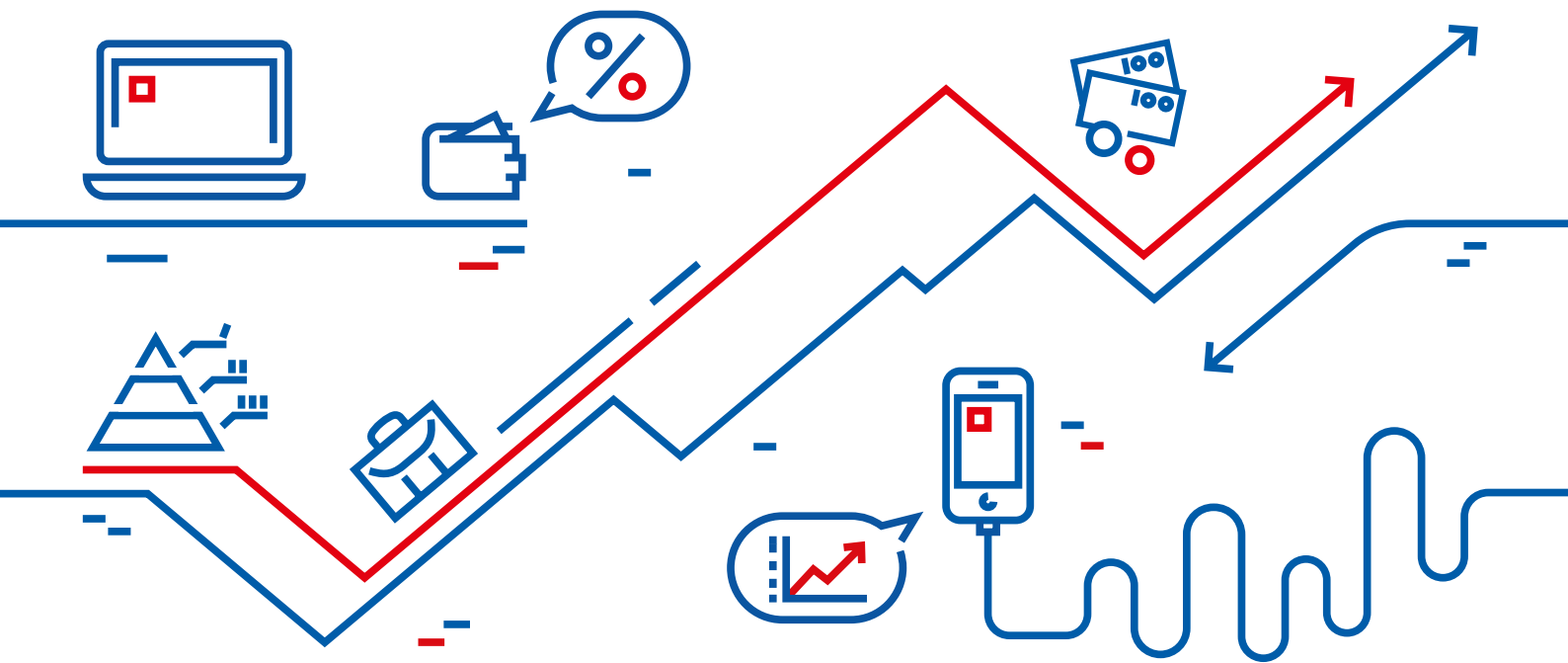


Länsförsäkringar **Bank** AB on the basis of the Consolidated Situation

Risk and Capital Management

2016



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1 | Introduction

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

The Bank Group comprises the Parent Company Länsförsäkringar Bank AB and its subsidiaries, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB (referred to below as the "Bank Group").

With the introduction of CRR and CRD IV, the parent mixed financial holding company, Länsförsäkringar AB, is also subject to prudential and reporting requirements. As a result, Länsförsäkringar AB is consolidated with the Bank Group. The consolidated situation comprises Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB, Länsförsäkringar Fondförvaltning AB and Länsförsäkringar AB's holdings in the property company Utile Dulci 2 HB (referred to below as the "Consolidated Situation").

The comparative period is per 31 December 2015.

1.1 LÄNSFÖRSÄKRINGAR BANK AB IN BRIEF

1.1.1 Strategy and goals

Länsförsäkringar Bank AB was founded in 1996 and is the fifth largest retail bank in Sweden with a business volume of SEK 455 billion. The banking operations are conducted only in Sweden and business volumes are continuing to grow in all areas. The strategy is to offer banking services to the Länsförsäkringar Alliance's customers and leverage Länsförsäkringar's strong brand and local presence through the customer-owned regional insurance companies. The banking operations have a large potential customer base with the Länsförsäkringar Alliance's 3.7 million customers. The main target group is the 3 million retail customers, of whom 2.2 million are home-insurance customers. Other target groups are agricultural customers and small businesses. The aim is, based on low risk, to maintain healthy growth in volumes and profitability, have the most satisfied customers and increase the share of customers who have both banking and insurance with Länsförsäkringar. For ten of the past 13 years, Länsförsäkringar Bank AB has had Sweden's most satisfied retail customers, according to the 2016 Swedish Quality Index. With a comprehensive banking and insurance offering from Länsförsäkringar, customers receive a secure, total solution for their private finances.

Customer ownership

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

which provides a stable performance over time. Lending is characterised by low risk and the in-depth, local customer and market knowledge of the regional insurance companies, combined with the conservative view of risk, generates growth with high credit quality.

Customer meetings and local market knowledge

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

Mobile app and Internet bank simplify

Digital services make it convenient and easy for customers to do their banking. The number of business transactions is increasing via both Länsförsäkringar's award-winning mobile app and the Internet bank. Länsförsäkringar Bank won "Mobile Bank of the Year" and "Best Mobile Site and App" at the Web Service Award during the year. The Bank Group's goal is to be the leader in digital services.

Customer-driven and effective business model

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

A strong brand

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

Credit-risk quality

The operations are characterised by a low risk profile. The Bank Group is exposed to a number of risks, primarily comprising credit risk, market risk, liquidity risk and operational risk. The macroeconomic situation in Sweden is critical for credit risk, since all loans are granted in Sweden. Loan losses remained low. The Bank Group has highly diversified funding and a liquidity reserve comprising securities with high liquidity and creditworthiness. Business volumes rose to SEK 455 billion (404), and maintained high credit quality.

Rating

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

Regulatory development

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

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

The new accounting standard IFRS 9 applies from 1 January 2018 and the bank's process of implementation is proceeding according to plan. The new rules include changes to the recognition of loan losses.

A number of operations rules, such as PSD II, will also take effect.

Länsförsäkringar Bank AB is highly prepared and well capitalised for impending changes, even if it is unclear at this stage what the effects will be. Read more about forthcoming regulatory changes in section 4.4.

2 | Organisation

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

2.1 THE BANK GROUP

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

2.2 CONSOLIDATED SITUATION

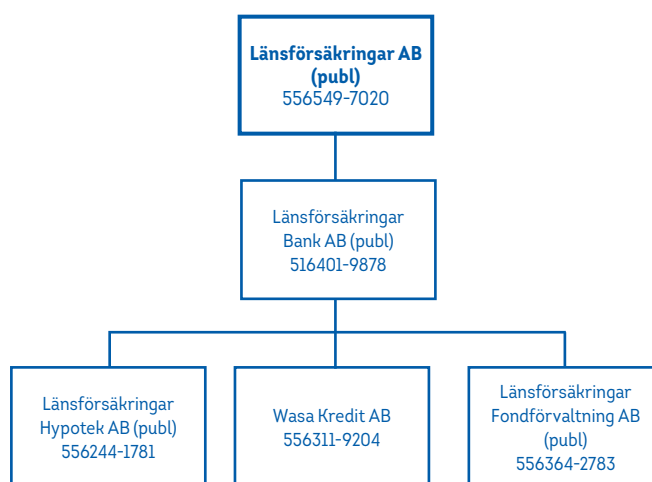
The consolidated situation encompasses: Länsförsäkringar AB, Länsförsäkringar Bank AB, Länsförsäkringar Hypotek AB, Wasa Kredit AB, Länsförsäkringar Fondförvaltning AB and the property company Utile Dulci 2 HB. Länsförsäkringar AB owns 46% of the property company and it is considered to be an associated company in the Consolidated Situation. This structure is defined in the CRR and CRD IV as the Consolidated Situation and its composition does not correspond to the accounting structure.

In addition to Länsförsäkringar Bank AB, Länsförsäkringar AB has the subsidiaries of Länsförsäkringar Fondliv Försäkrings AB, Länsförsäkringar Sak Försäkrings AB and Länsförsäkringar Liv Försäkrings AB. These companies are not subject to prudential requirements for credit institutions and are thus not included in the consolidated situation. They are instead subject to the solvency rules for insurance companies. Only capital from companies included in the

Consolidated Situation may be included in own funds. The capital adequacy rules impose requirements that investments in financial entities above a certain level are to be deducted from own funds. For more information about the Group, refer to Länsförsäkringar AB's Annual Report.

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

Figur 2.1 Legal entities in the Consolidated Situation¹⁾



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

¹⁾ The Consolidated situation also include Länsförsäkringar AB's 46% holding in Utile Dulci 2 HB.

Tabell 2.1 Carrying amount and Parent Company's participating interests

Company name	Carrying amount SEK M	Parent Company's participating interest (%)	Corporate Registration Number	Consolidation method
Länsförsäkringar AB Parent Company				
Länsförsäkringar Bank AB	8,429.6	100	516401-9878	Complete
Länsförsäkringar Fondliv Försäkrings AB (publ)	5,255.4	100	516401-8219	Deducted from own funds
Länsförsäkringar Sak Försäkrings AB (publ)	3,206.5	100	502010-9681	Deducted from own funds
Länsförsäkringar Liv Försäkrings AB (publ)	8.2	100	516401-6627	Deducted from own funds
Utile Dulci 2 HB	966.1	45.6	916601-0067	Complete
Länsförsäkringar Bank AB Parent Company				
Länsförsäkringar Hypotek AB	6,619.2	100	556244-1781	Complete
Länsförsäkringar Fondförvaltnings AB	165.0	100	556364-2783	Complete
Wasa Kredit AB	914.8	100	556311-9204	Complete

3 | Risk management and risk governance

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

3.1 CONSOLIDATED SITUATION'S RISKS

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

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

Credit risk	Credit risk pertains to the risk that a counterparty is unable to fulfil its commitments and that any collateral provided does not cover the receivable. Credit risk comprises investment risk, counterparty risk and settlement risk.
Market risk	Market risk pertains to the risk of loss arising due to changes in the market value of financial assets and liabilities. Market risk includes interest-rate risk, currency risk, equities risk, property risk and rollover risk.
Liquidity risk	Liquidity risk is defined as the risk that a company or several companies jointly is/are unable to fulfil its/their payment commitments due to insufficient cash funds, or is/are only able to fulfil its/their commitments by funding at a significantly higher cost than normal or by divesting assets at a substantial deficit price. Liquidity risk comprises financing risk.
Operational risk	Operational risk refers to the risk of losses arising due to human error, inappropriate or faulty internal processes, systems or external events, and includes legal and compliance risks.
Business risk	Business risk pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. Business risk comprises strategic risk, earnings risk and reputation risk.

3.2 RISK APPETITE

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

3.3 RISK-MANAGEMENT AND INTERNAL-CONTROL SYSTEM

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

3.3.1 Three lines of defence

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

First line of defence

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

Second line of defence

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

Third line of defence

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

3.3.2 Risk framework

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

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

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

- Clear and documented descriptions of processes and procedures.
- Clearly defined and documented responsibilities and authorities.
- Risk-measurement methods and system support that are customised to the requirements, complexity and size of the operations.

- Regular incident reporting in the operations.
- Sufficient resources and expertise for attaining the desired level of quality in both the business and control activities.
- Documented and communicated business contingency, continuity and recovery plans.
- Clear instructions for each respective risk area and approval process.

3.4 RISK GOVERNANCE

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

Board of Directors

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

supports the Board in risk and capital issues, and prepares cases ahead of Board decisions that pertain to market, liquidity and credit risk, and capital and internal capital adequacy assessments.

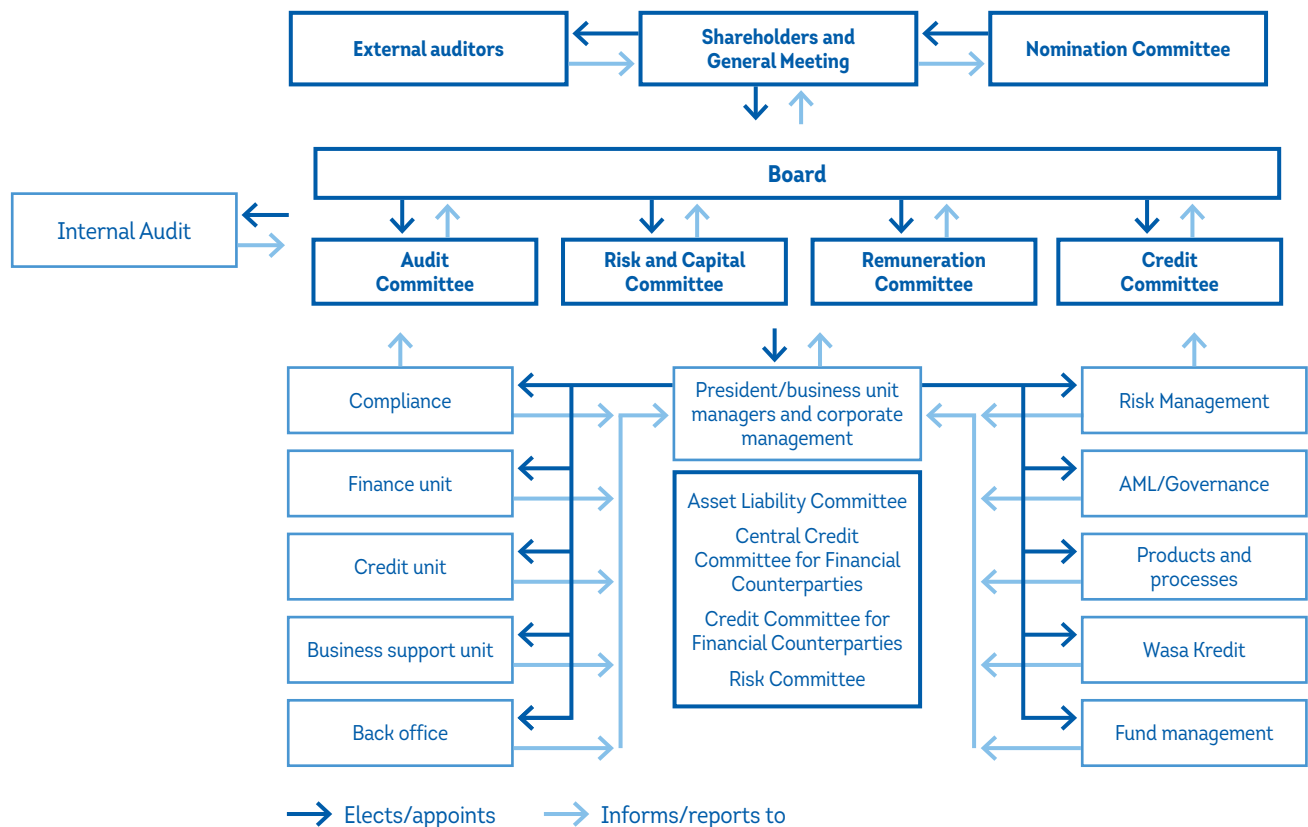
President

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

Operations

Company managers have the overall responsibility for day-to-day risk management in their respective areas and for ensuring that such risk management takes place in accordance with the risk framework. The operations assume risk and also own the risk.

Figur 3.1. Bank Goup's Risk Governance Structure



Risk Management

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

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

3.4.1 Monitoring and reporting

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

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

4 | Capital management

4.1 CAPITAL ADEQUACY

Capital requirements are divided into Pillar I requirements, which are generally minimum requirements for all institutions, and Pillar II requirements that are based on individual assessments performed by each institution. The minimum capital requirements under Pillar I are expressed as a percentage of the Risk Exposure Amount (REA), which at all times must meet the following:

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

Alongside the minimum capital requirement, there are additional capital requirements in the form of a combined buffer. These capital buffers are regulated in Swedish Capital Buffers Act (2014:966). There are five different buffers, three that cover systemic risk, a capital conservation buffer and a countercyclical capital buffer, which is to be held in the form of Common Equity Tier 1 capital. Breaching these buffer requirements means restrictions on paying dividends and interest payments on Additional Tier 1 instruments. The Consolidated Situation is subject to the requirement of a capital conservation buffer of 2.5% and a countercyclical capital buffer of 1.5%.

Under the transition rules, a minimum level is also calculated that corresponds to a capital requirement based on 80% of the risk-weighted assets under the former Basel I rules. These transition rules form a "safety catch" for the lowest level of the own funds requirement that was introduced in connection with the transition to Basel II and that applies until the end of 2017.

There is the additional requirement that institutions are to make their own assessments of their internal capital requirement, usually named Pillar II, which is to include a margin for the risks that the institution is exposed to but that are not managed under Pillar I.

Capital requirements are described in detail in section 4.3 below.

The Consolidated Situation's Common Equity Tier 1 capital ratio on 31 December 2016 amounted to 21.2% (21.4) and the total capital ratio to 27.6% (28.2). The surplus capital (profits) under the Basel I floor on the same date amounted to SEK 5,548 million (5,121).

Internal capital and liquidity adequacy assessment processes

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

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

- Identifying all risks
- Risk assessment
- Stress tests
- Capital calculations

All of the Consolidated Situation's identified risks are included in the calculation of the capital requirements in the ICAAP. The Consolidated Situation bases its calculation on the methods used to calculate the capital requirement under the framework of Pillar I.

Tabell 4.1. Trend in capital adequacy measures

SEK M	Consolidated Situation		Bank Group	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 capital	12,617	11,064	11,054	10,019
Tier 1 capital	13,817	12,264	12,254	11,219
Tier 2 capital	2,592	2,297	2,592	2,297
Own funds	16,409	14,561	14,846	13,516
Risk Exposure Amount	59,513	51,724	44,498	42,239
Capital requirement	4,761	4,138	3,560	3,379
Common Equity Tier 1 capital ratio	21.2%	21.4%	24.8%	23.7%
Tier 1 ratio	23.2%	23.7%	27.5%	26.6%
Capital adequacy ratio	27.6%	28.2%	33.4%	32.0%
Capital conservation buffer	1,488	1,293	1,112	1,056
Countercyclical capital buffer	893	517	667	422
Capital requirement according to Basel I floor	11,254	9,847	10,911	9,678
Own funds adjusted to Basel I floor	16,802	14,968	15,239	13,924
Surplus capital according to Basel I floor	5,548	5,121	4,328	4,246

For risks not included in Pillar I, known as Pillar II risks, internal models are used to allocate a capital requirement to each risk. The following additional risks are taken into account in the capital requirements of the Consolidated Situation under the Pillar II framework.

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

The Financial Supervisory Authority's method for assessing total capital requirements includes, in addition to this, the capital requirement for the capital conservation buffer, the countercyclical capital buffer and the risk weight floor for Swedish mortgages.

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

The Consolidated Situation also carries out an ILAAP every year, with the aim of ensuring that the Consolidated Situation has sufficient liquidity, robust strategies and processes to manage liquidity risk over time. The ILAAP describes the internally assessed liquidity requirements and the liquidity reserve that the Bank Group has at its disposal, in relation to the liquidity and financing risk to which the Consolidated Situation is exposed. Read more about liquidity risks in section 7 and about capital requirements in section 4.3.

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

4.2 OWN FUNDS

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

Tier 1 capital comprises the institution's Common Equity Tier 1 capital and a limited share of perpetual subordinated debt (Tier 1 instruments). Common Equity Tier 1 capital comprises equity according to applicable accounting regulations with deductions for certain items as defined in the CRR. Common Equity Tier 1 capital is to be readily available to absorb losses and is the most subordinated receivable in the event of liquidation.

Tier 2 capital comprises perpetual and dated loans with subordinated preferential rights.

Common Equity Tier 1 capital

Equity comprises share capital, capital contributed, reserves and net profit for the year. Equity included in the Common Equity Tier 1 capital increased net during the period, primarily due to profit generated from the Bank Group and dividends received from the Parent Company Länsförsäkringar AB. Net profit for the year of SEK 1,572 M (1,342) was included. Profit may be included in Common Equity Tier 1 capital prior to a decision by a general meeting only if approved by the Swedish Financial Supervisory Authority, after deductions have been made for proposed dividends or other predictable costs and the company's auditors have verified the profits. In accordance with the Board's proposed appropriation of profits, no deductions for dividends are made.

Changes in equity attributable to cash-flow hedges, SEK 16.1 M (-46.4) may not be included in own funds, which is why this effect is excluded. Common Equity Tier 1 capital is also adjusted due to the regulatory requirements regarding prudent valuation of items measured at fair value. This adjustment reduced Common Equity Tier 1 capital by SEK 48.3 M (48.7). Adjustments for the IRB deficit when, according to the accounts, the reserves for loan losses are less than the expected losses in capital adequacy, are to be made within Common Equity Tier 1 capital. If the reserves in the accounts exceed the anticipated loss, a limited portion may be included in the Tier 2 capital (maximum 0.6% of IRB REA). A deduction for the IRB deficit of SEK 393.1 M (407.8) was made on 31 December 2016.

Common Equity Tier 1 capital is to be reduced by deductions for significant investments in financial companies if the invested capital comprises Common Equity Tier 1 capital instruments and exceeds 10% of gross Common Equity Tier 1 capital, or 17.65% of the net Common Equity Tier 1 capital when aggregated with deferred tax assets. Amounts under the threshold are risk-weighted at 250%. The deduction in the Consolidated Situation derives from Länsförsäkringar AB's holdings in the insurance sector. The value of these holdings, which following application of the threshold levels is deducted from Common Equity Tier 1 capital, amounted to a negative SEK 6,218.2 M (6,465.2) on 31 December 2016.

Deferred tax assets recognised in the balance sheet are to reduce Common Equity Tier 1 capital if they meet certain criteria and exceed certain threshold amounts. The deferred tax assets that existed on 31 December 2016 did not give rise to any deductions but are included in the calculation of the threshold levels above.

Other deductions from Common Equity Tier 1 capital that are applicable to the Consolidated Situation are intangible assets amounting to SEK 947.5 M (533.0) and goodwill of SEK 371.6 M (371.6). Common Equity Tier 1 capital after applicable deductions amounted to SEK 12,617 M (11,064).

Tier 1 capital

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

Tier 2 capital

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

Table 4.2 Own funds

SEK M	Konsoliderad situation		Bankkoncernen	
	2016-12-31	2015-12-31	2016-12-31	2015-12-31
Equity	23,079.2	20,138.4	13,182.3	12,056.9
of which.:				
share capital	1,042.5	1,042.5	954.9	954.9
share premium reserve	5,470.9	5,470.9	-	-
retained earnings	7,246.3	6,249.7	9,531.0	1,489.2
other comprehensive income	448.3	31.7	83.8	59.2
net profit for the year	1,572.2	1,342.3	1,136.6	911.1
other reserves	4,801.3	4,801.3	276.0	7,442.5
Tier 1 instruments	1,200.0	1,200.0	1,200.0	1,200.0
minority interests	1,297.7	-	-	-
Adjustment for Tier 1 instruments	-1,200.0	-1,200.0	-1,200.0	-1,200.0
Unrecognised dividend, Tier 1 capital	-1.9	-2.1	-1.9	-2.1
Unaudited profit	-	-	-	-
Intangible assets	-947.5	-533.0	-488.3	-306.2
Goodwill	-371.6	-371.6	-	-
Cash-flow hedges	16.1	-46.4	3.0	-74.0
IRB Provisions surplus (+)/deficit (-)	-393.1	-407.8	-393.1	-407.8
Adjustments for prudent valuation	-48.3	-48.7	-47.4	-47.6
Deferred tax assets	-	-	-	-
Threshold deduction: financial companies	-6,218.2	-6,465.2	-	-
Minority interests	-1,297.8	-	-	-
Common Equity Tier 1 capital	12,616.9	11,063.7	11,054.5	10,019.3
Additional Tier 1 instruments	1,200.0	1,200.0	1,200.0	1,200.0
Tier 1 capital	13,816.9	12,263.7	12,254.5	11,219.3
Tier 2 instruments	2,591.7	2,296.8	2,591.7	2,296.9
IRB Provisions deficit (-)/surplus (+)	-	-	-	-
Tier 2 capital	2,591.7	2,296.8	2,591.7	2,296.9
Total own funds	16,408.6	14,560.6	14,846.3	13,516.1
Total Risk Exposure Amount	59,512.8	51,724.3	44,498.3	42,239.1
Total capital requirement	4,761.0	4,137.9	3,559.9	3,379.1
Capital requirement for credit risk according to Standardised Approach	1,297.7	945.7	641.7	538.1
Capital requirement for credit risk according to IRB Approach	2,491.9	2,425.3	2,491.9	2,425.3
Capital requirement for operational risk	857.4	631.2	312.2	280.2
Capital requirement for credit valuation adjustment	114.0	135.7	114.0	135.5
Common Equity Tier 1 capital ratio	21.2%	21.4%	24.8%	23.7%
Tier 1 ratio	23.2%	23.7%	27.5%	26.6%
Total capital ratio	27.6%	28.2%	33.4%	32.0%
Special disclosures				
IRB Provisions surplus (+)/deficit (-)	-393.1	-407.8	-393.1	-407.8
- IRB Total provisions (+)	355.3	353.3	355.3	353.3
- IRB Anticipated loss (-)	-748.5	-761.0	-748.5	-761.0
Capital requirement according to Basel I floor	11,253.8	9,847.0	10,911.2	9,678.0
Own funds adjusted according to Basel I floor	16,801.8	14,968.4	15,239.4	13,923.9
Surplus capital according to Basel I floor	5,548.0	5,121.3	4,328.2	4,245.9

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

Table 4.3 Outstanding subordinated loans 31 December 2016

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

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

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

4.3 CAPITAL REQUIREMENT

Risk Exposure Amount (REA)

The advanced Internal Ratings-based Approach (IRB) for retail exposures is applied in order to calculate REA. The Foundation IRB Approach (F-IRB) is used for exposures to corporates and the Standardised Approach is used for other exposure classes. The Standardised Approach is applied to the calculation of capital requirements for operational risk and credit valuation adjustment risk.

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

Buffer requirement

The purpose of the capital conservation buffer is that it can be used during critical periods and is to amount to 2.5% of REA, which corresponded to SEK 1,488 M on 31 December 2016. The aim of the countercyclical capital buffer is to strengthen banks' resilience and ensure that sufficient capital exists for maintaining access to credit during stressed scenarios in the financial system. The Financial Supervisory Authority has set the requirement of the countercyclical capital buffer in Sweden at 1.5%. It was decided in March 2016 that the countercyclical capital buffer for Sweden would be increased to 2.0%, effective from 19 March 2017. All credit exposures relevant to the calculation of the institution-specific countercyclical capital buffer for the Consolidated Situation is attributable to Sweden in accordance with the Commission Delegated Regulation (EU) No 1152/2014. The institution-specific countercyclical capital buffer on 31 December 2016 thus amounted to 1.5%, corresponding to SEK 893 M.

Both buffers are to be covered by Common Equity Tier 1 capital. The

Pillar I capital requirement for the consolidated situation amounted to 12.0% (11.5), including the capital conservation buffer and countercyclical buffer.

Internally assessed capital requirement

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

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

4.4 NEW AND AMENDED RULES

New IFRS and interpretations that have not yet been applied

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

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

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

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

IFRS 15 Revenue from Contracts with Customers will apply from

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

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

For detailed information about forthcoming accounting standards and their effects on the consolidated financial statements,

refer to note 1 Accounting policies.

Capital adequacy rules

Impending changes to capital adequacy rules

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

Table 4.4 Capital requirement and Risk Exposure Amount

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

Table 4.5 Minimum capital requirements and buffers Consolidated Situation

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

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

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

Crisis Management Directive

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

5 | Credit risk

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

5.1 RISK APPETITE

The risk-taking for credit risk is based on a sound credit process and the credit portfolio is highly diversified with an overall low risk level. Risk is limited within the framework of the Consolidated Situation's established risk appetite and risk limits.

5.2 RISK MANAGEMENT

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

5.2.1 Credit process

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

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

The Board's adopted credit regulations form the foundation of all loan origination that takes place. The size of the loan and level of risk determine the decision level, where the highest instance is the Board and the lowest instance a decision at local level. Mandates for granting credit at the respective decision-making instance are set out in the credit regulations.

The credit regulations also set out minimum requirements for underlying documentation for credit-granting decisions. Compliance with the credit regulations is regularly monitored. The credit regulations and credit process, combined with local customer and market knowledge, create a loan portfolio that maintains high credit quality.

5.2.2 IRB system

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

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

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

Exposure at Default (EAD)

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

Probability of Default (PD)

The Probability of Default is the probability that a counterparty will default within a 12-month period. A counterparty is considered to be in default if a payment is more than 60 days past due¹⁾ A counterparty is also considered to be in default if there are other reasons to expect that the counterparty cannot meet its undertakings.

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

The information that is most relevant to each type of counterparty has been taken into consideration in the development of models for estimating PD. The PD estimate for retail exposures is calculated entirely by using models based on predictive statistical analysis, while the PD estimate for exposures to corporates is based on a strict predictive statistical analysis combined with individual expert assessments. These risk models take both internal and external information into consideration.

Loss Given Default (LGD)

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

Conversion Factor (CF)

The Conversion Factor is used to calculate off-balance sheet commitments that are expected to be utilised by the counterparty in the event of default. An internal estimate of CF is calculated for the Advanced IRB Approach, which is based on internal information about such factors as degree of realisation, degree of utilisation and type of product. A safety margin is added to these estimates to ensure that the risk is not underestimated.

¹⁾ 90 days is applied for Wasa Kredit.

Validation

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

5.2.3 Method for calculating capital requirements for credit risk

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

Standardised Approach

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

Internal Ratings-based Approach (IRB)

The IRB Approach is applied to lending to the retail exposures and exposures to corporates classes². The Foundation Internal Ratings-Based Approach is applied to exposures to corporates, with PD estimated by using internal models, while prescribed amounts are used for LGD and CF. Permission to apply the IRB Approach was obtained or applied for as follows:

- In December 2006, permission was granted by the Financial Supervisory Authority to apply the IRB Approach to retail exposures. This Approach has been applied to capital requirement calculations since February 2007.
- In December 2009, permission was granted to apply the Foundation IRB Approach to capital requirement calculations for credit risk for companies with agricultural operations, which comprises most of the corporate portfolio. This Approach has been applied since March 2010.
- In May 2012, permission was received to apply the IRB Approach for exposures to corporates, excluding Wasa Kredit AB. This Approach has been applied since June 2012.

- In April 2015, Länsförsäkringar Bank AB and the subsidiary Länsförsäkringar Hypotek AB received permission from the Financial Supervisory Authority to change their IRB model for calculating LGD for loans secured by immovable property. This Approach has been applied to capital requirement calculations since May 2015.
- In April 2015, Länsförsäkringar Bank AB and its subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB received approval for all IRB portfolios in the Bank Group to change the limit for what is classified as retail exposures and exposures to corporates. The new limit has been applied to capital requirement calculations since May 2015.
- In December 2016, an application was submitted to the Financial Supervisory Authority for permission to adjust the PD TTC levels of the models for corporates to meet the requirements of the Authority's new directive³.

5.3 CREDIT QUALITY

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

As described in Table 5.1, the IRB retail exposure increased, while exposures to corporates remained unchanged, due to volume growth in mortgages in the retail segment. The average risk weight for both retail and corporates exposure also declined slightly, as outlined in Table 5.1. Amounts and risk weights are reported separately for small and medium-sized enterprises (SMEs) in the retail and corporates exposure classes.

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

³ See the Swedish Financial Supervisory Authority's memorandum: "FI's supervision of banks' calculations of risk weights for exposures to corporates..."

Table 5.1 Exposure by exposure class

SEK M	31 Dec 2016			31 Dec 2015			Period average ¹⁾		
	Original exposure	EAD	RW (%)	Original exposure	EAD	RW (%)	Original exposure	EAD	RW (%)
Standardised Approach									
Central governments and central banks	10,049	10,049	0	11,162	11,162	0	9,034	9,034	0
Regional governments or local authorities	3,569	3,569	0	3,268	3,268	0	3,815	3,815	0
Multilateral development banks	1,382	1,382	0	932	932	0	1,274	1,274	0
Institutions	7,227	4,236	20	5,633	3,659	20	13,044	4,378	23
Corporates	2,014	2,012	85	1,669	1,668	85	1,906	1,904	85
of which, SMEs	1,323	1,322	50	1,073	1,072	77	1,197	1,196	76
Retail	3,126	2,037	75	2,379	1,608	75	2,879	1,891	75
of which, SMEs	0	0	-	-	-	-	-	-	-
Defaulted exposures	73	47	147	100	66	147	81	46	142
Covered bonds	27,793	27,793	10	28,519	28,519	10	29,572	29,572	10
Exposures associated with particularly high risk	20	20	150	0	0	-	5	5	150
Claims in the form of CIU	0	0	-	0	0	-	0	0	-
Equity exposures	1,916	1,916	248	1,660	1,660	248	1,371	1,371	247
Other items	4,217	4,217	94	1,460	1,460	96	3,768	3,768	98
Total, Standardised Approach	61,386	57,278	22	56,782	54,002	22	66,749	57,058	25
IRB Approach									
Corporates	18,774	18,644	38	18,875	18,681	39	18,842	18,697	39
of which, SMEs	18,595	18,466	38	18,692	18,502	39	18,660	18,519	38
Retail	221,676	218,465	11	195,319	192,661	12	213,211	209,511	11
of which, SMEs	32,968	32,608	19	31,361	31,004	21	32,024	31,658	20
of which secured by immovable property	195,036	192,510	7	170,619	168,617	8	187,218	184,206	7
of which, other retail credits	26,640	25,955	40	24,700	24,044	41	25,993	25,305	40
Total, IRB Approach	240,450	237,109	13	214,194	211,342	14	232,053	228,208	14
Total	301,836	294,387	16	270,976	265,344	16	298,802	285,266	16

¹⁾ Average exposure and risk weight in 2016, calculated by quarter.

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

Table 5.2 Distribution of exposure per country, standardised approach

Standardised Approach, SEK M	31 Dec 2016		31 Dec 2015	
	Original exposure	EAD	Original exposure	EAD
Sweden	53,967	52,259	50,406	49,211
Germany	1,131	1,131	919	919
Finland	601	601	681	681
Luxembourg	0	0	932	932
Switzerland	1,456	464	1,262	448
Denmark	3,626	2,240	2,109	1,347
Norway	604	582	473	464
UK	1	1	0	0
Total	61,386	57,278	56,782	54,002

The Consolidated Situation applies external credit rating for exposures to institutions and exposures in the form of covered bonds. The external rating used is the rating from Moody's or Standard & Poor's that gives rise to the highest risk weight. Table 5.3 shows exposure before and after credit-risk-reducing measures by credit quality step.

Table 5.3 Exposure by credit quality step

Credit quality step	31 Dec 2016	
	Original exposure	EAD
1	30,224	30,086
2	4,796	1,944
3	0	0
4	0	0
5	0	0
6	0	0
Total	35,020	32,030

All IRB exposure is found in Sweden and Table 5.4 presents the exposure per county. Exposure is well-diversified throughout Sweden with a slight concentration to the metropolitan areas, specifically the counties of Stockholm, Skåne and Västra Götaland. Exposures secured by immovable property amounted to SEK 210 billion of a total of SEK 237 billion at 31 December 2016.

Table 5.4 Distribution of irb exposure per county

County, SEK M	31 Dec 2016				31 Dec 2015			
	Total		Of which, exposures secured by immovable property		Total		Of which, exposures secured by immovable property	
	EAD	(%)	EAD	(%)	EAD	(%)	EAD	(%)
Blekinge	4,196	1.8	3,670	1.7	3,786	1.8	3,300	1.8
Dalarna	10,208	4.3	9,153	4.3	9,410	4.4	8,439	4.5
Gotland	5,310	2.2	4,859	2.3	5,092	2.4	4,641	2.5
Gävleborg	6,551	2.8	5,781	2.8	6,136	2.9	5,351	2.9
Halland	11,725	4.9	10,633	5.1	10,802	5.1	9,735	5.2
Jämtland	4,641	2.0	4,108	1.9	4,174	2.0	3,711	2.0
Jönköping	9,775	4.1	8,793	4.2	8,595	4.1	7,651	4.1
Kalmar	5,910	2.5	5,116	2.4	5,245	2.5	4,532	2.4
Kronoberg	4,531	1.9	3,973	1.9	4,130	2.0	3,596	1.9
Norrbottn	3,222	1.4	2,669	1.3	2,916	1.4	2,382	1.3
Skåne	28,521	12.0	24,586	11.7	25,605	12.1	21,983	11.8
Stockholm	33,893	14.3	29,350	14.0	28,851	13.6	24,727	13.3
Södermanland	7,087	3.0	6,217	3.0	6,536	3.1	5,718	3.1
Uppsala	11,963	5.0	10,945	5.2	10,707	5.1	9,820	5.3
Värmland	3,970	1.7	3,393	1.6	3,537	1.7	2,960	1.6
Västerbotten	8,097	3.4	7,535	3.6	7,024	3.3	6,472	3.5
Västernorrland	3,715	1.6	3,143	1.5	3,336	1.6	2,822	1.5
Västmanlands	7,994	3.4	7,251	3.4	7,163	3.4	6,439	3.5
Västra Götaland	39,307	16.5	35,317	16.8	34,565	16.4	30,811	16.5
Örebro	8,985	3.8	7,893	3.8	8,026	3.8	6,929	3.7
Östergötland	17,508	7.4	15,806	7.5	15,706	7.4	14,185	7.6
Total	237,109	100.0	210,192	100.0	211,342	100.0%	186,204	100.0%

Table 5.5 describes the IRB exposure by industry and exposure class. Most of the exposure comprises loans to private individuals and agricultural customers representing 91% of the total IRB exposure.

Table 5.5 Exposure by industry and class, IRB

Exposure class	Industry	31 Dec 2016			31 Dec 2015		
		EAD	(%)	RW (%)	EAD	(%)	RW (%)
Retail	Private individuals	185,858	78	10	161,657	76	10
	Agricultural operations	19,192	8	11	18,016	9	13
	Other business	13,415	6	31	12,988	6	33
	Total retail	218,465	92	11	192,661	91	12
	of which, SMEs	32,968	-	19	31,004	-	21
Corporates	Agricultural operations	10,539	5	35	10,554	5	37
	Other business	8,105	3	41	8,127	4	42
	Total corporates	18,644	8	38	18,681	9	39
	of which, SMEs	18,466	-	38	18,502	-	43
Total		237,109	100	13	211,342	100	14

Figure 5.1 and Table 5.6 present the credit-risk exposure, calculated according to IRB, specified according to risk grades. The results show a distribution of exposure, with 78% (76) of exposure found in the best grades 1-4. A contributing reason for the increase in these grades is that a higher percentage of lending takes place in the form of mortgages to private individuals, for which the probability of default is significantly lower than in other portfolios.

Figure 5.1. Exposure distribution by PD grade, IRB

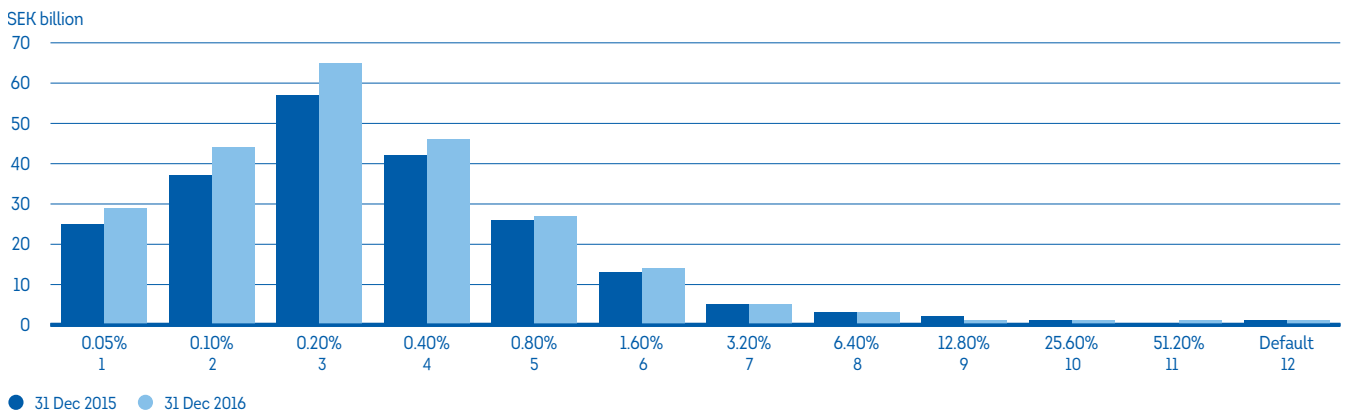


Table 5.6. Exposure distribution by PD grade and class, IRK

PD grade, 31 Dec 2016, SEK M	Retail exposures						Exposures to corporates			
	Secured by immovable property		Other exposures		Total				Total	
	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)	EAD	RW (%)
1	26,358	1	869	4	27,227	1	2,019	12	29,245	2
2	40,866	3	1,952	13	42,818	3	886	18	43,703	3
3	56,837	5	3,406	20	60,244	6	5,015	27	65,260	7
4	37,980	8	2,505	30	40,485	10	5,472	37	45,957	13
5	18,888	14	5,941	35	24,829	19	2,630	50	27,460	22
6	7,123	23	5,369	49	12,493	34	1,462	65	13,954	37
7	2,064	32	2,834	58	4,898	47	342	78	5,240	49
8	1,093	47	1,525	61	2,617	55	363	97	2,981	60
9	669	64	724	70	1,393	67	22	104	1,415	68
10	238	80	307	91	545	86	49	166	594	93
11	205	69	237	99	442	85	158	159	599	104
Default	189	150	286	126	474	135	226	0	701	92
Totalt	192,510	7	25,955	40	218,465	11	18,644	38	237,109	13

Retail exposures						
	Secured by immovable property	Other exposures	Total	Exposures to corporates	Total	
PD(%) ¹	0.51	2.46	0.77	1.13	0.77	
LGD(%) ¹	11.2	43.7	15.1	-	-	
KF(%) ²	51.4	87.2	69.6	-	-	

¹ Exposure-weighted average, non-defaulted exposures.

² Only for unutilised undertakings.

A correlation between the internal grades for IRB exposures and external rating that the bank believes is a reasonable comparison is presented below.

Table 5.7. Correlation between internal PD grades and external rating (Standard & Poor's)

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

Expected Loss and actual outcome

The Expected Loss Percentage (EL) is expressed as a percentage of the exposure and calculated based on the parameter estimates of PD and LGD. EL on 31 December 2014 as a percentage for all non-defaulted exposures in the retail exposure class was 0.35% and the actual outcome was 0.08%³. EL for retail exposures secured by immovable property was 0.22% and the outcome was 0.01%. For other retail exposures, EL was 1.25% and the outcome was 0.68%. One of the reasons that EL is higher than the actual outcome is that the parameter estimate for PD is significantly higher than the observed default percentage.

³ The estimate is based on non-defaulted exposures at 31 December 2014. Outcome is calculated as confirmed loan losses for default in 2015 with a follow-up period until 31 December 2016.

5.3.1 Risk-reducing measures and contractual maturities

The starting point of the credit assessment is always the customer's repayment capacity, with the approach that collateral received can never compensate for a low repayment capacity. However, collateral received can significantly counteract the losses in the event of a credit default. Loans are mostly granted against collateral in property, for which the operations has extensive experience and robust procedures in place. The market value of properties is updated on an annual basis following established procedures. The relationship between the loan portfolio and the underlying assets expressed as the weighted average loan-to-value (LTV) ratio was 61% (64).

Table 5.8. Retail mortgages by loan-to-value ratio interval (LTV)

EAD, SEK M	31 Dec 2016	(%)	31 Dec 2015	(%)
0-50%	135,713	80	114,223	78
51-60%	16,308	10	15,394	10
61-70%	10,723	6	10,995	8
71-75%	3,019	2	3,380	2
75%-	2,974	2	3,395	2
Total	168,737	100	147,387	100

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

Table 5.9 presents exposure amounts covered by eligible collateral. Collateral for exposures to institutions comprises financial collateral, while collateral for the corporate and retail exposure classes comprises properties for which the covered amount totalled SEK 208 billion on 31 December 2016.

Table 5.9. Eligible collateral for capital adequacy purposes

SEK M	31 Dec 2016		31 Dec 2015	
	Original exposure	Exposure amount covered by collateral	Original exposure	Exposure amount covered by collateral
Standardised Approach				
Central governments and central banks	10,049	0	11,162	0
Regional governments or local authorities	3,569	0	3,268	0
Multilateral development banks	1,382	0	932	0
Institutions	7,227	2,988	5,633	1,973
Corporates	2,014	0	1,669	0
of which, SMEs	1,323	0	1,073	0
Retail	3,126	0	2,379	0
of which, SMEs	0	0	0	0
Defaulted exposures	73	0	100	0
Covered bonds	27,793	0	28,519	0
Exposures associated with particularly high risk	20	0	0	0
Claims in the form of CIU	0	0	0	0
Equity exposures	1,916	0	1,660	0
Other items	4,217	0	1,460	0
Total, Standardised Approach	61,386	2,988	56,782	1,973
IRB Approach				
Corporates	18,774	16,518	18,875	16,060
of which, SMEs	18,595	16,349	18,692	15,888
Retail	221,676	191,156	195,319	166,823
of which, SMEs	32,968	20,227	31,361	18,388
Total, IRB Approach	240,450	207,674	214,194	182,883
Total	301,836	210,662	270,976	184,856

Table 5.10 presents exposures distributed by exposure class and remaining fixed-interest periods.

Table 5.10. Exposures by fixed-interest periods

31 Dec 2016, SEK M	<3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Total
Standardised Approach							
Central governments and central banks	2,900	125	2,523	1,672	1,491	1,338	10,049
Regional governments or local authorities	19	2	1,810	1,643	95	0	3,569
Multilateral development banks	2	5	618	303	454	0	1,382
Institutions	4,237	0	0	0	0	0	4,237
Covered bonds	580	3,254	925	16,965	5,573	496	27,793
Corporates	2,014	11	11	6	2	1	2,045
Retail	2,070	0	0	0	0	0	2,070
Claims in the form of CIUs	0	0	0	0	0	0	0
Equity exposure	1,916	0	0	0	0	0	1,916
Other items	4,217	0	0	0	0	0	4,217
Total, Standardised Approach	17,955	3,397	5,887	20,589	7,615	1,835	57,278
IRB Approach							
Corporates	6,332	4,622	1,660	3,920	1,612	498	18,644
Retail	119,842	41,456	9,517	35,937	10,057	1,656	218,465
- Of which secured by immovable property	94,159	41,359	9,438	35,869	10,039	1,646	192,510
- Of which other exposures	25,683	97	79	68	18	10	25,955
Total, IRB Approach	126,174	46,078	11,177	39,857	11,669	2,154	237,109
Total	144,129	49,475	17,064	60,446	19,284	3,989	294,387

5.4 NON-PERFORMING RECEIVABLES, IMPAIRED LOANS AND LOAN LOSSES

This section describes the Bank Group's non-performing receivables, impaired loans, and loan losses that are based in their entirety on the total loan portfolio from an accounting perspective.

5.4.1 NON-PERFORMING RECEIVABLES

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

Table 5.11. Non-performing receivables by company

Overdue receivables, days	Länsförsäkringar Bank AB		Länsförsäkringar Hypotek AB		Wasa Kredit AB		Total	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
1-39 days	14.9	27.4	26.5	31.0	234.1	218.3	275.5	276.7
40-60 days	0.0	0.1	0.0	0.1	4.4	1.8	4.4	2.0
Total	14.9	27.5	26.5	31.1	238.5	220.1	279.9	278.7

5.4.2 Impaired loans

EA loan receivable is considered impaired if a payment is more than 60 days past due or if there is reason to expect that the counterparty cannot meet its undertaking. A loan receivable is considered impaired to the extent that it is not covered by collateral. Impaired loans amounted to SEK 240 M (241), corresponding to 0.11% (0.12) of the total loan portfolio before reserves.

Table 5.12. Impaired loans by exposure class, industry and company

Standardised Approach	Industry	Länsförsäkringar Bank AB		Länsförsäkringar Hypotek AB		Wasa Kredit AB		Total	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	Private individuals	0.0	0.0	0.0	0.0	34.6	30.9	34.6	30.9
	Agricultural operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Other business	0.0	0.0	0.0	0.0	3.1	15.9	3.1	15.9
Total, Standardised Approach		0.0	0.0	0.0	0.0	37.7	46.8	37.7	46.8
IRB Approach									
Retail	Private individuals	4.3	13.4	0.0	0.0	108.4	86.6	112.7	100.0
	Agricultural operations	4.5	0.0	0.0	0.0	0.0	0.0	4.5	0.0
	Other business	0.6	1.3	0.0	0.0	72.3	80.0	72.8	81.3
Total Retail		9.4	14.7	0.0	0.0	180.7	166.6	190.1	181.3
Corporates	Private individuals	0.0	1.2	0.0	0.0	0.0	0.0	0.0	1.2
	Agricultural operations	12.4	8.4	0.0	0.0	0.0	0.0	12.4	8.4
	Other business	0.0	3.4	0.0	0.0	0.0	0.0	0.0	3.4
Total Corporates		12.4	13.0	0.0	0.0	0.0	0.0	12.4	13.0
Total, IRB Approach		21.8	27.7	0.0	0.0	180.7	166.6	202.5	194.3
Total		21.8	27.7	0.0	0.0	218.4	213.4	240.2	241.1

5.4.3 Loan losses

The item Loan losses comprises confirmed loan losses, probable loan losses, recoveries of loan losses that were previously recognised as confirmed and reversals due to impairment requirements no longer being deemed necessary. Confirmed loan losses pertain to the entire receivable when there is no realistic possibility of recovery. Probable loan losses pertain to impairment for the year for the loan losses when there is an indication that impairment is required. Recoveries comprise reversed amounts of loan losses that were previously recognised as confirmed.

Only the Bank Group's share of probable and confirmed loan losses are recognised. The settlement model, which was introduced on 1 January 2014, regarding the commitment that the regional insurance companies have for loan losses related to the business they have originated, entails that the regional insurance companies cover 80% of the provision requirement in the Bank Group (excluding Wasa Kredit AB), on the date when an impairment is identified, by

off-setting this against a buffer of accrued commission. On 31 December 2016, the total credit reserve requirement amounted to SEK 380 M, of which the Bank Group's recognised credit reserve accounted for SEK 250 M and the remainder of SEK 130 M was off-set against the regional insurance companies' withheld funds, according to the model described above. The transition to the settlement model means that the Bank Group's credit reserves attributable to the regional insurance companies' business on the date of introduction will be gradually reversed by SEK 158 M, of which SEK 0 M remained on 31 December 2016. SEK 23 M was reversed during the period.

Loan losses, including the regional insurance companies' share of loan losses, amounted to SEK 38 M (6), net, corresponding to a loan loss level of 0.02% (0.00). Loan losses before reversal remained low and amounted to SEK 61 M, net. Impaired loans and loan losses continued to account for a very small percentage of total loans.

Table 5.13. Loan losses

Loan losses, net (SEK M)	31 Dec 2016 ¹⁾	31 Dec 2015 ¹⁾
Specific impairment for individually assessed loan receivables		
Write-off of confirmed loan losses during the period	-135.1	-111.4
Reversed earlier impairment of loan losses recognised as confirmed losses	133.3	111.1
Impairment of loan losses during the period	-140.9	-121.5
Payment received for prior confirmed loan losses	66.8	41.4
Reversed impairment of loan losses no longer required	67.1	66.6
Net expense for the period for individually assessed loan receivables	-8.8	-13.8
Collectively assessment of homogeneous groups of loan receivables with limited value and similar credit risk		
Provision/reversal of impairment of loan losses	-29.1	7.5
Net expense for the period for collectively assessed receivables	-29.1	7.5
Net expense for the period for fulfilment of guarantees	0.3	0.2
Net expense of loan losses for the period	-37.6	-6.1

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

Table 5.14. Collective and individual impairment by industry

Standardised Approach	Industry	31 Dec 2016			31 Dec 2015		
		Collective impairments	Individual impairments	Total	Collective impairments	Individual impairments	Total
	Private individuals	3.6	13.7	17.3	3.3	13.0	16.3
	Agricultural operations	0.0	0.0	0.0	0.0	0.0	0.0
	Övriga företag	2.6	4.2	6.8	0.8	16.7	17.5
Total, Standardised Approach		6.2	17.9	24.1	4.1	29.7	33.8
IRB Approach							
Retail	Private individuals	38.2	71.2	109.3	39.8	82.0	121.8
	Agricultural operations	0.5	6.1	6.6	0.9	10.0	10.9
	Övriga företag	12.9	35.1	48.0	15.8	64.6	80.4
Total retail		51.6	112.4	164.0	56.5	156.6	213.1
Corporates	Private individuals	0.0	0.0	0.0	0.0	1.2	1.2
	Agricultural operations	49.5	11.8	61.3	17.5	13.4	30.9
	Övriga företag	0.0	0.7	0.7	0.1	1.5	1.6
Total Corporates		49.5	12.5	62.0	17.6	16.1	33.7
Total, IRB Approach		101.1	124.9	226.0	74.1	172.7	246.8
Total		107.2	142.9	250.1	78.2	202.4	280.6

5.5 COUNTERPARTY RISK FOR DERIVATIVES

Counterparty risk is the risk of a counterparty being unable to fulfil its commitments, which could lead to losses. The Board determines limits on the maximum exposure amount per counterparty. The market-value method is used for calculating capital requirements for counterparty risk regarding derivatives. The Consolidated Situation has only swap counterparties with a high credit rating and for which ISDA agreements have been prepared. ISDA agreements allow net accounting of positive and negative derivatives, which reduces the risk to the net position per counterpart. The ISDA agreements also have associated CSA agreements. CSA agreements involve commitments concerning delivery and receipt of collateral in the event of market changes. These agreements are unilateral for Länsförsäkringar Hypotek AB's covered-bond operations, with only

the counterparty providing collateral. There are no CSA agreements for which the Consolidated Situation is required to provide collateral for downgrades. Table 5.15 presents the derivative exposure for the Consolidated Situation. Exposure to central counterparties is recognised without any rating. The entire exposure to central counterparties and banks on 31 December 2016 comprised exposure to Nasdaq Clearing AB. Nasdaq Clearing AB does not have any rating but is a very strong counterparty due to the strong statutory regulations that apply to Nasdaq Clearing AB and other central counterparties. Nasdaq Clearing AB has been certified by the Swedish Financial Supervisory Authority as an EMIR counterparty and is subject to the supervision of the Authority.

Table 5.15. Derivatives at fair value

Rating, SEK M	31 Dec 2016					31 Dec 2015				
	Gross	Netting gain	Collateral	Net exposure	EAD	Gross	Netting gain	Collateral	Net exposure	EAD
AA-/Aa3	2,085	732	110	1,243	1,777	2,034	994	141	901	1,410
A+/A1	850	377	477	0	457	834	485	292	55	411
A/A2	3,271	445	2,595	238	1,401	2,379	650	1,749	45	1,163
n/a	11	11	0	0	46	0	0	0	0	0
Total	6,217	1,565	3,181	1,481	3,680	5,247	2,129	2,182	1,001	2,984

6 | Market risk

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

6.1 RISK APPETITE

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

6.2 RISK MANAGEMENT

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

6.2.1 Governance

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

6.2.2 Interest-rate risk

The Consolidated Situation's primary market risk is interest rate risk. Interest rate risk is defined as the risk of losses due to changes in the market interest rates and includes credit spread risk and currency basis spread risk.

Interest rate risk arises in the Consolidated Situation primarily through different interest rate fixing periods for assets and liabilities,

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

Interest rate risk is calculated as the effect of a sharp momentary stress scenario. Credit spread and currency basis spread risks are measured as changes in present value in connection with a parallel shift of each spread. The capital requirement calculation for interest-rate risk in Pillar II uses a Value at Risk model combined with stress scenarios.

Table 6.1. Interest-rate risk per currency

SEK M	31 Dec 2016	31 Dec 2015
SEK	-2.33	-16.2
CHF	-0.01	0.0
EUR	-0.06	-0.1
NOK	-0.07	-0.1
GBP	-0.01	0.0
USD	0.00	0.0
Total	-2.48	-16.4

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

Table 6.2. Interest rate fixing periods over number of months

SEK M	Not more than 1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Without interest	Total
Assets									
Cash and balances with central banks	22	0	0	0	0	0	0	0	22
Treasury bills and other eligible bills	1,700	0	100	2,443	1,142	1,092	1,317	0	7,794
Loans to credit institutions	280	251	0	0	0	0	0	0	531
Loans to the public	92,539	62,616	6,895	11,119	39,904	11,569	2,063	0	226,705
Bonds and other interest-bearing securities	406	2,105	4,484	3,079	17,237	5,448	495	0	33,254
Other assets	0	0	0	0	0	0	0	20,965	20,965
Total assets	94,947	64,972	11,479	16,641	58,283	18,109	3,875	20,965	289,271
Liabilities									
Due to credit institutions	3,873	0	0	0	0	0	0	0	3,873
Deposits and funding from the public	69,730	12,430	7,656	567	503	140	1	0	91,026
Debt securities in issue	8,309	19,247	7,449	1,320	38,582	54,189	28,603	0	157,699
Other liabilities	0	0	0	0	0	0	0	10,998	10,998
Subordinated liabilities	997	1,100	0	0	0	498	0	0	2,595
Equity	0	0	0	0	0	0	0	23,079	23,079
Total liabilities and equity	82,908	32,777	15,105	1,887	39,085	54,828	28,603	34,078	289,271
Difference assets and liabilities	12,038	32,195	-3,626	14,754	19,199	-36,719	-24,728	-13,113	
Interest-rate derivatives, par values	-14,534	-24,527	6,419	-17,045	-11,957	39,112	24,942		2,410
Net exposure	-2,496	7,667	2,793	-2,290	7,242	2,393	214	-13,113	

6.2.3 Currency risk

Currency risk is the risk of losses arising due to changes in the level or volatility of exchange rates and is calculated as the total of the absolute amounts of the change in value per currency.

Currency risk arise in connection with funding in foreign currency, primarily in EUR, CHF and NOK, and is measured as the effect of a momentary +/-10% change in the exchange rate. This risk is managed for each funding by converting the funding to SEK using swap contracts, which then results in no significant currency risk. Total currency risk on 31 December 2016 amounted to SEK 0.7 M (0.5).

6.2.4 Monitoring and reporting

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

7 | Liquidity risk

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

7.1 RISK APPETITE

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

7.2 RISK MANAGEMENT

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

The overall strategy for managing liquidity risk is based on highly diversified funding regarding investor base, instruments, currencies and maturities, and a satisfactory liquidity reserve comprising highly liquid assets, most of which are central bank eligible.

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

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

7.2.1 Governance

The Board has a low risk tolerance for liquidity risk. Governance of the Consolidated Situation's liquidity risk is based on limits, governance documents and established business targets. Every year, the Board decides on a funding plan that states the funding requirements and planned liquidity for the Bank Group. Outcomes are monitored against the plan at every ALCO and Board meeting. The plan is updated as necessary. The central measure in the management of liquidity risk comprises the "survival horizon," meaning the period of time during which the Bank Group is able to meet its commitments without access to new funding.

Figure 7.1 illustrates the Bank Group's survival horizon at 31 December 2016. The graph shows that contractual undertakings can be met during 29 months (29) by utilising the liquidity reserve alone.

Liquidity reserve

A satisfactory liquidity reserve ensures that sufficient liquidity is always available. The Treasury unit monitors and manages the liquidity reserve on a daily basis and is responsible for the amount of the reserve totalling the minimum limits set by the Board. The liquidity reserve comprises securities of very high credit quality and investments with the Riksbank or Swedish National Debt Office. The securities holdings are eligible for transactions with the Riksbank and, where appropriate, with the ECB or the Federal Reserve. All in all, this means that the reserve can be quickly converted to cash and cash equivalents.

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

Figure 7.1 Survival horizon

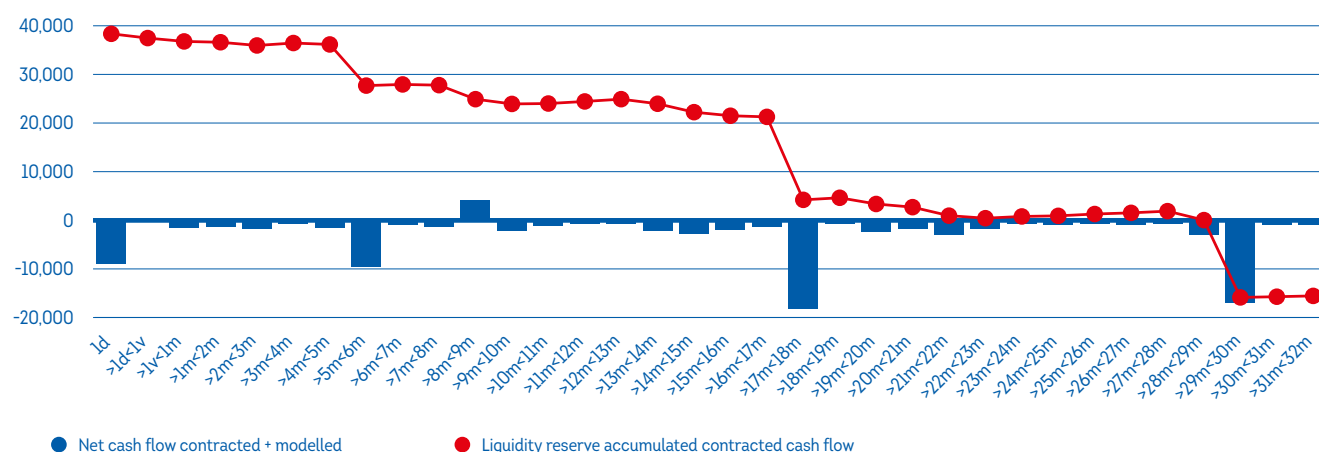


Figure 7.2 Liquidity reserve

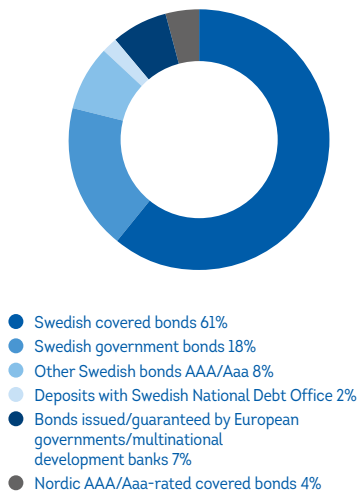


Figure 7.3 Funding sources

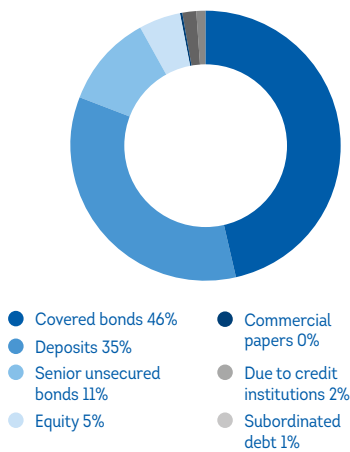
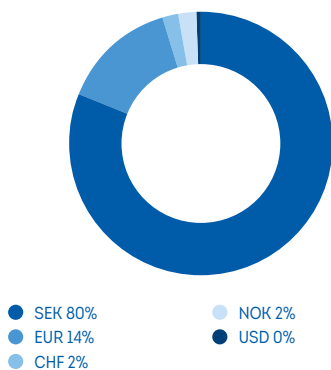


Figure 7.4 Funding by currency



Funding

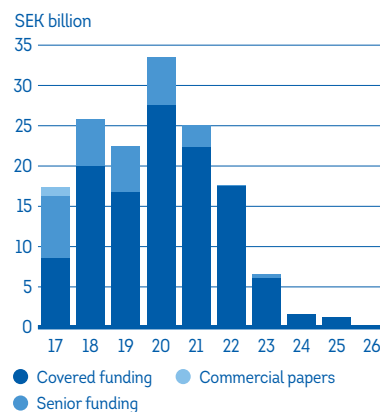
Funding takes place in a manner that creates a sound maturity profile and avoids maturity concentrations. The refinancing activities are based on broad diversification in terms of a variety of investors and markets. Diversification is achieved, for example, through proactive work on creating long-term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

Funding takes place primarily through covered bonds since the majority of the assets comprise Swedish mortgages, although senior debt and short-term commercial paper programmes are also used. Refinancing primarily takes place in the market for SEK, EUR, CHF and NOK. The Bank Group endeavours to regularly launch issuances in these markets to create long-term confidence in the international capital markets.

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

Länsförsäkringar Bank AB's credit rating from Moody's and S&P remained unchanged at A1/Stable and A/Stable, respectively, during 2016. The stability of Länsförsäkringar Bank AB's credit rating from rating agencies is positive for the bank's ability to finance its operations at low costs in the capital markets. In addition, Länsförsäkringar Hypotek AB's covered bonds have the highest rating from both Moody's and Standard & Poor's. For a specification of the Bank Group's funding and maturity structure by currency, see figure 7.4 and figure 7.5.

Figure 7.5 Maturity structure



7.2.2 Risk measurement

Liquidity risk is quantified using daily liquidity forecasts based on all contracted cash flows and expected business volumes of deposits and lending. Wholesale funding primarily takes place in the Swedish market and in SEK.

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

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

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

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

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

The Consolidated Situation's Liquidity Coverage Ratio (LCR), as defined by the Financial Supervisory Authority's regulation, amounted to 169% (251) at the end of 2016. The LCR in EUR amounted to

3,033% (139,989) on 31 December 2016. The corresponding LCR figures according to the European Commission's delegated act amounted to 342% and 3,033%, respectively.

The Net Stable Funding Ratio (NSFR) for the Consolidated Situation amounted to 113% (115) on 31 December 2016¹⁾.

7.2.3 Monitoring and reporting

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

7.2.4 Encumbered assets

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

¹⁾ The calculation is based on Länsförsäkringar Bank's interpretation of the Basel Committee's most recent Net Stable Funding Ratio proposal. The comparative figure pertains to 31 March 2016.

Table 7.1 Encumbered assets

SEK M	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Consolidated Situation's assets	141,950		147,321	
Shares and participations	0	0	47	47
Bonds and other interest-bearing instruments	1,340	1,353	40,169	37,662
Other assets	140,610		107,104	

Table 7.2 Encumbered collateral

SEK M	Fair value of encumbered collateral for received and own issued bonds	Fair value of collateral received or issued own bonds
Consolidated Situation's collateral received		0
Bonds and other interest-bearing instruments		0

8 | Operational risk

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

8.1 RISK APPETITE

The risk appetite for operational risk is determined by the Board. The Consolidated Situation has a low appetite for operational risk, meaning that these risks are limited as far as possible.

8.2 RISK MANAGEMENT

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

8.2.1 Risk assessment

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

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

- Consequence – Effect on the operations
- Probability – how likely is it that an incident will occur?

Table 8.1 Consolidated situation's types of operational risk

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

8.2.2 Risk management process

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

Self-assessment and monitoring controls for assessing operational risk

All significant processes in the banking operations perform a self-assessment of the operational risk associated with the processes to highlight changes in the operations, external business environment or threat scenarios. Process analyses, incidents and implemented and future changes in the process are part of each business area's self-assessment. These analyses are part of the operations' overall

risk assessment. Self-assessments are one of the tools used to identify operational risks and to plan risk-limiting measures.

Risk indicators

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

Approval process

For 2016, the Consolidated Situation has a revised process for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to the Consolidated Situation's operations and organisation. The purpose of the Consolidated Situation's approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, to ensure compliance with applicable regulations, to impact capital and to create customer value. The established risk model is applied to the assessment of each individual risk, as it is to all operational risks. Risk Management and Compliance are two of the stakeholders in implementing the approval process.

Incident reporting

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

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

- Clients, products and business practice
- Business disruption and systems failures
- Execution, delivery, and process management
- Employment practices and Workplace Safety
- Damage to physical assets
- Internal fraud
- External fraud

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

Continuity management

Serious incidents may lead to a crisis. A crisis may arise, for example, due to fire, IT failure, liquidity disruptions or another serious incident. The Consolidated Situation works constructively to prevent this type of incident from arising. Relevant plans have been produced to support employees and managers in a crisis situation. Crisis training is conducted periodically to ensure that the plans are suitable.

8.2.3 Monitoring and reporting

Risk Management reports continuously on trends in the Consolidated Situation's operational risks to the President and relevant heads of department. In addition, an aggregated operational risk report is submitted to the Board and relevant committees every quarter.

9 | Remuneration policy

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

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

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

The Board of Länsförsäkringar AB and its subsidiaries, which are subject to the supervision of the Financial Supervisory Authority,

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

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

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

In accordance with the Financial Supervisory Authority's regulation FFFS 2014:12, information pertaining to the Remuneration Policy of Länsförsäkringar Bank AB and its application must be published on the bank's website.

