### Response in the audit

We have assessed the applied assumptions in the actuarial methods used to calculate life-insurance reserves and provision for claims outstanding.

We have compared the valuation assumptions against the Company's own investigations, regulatory requirements and industry benchmarks.

We have involved our own actuarial specialists to assist us in challenging the methodology and assumptions used in the calculation of cash-flows and valuation of the technical provisions. We have via calculations checked that the provisions are adequate compared to the expected future contractual obligations or, with regards to provisions for disability annuities and non-established claims, compared to our own recalculations.

We have performed tests on a sample basis to assess the management's data extraction process, actuarial calculations and booking in the general ledger.

We have also considered the completeness of the underlying facts and circumstances that is presented in the disclosures in the accounts and assessed whether the information is adequate to understand management judgements.

---

### *Valuation of financial instruments classified as level 2 and 3*

See disclosure 30 and accounting principles on page 24 in the annual account for detailed information and description of the matter.

---

#### **Description of key audit matter**

The financial instruments classified as level 2 and 3 in the consolidated accounts are stated at 15,833 MSEK at December 31, 2018, corresponding to 15 percent of investment assets.

The fair value of financial assets, classified as level 2 according to the IFRS fair value hierarchy, are measured based on observable market data that are not included in level 1. Since there are a limited number of representative transactions for these assets the fair value is difficult to assess.

The fair value of financial assets classified as level 3 according to the IFRS fair value hierarchy is based on valuation models that involve significant levels of management judgements as the fair value calculation is based on input that is unobservable by a third party.

The Company's assets as above, consists of shares and participations and Bonds and other securities.

#### **Response in the audit**

We have tested the controls over the valuation process including management's determination and approval of assumptions and methods used in model-based calculations, controls over data integrity, change management for internal valuation models and management's review of valuations made by external experts.

We have engaged our internal valuations specialists to assist us in challenging the method and assumptions used in the valuation of unlisted financial assets.

We have assessed methods used in the valuation models against industry practice and valuation guidelines.

We have compared assumptions used against appropriate benchmarks and pricing sources and investigated significant differences.

We have also considered the completeness of the underlying facts and circumstances that is presented in the disclosures in the consolidated accounts and assessed whether the information is adequate to understand management judgements.

---

#### **Other information than the annual accounts**

This document also contains other information than the annual accounts and is found on pages 1-3, 7-11 and 52-61, but does not include the annual accounts and my auditor's report thereon. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

#### **Responsibilities of the Board of Directors and the Managing Director**

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

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

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

#### **Auditor's responsibility**

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to my audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Board of Directors, I determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## Report on other legal and regulatory requirements

### Opinions

In addition to my audit of the annual accounts, I have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Liv försäkringsaktiebolag (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

### Basis for Opinions

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

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

### Responsibilities of the Board of Directors and the Managing Director

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

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

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

### Auditor's responsibility

My objective concerning the audit of the administration, and thereby my opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

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

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

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

### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 7-11, and that it is prepared in accordance with the Annual Accounts Act.

My examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that my examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. I believe that the examination has provided me with sufficient basis for my opinion.

A statutory sustainability report has been prepared.

Gunilla Wernelind, Box 382, 101 27, Stockholm, was appointed auditor of Länsförsäkringar Liv försäkringsaktiebolag (publ) by the general meeting of the shareholders on the 15 of May 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2000.

Stockholm 6 March 2019

Gunilla Wernelind  
Authorized Public Accountant

# Corporate Governance Report

## Introduction

Länsförsäkringar Liv Försäkringsaktiebolag (Länsförsäkringar Liv) is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 16 local insurance companies. Länsförsäkringar Liv is operated according to mutual principles, which entails that the earnings are not distributed to the owner; they remain with the customers.

Länsförsäkringar Liv complies with the applicable parts of the Swedish Corporate Governance Code (the Code). The main reason for deviations is that Länsförsäkringar Liv is not a stock-market company. Deviations from the provisions of the Code and explanations for such deviations are presented below in the "Deviations from the Code" section on page 56.

This Corporate Governance Report is unaudited.

## Corporate governance

Länsförsäkringar Liv comprises the Traditional Life Assurance business unit within the Länsförsäkringar AB Group.

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

Based on the aforementioned starting points, the corporate governance system consists of the organisation, the internal regu-

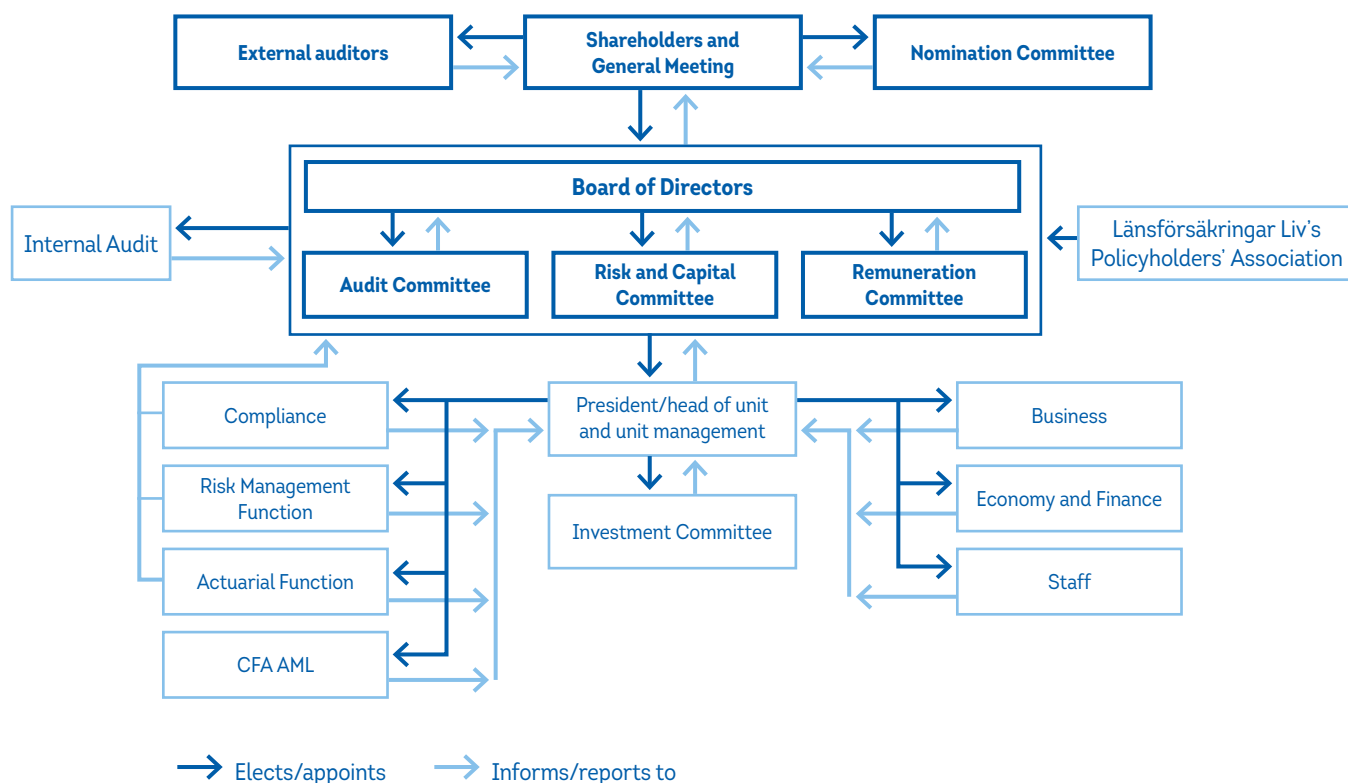
lations and internal-control system, while Länsförsäkringar Liv guarantees the governance and internal control within the company within the framework of the corporate governance system.

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

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

Internal control is part of the governance and management of Länsförsäkringar Liv. Internal control aims to ensure that the organisation is efficient and fit for its purpose, that operations are conducted in accordance with decided strategies in order to achieve established targets and that financial statements and reporting are

## Länsförsäkringar Liv's governance structure, figure 1



reliable. Furthermore, the internal control is to ensure that information systems are managed and operated efficiently, that there is a strong ability to identify, measure, monitor and manage risks and full regulatory compliance. Risk and capital control and capital planning are a part of the internal control. The internal-control process encompasses all parts of the organisation, including outsourced activities, and is an integral part of the organisational structure and decision-making processes. Internal control at Länsförsäkringar Liv is based on a system comprising three lines of defence, which comprise operations in the first line, functions for compliance and risk control and the Actuarial function in the second line and Internal Audit in the third line.

The purpose of the risk-management system, which is a part of internal control, is to ensure that Länsförsäkringar Liv's operations are continuously able to identify, measure, monitor, manage and report risks. Internal control also includes the compliance system that ensures compliance with laws, regulations and other rules, and guarantees that new and amended regulations are monitored and implemented effectively, that the Boards and employees are trained and that risks linked to compliance with external and internal rules can continuously be identified, measured, controlled, managed and reported. An outline of the governance and reporting structure is provided in figure 1.

The company has outsourced important parts of its operations to the Parent Company Länsförsäkringar AB and fellow subsidiary Länsförsäkringar Fondliv Försäkringsaktiebolag (Länsförsäkringar Fondliv). The main reason for this is that the greatest efficiency is deemed to be achieved by performing certain functions jointly on a Group-wide basis. In addition, Länsförsäkringar Bank manages the anti-money laundering activities. Distribution and customer care are primarily managed by the regional insurance companies.

Specialised expertise and resources are allocated in each responsible function in the company to ensure ordering, monitoring and control of the outsourced operations.

An overview of the organisation and outsourced operations is provided in figure 2.

### Shareholders and General Meeting

Shareholders exercise their voting rights at the General Meeting, which is the highest decision-making body. A General Meeting is normally held once a year, known as the Annual General Meeting. Länsförsäkringar AB holds 100% of the capital and votes in Länsförsäkringar Liv.

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

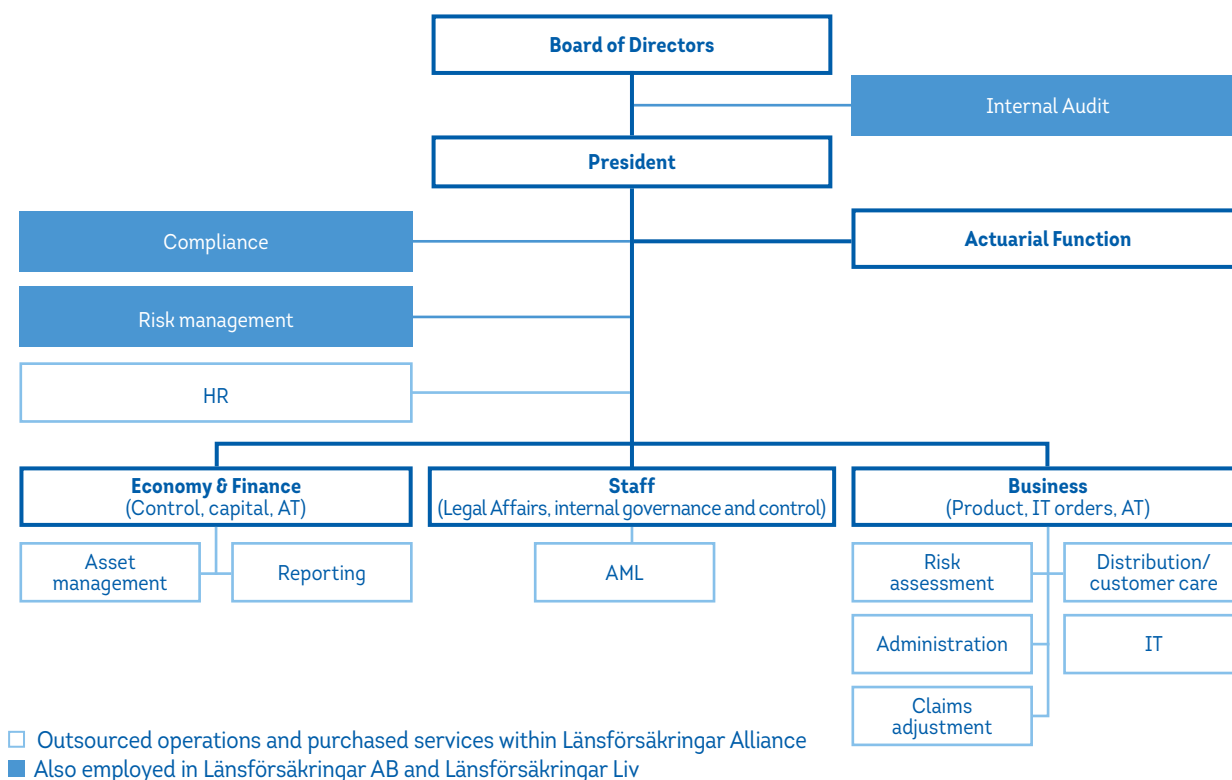
### Nomination Committee

#### Nomination process

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

The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB and new Board members are recruited in accordance with the instructions and established procedures and processes. The Board is to have a suffi-

Länsförsäkringar Liv's governance structure, figure 2



cient number of Board members based on the size and degree of complexity of the company, and the nature and scope of the operations. With this as the starting point, the Nomination Committee is to assess whether the Board has a suitable composition, with respect to the operations, stage of development and other conditions of the company, that ensures the overall competencies and experience necessary for the company are in place, characterised by diversity in terms of, for example, age, gender and ethnic origin. The Nomination Committee is also responsible for ensuring that a suitability (“fit and proper”) assessment of proposed individual Board members is performed.

#### *Nomination Committee prior to Annual General Meeting*

Since the 2018 Annual General Meeting, the Nomination Committee of Länsförsäkringar AB has comprised Otto Ramel as Chairman (Länsförsäkringar Skåne), Per-Åke Holgersson (Länsförsäkring Kronoberg), Anna-Greta Lundh (Länsförsäkringar Södermanland), Kjell Lindfors (LF Norrbotten) and Mats Åstrand (Länsförsäkringar Gävleborg).

#### **Prior to the 2018 Annual General Meeting, the Nomination Committee has:**

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

#### *Prior to 2019 Annual General Meeting, the Nomination Committee will:*

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

#### **External auditors**

The Annual General Meeting appoints the external auditors. Nominations are made to the Nomination Committee. In accordance with the Articles of Association, Länsförsäkringar Liv is to have between one and three auditors and between zero and three deputy auditors. Auditors are appointed for a period in office of a maximum of four years. At the 2018 Annual General Meeting, Gunilla Wernelind, KPMG AB, was appointed auditor and Anders Tagde, KPMG AB, deputy auditor, to serve for the period up to the 2019 Annual General Meeting.

The auditor examines Länsförsäkringar Liv’s Annual Report, as well as the administration of the Board and the President. The auditor presented the audit results and observations to the Board once during 2018. The auditor also participates in the meetings of the Board’s Audit Committee.

#### **Länsförsäkringar Liv’s Policyholders’ Association**

Länsförsäkringar Liv’s Policyholders’ Association was formed with the purpose of promoting the long-term interests of Länsförsäkringar Liv’s policyholders. Members of the association are appointed by the policyholders in Länsförsäkringar Liv. To secure fulfilment of the purpose and ensure that the policyholders acquire influence and insight into the company’s operations, the association is entitled to appoint two members to Länsförsäkringar Liv’s Board of Directors. In matters of particular significance, the association will receive special information and be able to submit special statements.

#### **Board of Directors**

##### **Composition of Board**

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Liv is to comprise between eight and 14 Board members, with between zero and six deputies. Board members are elected for a maximum mandate period of two years. In addition, members appointed by trade-union organisations are also members of the Board. The President is not a member of the Board. Länsförsäkringar Liv has no time limit for the length of time a member may sit on the Board and no age limit for Board members. Two of the members are appointed by Länsförsäkringar Liv’s Policyholders’ Association. A majority of the Board members, including the employee representatives, must be independent in relation to Länsförsäkringar Liv and other companies in the same Group. The Chairman of the Board is appointed by the Annual General Meeting. The President and Board Secretary participate in Board meetings except for matters in which there may be a conflict of interest or when it would otherwise be inappropriate for them to attend. Employees reporting on particular issues attend meetings when they make their presentations.

The Board comprised 12 regular members and one deputy between the 2018 Annual General Meeting and February 2019. Eight of the members are appointed by the General Meeting, two by Länsförsäkringar Liv’s Policyholders’ Association and two members and one deputy by the trade unions. Seven of the members are independent. Board member Gunnar Wetterberg left the Board at his own request in February 2019. A presentation of the Board members can be found on pages 58 and 59 of the company’s Annual Report.

##### **Board responsibilities and allocation of duties**

The Board is responsible for the organisation and administration of the company and decisions on issues of material significance and of an overall nature relating to the company’s operations. The Board appoints, evaluates and dismisses the President, adopts an appropriate organisation and the goals and strategies of the operations, and ensures that efficient systems are in place for internal governance, control and risk management.

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

The Board is to continuously remain informed about the performance of the company to be able to continuously assess the company’s financial situation and position. Through its formal work plan, the Board has established that financial reporting is to take place in accordance with established instructions and through regular Board meetings.

The Board must also regularly manage and evaluate the company’s risk development and risk management. During the year, the Board regularly reviews the company’s earnings and business-volume trends, financial position and risk trends in relation to, for example, the business plan and forecasts. The Board receives regular reports from Compliance, Risk Management, the Actuarial function and Internal Audit. The Board continuously monitors current matters with authorities.



### **Chairman**

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

### **Work of the Board**

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

In addition to the Board's formal work plan and the company directive, the Board establishes a directive at least once per year for the President, risk policy, insurance guidelines, investment guidelines and guidelines for managing conflicts of interest, outsourcing guidelines as well as a large number of governance documents for the operations.

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

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

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

In 2018, the Board discussed such matters as the strategy for the life-assurance operations, arranged a risk workshop and received training in regulations and other current matters ahead of each scheduled Board meeting.

The number of Board meetings and members' attendance are presented in the table on page 56.

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

Every year, the Board Chairman initiates an evaluation of the Board's work. The 2018 evaluation was based on a survey discussed by the Board and submitted to the Nomination Committee.

### **Risk and Capital Committee**

The Risk and Capital Committee is to support the Board in risk and capital adequacy issues and serve as a forum for analysing and holding in-depth discussions on Länsförsäkringar Liv's level of risk-

taking and capital requirements. Prior to Board meetings, the Committee is to discuss and address issues relating to the following:

- asset management operations,
- risk policy,
- the methods, models and valuations of the company's partial internal model,
- internal risk and capital assessment, and
- follow-up of risk trends and potential deviations from risk limits.

At the first Board meeting held after the 2018 Annual General Meeting, Sten Dunér was appointed Chairman, and Mats Andersson, Anna Söderblom, Sören Westin and Gunnar Wetterberg were appointed members of the Risk and Capital Committee. Fredrik Bergström replaced Sören Westin as a Committee member on 10 September 2018. Gunnar Wettergren stepped down from the Board and as a member of the Risk and Capital Committee in February 2019. The number of Risk and Capital Committee meetings and members' attendance are presented in the table on page 56.

### **Audit Committee**

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

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

At the first scheduled Board meeting after the 2018 Annual General Meeting, Örian Söderberg (Chairman), Sten Dunér, Henrik Perlmutter and Marie-Louise Zetterström were appointed members of the Audit Committee. The number of Audit Committee meetings and members' attendance are presented in the table on page 56.

### **Remuneration Committee**

The Remuneration Committee is to prepare issues on remuneration of the President and other members of corporate management and employees with overall responsibility for any of the company's control functions. The Committee is also to prepare decisions on measures for following up the application of the Remuneration Policy.

At the first scheduled Board meeting after the 2018 Annual General Meeting, Sten Dunér (Chairman), Anna Söderblom and Sören Westin were appointed members of the Remuneration Committee. Fredrik Bergström replaced Sören Westin as a Committee member on 10 September 2018. The number of Remuneration Committee meetings and members' attendance are presented in the table on page 56.

## Board meetings and attendance

The table below shows the number of meetings held in each body since 2018 and the attendance of each Board member.

	Independent members	Board of Directors	Risk and Capital Committee	Audit Committee	Remuneration Committee
Total number of meetings		7	4	4	2
Mats Andersson <sup>1)</sup> member from 15 May 2018	x	2	1		
Fredrik Bergström <sup>2)</sup> member from 10 September 2018		1	1		1
Birgitta Carlander member until 15 May 2018	x	3		2	
Sten Dunér <sup>3)</sup>	x	7	2	4	1
Bitte Franzén Molander		7			
Eric Grimlund		7			
Karl-Olof Hammarkvist member until 15 May 2018	x	3	2		1
Ingemar Larsson member until 15 May 2018	x	3		2	
Susanne Lindberg (deputy)		6			
Kristina Padel Roström		7			
Henrik Perlmutter <sup>4)</sup>	x	7		2	
Örian Söderberg <sup>6)</sup>		7		2	
Anna Söderblom <sup>5)</sup>	x	7	4		1
Sören Westin member until 10 September 2018		5	1		1
Gunnar Wetterberg member until February 2019	x	7	4		1
Marie-Louise Zetterström	x	7		3	
Olof Wogén member from 15 May 2018	x	3			

<sup>1)</sup> Member of the Risk and Capital Committee from 14 June 2018

<sup>2)</sup> Member of the Risk and Capital Committee and Remuneration Committee from 10 September 2018

<sup>3)</sup> Member of the Risk and Capital Committee and Remuneration Committee from 14 June 2018

<sup>4)</sup> Member of the Audit Committee from 14 June 2018

<sup>5)</sup> Member of the Remuneration Committee from 14 June 2018

## President and corporate management

Jörgen Svensson has been the President of Länsförsäkringar Liv since May 2008. He was born in 1959.

The organisational structure of Länsförsäkringar Liv is divided into departments. In addition, there are four control functions: Risk Management, Compliance, Actuarial function and Internal Audit. Corporate management comprises the President and the heads of the departments. Corporate management serves as a forum for consultation and exchange of information between the company's senior executives. Management discusses and decides on matters pertaining to the company.

The President has also established an Investment Committee for preparing, deciding on and monitoring asset management issues. The President is the Chairman of this Committee.

## Control functions

### Internal Audit

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

Based on its reviews, Internal Audit evaluates and ensures that the operations' overall internal governance and control systems are pursued effectively, that the overall reporting to the Board provides a correct and comprehensive view of the operations, that the operations are conducted in accordance with applicable internal and external regulations, and that there is compliance with the Board's decisions. The Board has adopted a separate instruction for the internal audit function.

The results of the Internal Audit's review are reported in summary to the Board and in more detail to the Audit Committee.

### Compliance

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

### Risk Management

Risk Management provides support to the Board, President, management and the rest of the operations for fulfilling their responsibility of ensuring that proper risk management and risk control have been carried out for all operations and for ensuring 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. Risk Management reports regularly to the President and the Board. Operational risk is also continuously reported to the Audit Committee and other risks to the Risk and Capital Committee.

### Actuarial function

The Actuarial function has the overall responsibility for the quality of the company's actuarial calculations and reports to management and the Board on matters pertaining to methods, calculations and assessments of the technical provisions, the valuation of insurance risks and reinsurance cover. The function also contributes to the company's risk-management system, for example, through its participation in the company's Own Risk and Solvency Assessment.

### Deviations from the Code

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

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

Deviation from the provisions of the Code with respect to the fact that the company is not a stock-market company and only has one shareholder. For more information, see the sections Shareholders and General Meeting and Nomination Committee on page 53.

#### **Period of office for Board members**

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

### Remuneration Committee

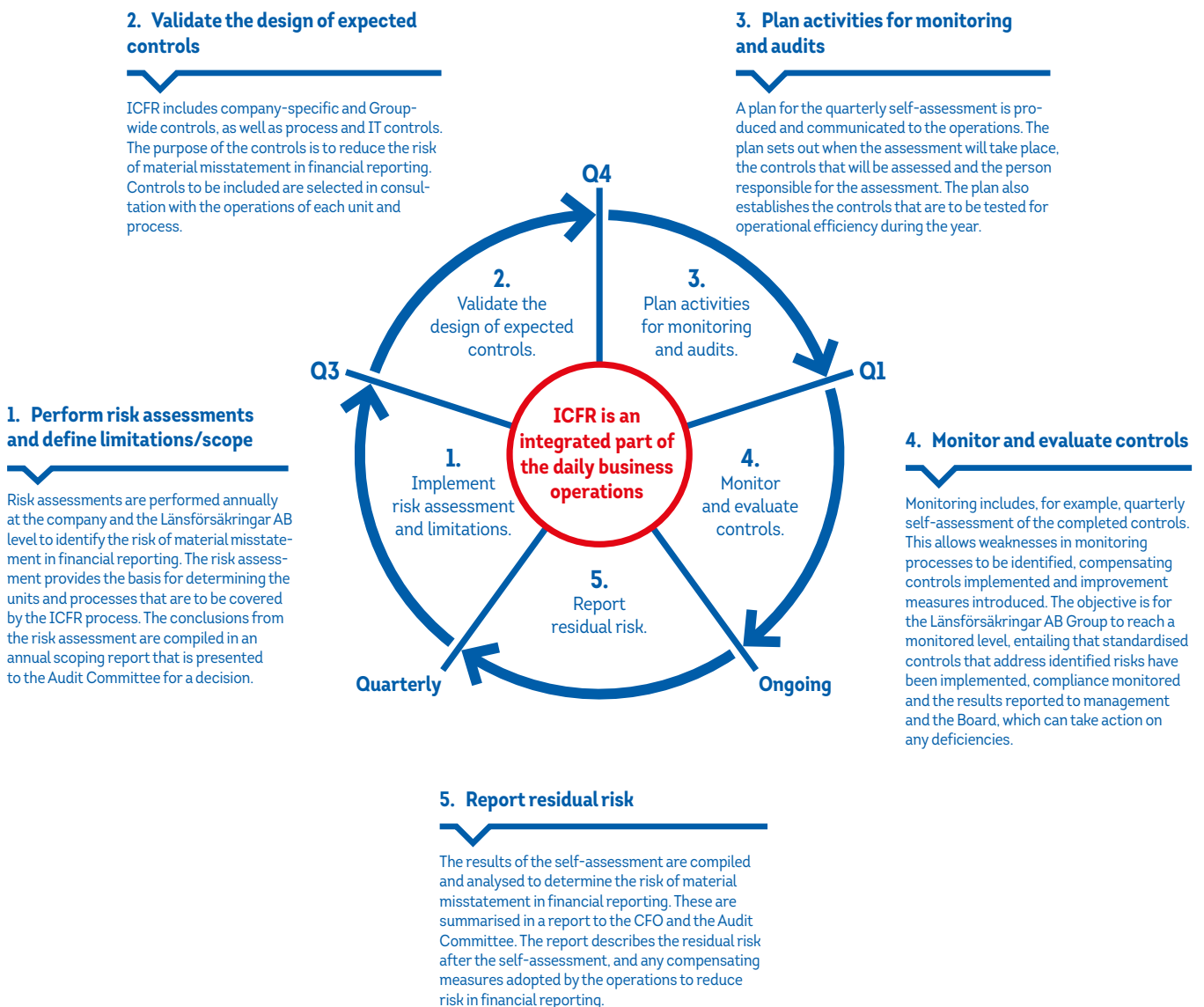
A deviation from the Code's requirements regards the independence of a majority of the members of the Committee in relation to the company and corporate management due to the federal structure, governance and working methods of the Länsförsäkringar Alliance.

### Financial reporting

Länsförsäkringar Liv is not a listed company and thus does not follow the special requirements on financial reporting that apply to listed companies.

### Internal control over financial reporting

The Board's responsibility is to ensure that efficient systems are in place to monitor and control the company's operations and financial position. Internal control over financial reporting (ICFR) is a process for providing reasonable assurance of the reliability of the financial reporting to management and Board. The process is performed in an annual cycle as shown in the diagram below.



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

## Board of Directors and auditor



### 1 Sten Dunér

Born 1951. Elected: 2009. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Board member of Fastighets AB Balder. **Previous experience:** President and CEO of Länsförsäkringar AB, Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv, Board member of Insurance Sweden, Swedish Insurance Employers' Association (FAO) and European Alliance Partners Company AG, CFO and other senior positions at Länsförsäkringar AB.

### 2 Anna Söderblom

Born 1963. Doctor of Philosophy in Business and Economics. Lecturer and researcher at Stockholm School of Economics. Elected: 2015. **Education:** University degree in mathematics from Lund University. Doctor of Philosophy in Business and Economics from Stockholm School of Economics. **Other Board appointments:** Chairman of Advenica AB (publ.), Board member of Poolia AB (publ.), BTS Group AB (publ.), Midway Holding AB, Cabonline Holding AB and Almi Företagspartner. **Previous experience:** Technical Support Manager and Marketing Director at Microsoft Norden, Marketing Director at Posten Brev and Investment Manager Industrifonden.

### 3 Mats Andersson

Born 1954. Self-employed. Elected: 2018. **Education:** Master of Science in Business and Economics. **Other Board appointments:** Deputy Chairman of Global Challenges Foundation. Board member of Carneo (including subsidiaries), PRI Pensionsgaranti and Länsförsäkringar Liv. **Previous experience:** CEO of Fourth Swedish National Pension Fund, CIO of Skandia Liv, portfolio manager at Third Swedish National Pension Fund, Head of Nordic Equities at Deutsche Bank, Head of Nordic Equities at S.G. Warburgs, analysis manager at Hägglöf & Ponsbach, editor at Affärsvärlden and credit scorer at Göteborgbanken. Senior advisor to Rockefeller Foundation, French Council of the OAT and the German Nuclear Decommissioning Fund.

### 4 Fredrik Bergström

Born 1970. Employed 2018. President and CEO of Länsförsäkringar AB. Elected: 2018. **Education:** Master of Science in Business and Economics, Uppsala University. **Other Board appointments:** Chairman of Länsförsäkringar Bank AB, Länsförsäkringar Fondliv AB and Länsförsäkringar Sak AB, Board member of Insurance Sweden, Swedish Insurance Employers Association (FAO), European Alliance Partners Company AG, Enebybergs Tennishall AB. **Previous experience:** President of Länsförsäkringar Stockholm, Head of Retail at SBAB, Head of Distribution Private Sweden at If and other positions at If Skadeförsäkring AB and Dial Försäkrings AB.

### 5 Eric Grimlund

Born 1967. Lawyer. Elected: 2017. **Education:** Bachelor of Arts in Legal Science. **Other Board appointments:** Chairman of Länsförsäkringar Skaraborg and Platzer Fastigheter Holding AB (publ).

### 6 Henrik Perlmutter<sup>1)</sup>

Born 1950. Master of Science in Engineering, MBA. Elected: 2013. **Education:** KTH Royal Institute of Technology, INSEAD. **Other Board appointments:** Chairman of Fjord Advisors AB, Board member of Managent AB. **Previous experience:** Chairman of Exini Diagnostics AB, Ponsus Pharma AB, Länsförsäkringar Liv's Policyholders' Association, and Board member of Biolin Scientific AB.

**Auditors:** Gunilla Wernelind. Elected by the Annual General Meeting: Authorised Public Accountant, KPMG. Auditor of the company since 2016. Deputy: Anders Tagde. Authorised Public Accountant, KPMG. Auditor of the company since 2015.

<sup>1)</sup> Henrik Perlmutter and Olof Wogén are the policyholder representatives on the Board and are appointed by Länsförsäkringar Liv's Policyholders' Association

## 7 Örian Söderberg

Born 1952. Elected: 2015. **Education:** Bachelor of Arts in Legal Science. **Previous experience:** President of Länsförsäkringar Älvsborg, President of Länsförsäkringar Jönköping, President of Länsförsäkringsbolagens Fondförvaltning AB, Länsförsäkringar Bank AB, Länsförsäkringar Wasa Fonder, Executive Vice President of Länsförsäkringar Stockholm, member of Insurance Industry's Pension Fund FPK.



## 8 Olof Wogén<sup>1)</sup>

Born 1958. Group Risk Director Lantmännen Elected: 2018. **Education:** Master of Science in Business and Economics from the Stockholm School of Economics, MBA Warwick Business School. **Other Board appointments:** Chairman of Lantmännen Pension Foundation Grodden, Fastighets AB Grodden and subsidiaries, Grodden Holding AB. Board member of Lantmännen Fastigheter AB, Dirual AG and Länsförsäkringar Livs Policyholders' Association. **Previous experience:** Group Finance Director Södra Skogsägarna.



## 9 Marie-Louise Zetterström

Born 1959. President of Patient Insurance LÖF. Elected: 2013. **Education:** Law, specialising in insurance law. **Other Board appointments:** Personförsäkringsföreningen (PFF). **Previous experience:** President of Förenade Liv, Marketing Manager at Folksam, Board member of Folksam Fond försäkring, Folksam LO Fond försäkring, Folksam LO Fond, Tre Kronor försäkring and Patientförsäkring LÖF.

Employee representatives

## 10 Bitte Franzén Molander

Born 1961. System specialist, Administration manager. Elected: 2009 as deputy, regular member 2016. **Education:** Degree in behavioural science. **Other Board appointments:** Länsförsäkringar Fondliv AB. **Previous experience:** Many years of experience in the life assurance and pension insurance industries, Board member of Länsförsäkringar Fondförvaltning AB.



## 11 Kristina Padel Roström

Born 1963. Product specialist. Elected: 2015. **Previous experience:** Accountant at Skandia International, life and pension administrator at Länsförsäkringar Liv, business developer at Swedbank Försäkring, Board member of Länsförsäkringar Fondliv AB.

**Deputy:** Susanne Lindberg.

# Management

## Jörgen Svensson

President. Born 1959. Employed 2008. **Education:** Studies in economics, law and marketing, Lund University, AMP Stockholm School of Economics. **Board appointments:** Board member of Länsförsäkringar Mäklarservice. **Previous experience:** President of Länsförsäkringar Blekinge, Board member of Länsförsäkringar Liv AB and Wasa Run Off AB. Various senior positions at Skandia and If.

## Erling Andersson

Head of Actuarial Function. Born 1955. Employed 2001. **Education:** Master of Science in Engineering (Engineering physics) Faculty of Engineering (LTH), Lund University, Dr of nuclear physics Heidelberg. **Board appointments:** None. **Previous experience:** Corporate Senior Actuary at Länsförsäkringar Liv, actuary Skandia Liv.

## Jakob Carlsson

CFO. Born 1967. Employed 2007. **Education:** Master of Science in Business and Economics Örebro University, MBA City University of London. **Board appointments:** None. **Previous experience:** Head controller at SPP and Handelsbanken Liv, Group controller at Alecta.

## Veronika Engstrand

Head of Legal Affairs. Born 1976. Employed 2015. **Education:** Bachelor of Arts in Legal Science, Uppsala University. **Board appointments:** None. **Previous experience:** County administrative court clerk, insurance lawyer at Financial Supervisory Authority, Head of insurance and pension law at Financial Supervisory Authority.

## Roger Lidberg

Business Manager. Born 1960. Employed 1995. **Education:** Studies in economics at Lund University and Uppsala University. **Board appointments:** None. **Previous experience:** Various senior positions at Länsförsäkringar and Skandia.

# Definitions

## Direct yield

Calculated as the total of rental income from properties, interest income, interest expense, dividends on shares and participations, administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year.

## Management cost ratio

Operating expenses according to the income statement and claims adjustment costs according to note 8 as a percentage of average managed assets.

## Own funds

Own funds comprise Tier 1 capital and ancillary own funds. Tier 1 capital is the difference between assets and liabilities measured in accordance with the Solvency II regulations rules and subordinated liabilities. Additional capital comprises items not recognised in the statutory balance sheet but that could be required to cover losses. Own funds for Länsförsäkringar Liv main comprises equity and untaxed reserves according to the legal accounts adjusted by revaluation items arising on the remeasurement of the balance sheet in accordance with Solvency II.

## Solvency ratio

Own funds in relation to the solvency capital requirement.

## Collective consolidation ratio

The ratio between the market value of total net assets and the company's total commitments to policyholders (guaranteed commitments and preliminarily distributed bonus) for the insurance policies that carry bonus rights.

## Collective consolidation capital

The market value of total net assets less the company's total commitments to policyholders (guaranteed commitments and preliminarily distributed bonus) for the insurance policies that carry bonus rights.

## Solvency capital

Equity, untaxed reserves (including deferred tax), as well as surplus values on assets.

## Minimum capital requirement

The minimum capital requirement comprises the minimum amount of eligible Tier 1 capital and is calculating by taking into account all or part of technical provisions, premium income, positive risk amounts, deferred taxes, administrative costs, ceded reinsurance and the solvency capital requirement.

## Solvency rate

The market value of the company's total net assets in relation to guaranteed commitments to policyholders (technical provisions according to the balance sheet).

## Solvency capital requirement

Regulatory solvency capital requirement calculated using Länsförsäkringar's Internal Model.

## Total return

Total return on assets in traditional management prepared in accordance with Insurance Sweden's recommendation for annual reporting of total return. The total return table is found in the Board of Directors' Report. Other assets and administration costs are not included in the calculation of the total return.

# Address

## Länsförsäkringar Liv

SE-106 50 Stockholm  
Visit: Tegeluddsvägen 11-13  
Tel: +46 8 588 400 00  
E-mail: [info@lansforsakringar.se](mailto:info@lansforsakringar.se)

Production: Länsförsäkringar Liv in partnership with Springtime-Intellecta.  
Photos: Länsförsäkringar's image bank, Jimmy Eriksson. Print: GöteborgsTryckeriet.  
We print on environmentally friendly paper.



