

**PRESS RELEASE****Independent investigation finds no criticism of Länsförsäkringar****Summary**

The investigation report shows that there is no grounds for criticism regarding how the internal transactions between the life assurance and non-life insurance collectives was carried out and that no collective benefited at the other's expense. The investigating group has no remarks criticizing the agreement with ABN AMRO, the sale of the unit-linked life company, cooperation with Nordic Alternative Investment Advisors, internal cost distribution, internal loans, remuneration to the regional insurance companies or remunerations to senior executives. Neither was there any criticism of Länsförsäkringar's allocation of apartment leasing contracts or administration of renovation costs. The investigating group determined that the asset management agreement between Länsförsäkringar Liv (life assurance) and Länsförsäkringar Sak (non-life insurance) has a three-month notice period and contends that the short notice period is not well conceived, neither for Länsförsäkringar Sak nor Länsförsäkringar Liv.

At the same time, the report points out possibilities for improvements. The Board of Directors of Länsförsäkringar Liv and Länsförsäkringar AB took this into consideration and decided that:

- The insight and influence of the life assurance policyholders are being enhanced through a policyholders' association that has been formed. The members are chosen by the customers based on proposals from the policyholders' association's nominating committees.
- To ensure independence and integrity in relation to the owner, in the future Länsförsäkringar Liv's Board of Directors will comprise a majority of independent members. Two of the independent members will be appointed by Länsförsäkringar Liv's policyholders' association and the remainder by the owner, Länsförsäkringar AB.
- The Chairman of Länsförsäkringar Liv will continue in the future to be a person appointed by the owner, Länsförsäkringar AB.
- The Board of Directors of Länsförsäkringar Liv internally appoints a Vice Chairman from among the independent members.
- Guidance and follow-up of the life assurance operations will be strengthened through overview of central control documents and internal audits as well as the establishment of new control and auditing functions.

- To achieve better balance in the total contract structure, the contract period of the management assignment between Länsförsäkringar Liv and Länsförsäkringar Sak will be renegotiated with the aim of an extension in return for certain annual financial compensation to Länsförsäkringar Liv.
- Information to life assurance policyholders is being improved further.

Parallel with the independent investigation, Länsförsäkringar AB carried out an internal audit of the allocation of apartment leasing contracts. The independent investigating group reviewed this internal audit and has no objections to its work, the measures that Länsförsäkringar AB plans to take or the new apartment policy. In the opinion of the investigating group, the policyholders have not lost any value.

A new and joint policy for allocation of apartment leasing contracts within the Länsförsäkringar AB Group has been adopted. The fundamental principle is that apartment leasing contracts are provided to own employees under specific circumstances and on market terms.

“The investigation shows that the internal transactions were carried out correctly. We have received confirmation that the coordination between the life assurance and non-life insurance collectives is jointly beneficial and benefits the customers. The investigation report points to areas in which we can improve and we are taking this seriously and implementing measures. As a result, we are further strengthening our competitiveness,” says Tommy Persson, Chairman of Länsförsäkringar Liv and President of Länsförsäkringar AB.

## **1. Background**

In May 2003, the Board of Länsförsäkringar Liv decided to appoint an independent investigating group for the purpose of reviewing internal transactions between Länsförsäkringar Liv and Länsförsäkringar Sak since 1998 when Länsförsäkringar Liv and Wasa merged. The reason was the criticism aimed at Länsförsäkringar.

The investigating group was also assigned to provide advice and propose measures for improvements. In addition, the group could broaden its assignment to include significant transactions or issues of principle importance for the life assurance policyholders. This part of the investigation encompassed internal cost distribution, internal loans as well as remuneration to regional insurance companies and to senior executives.

## **2. Improvement measures**

### **Insight and influence**

- A new policyholders' association takes over from the Wasa Foundation. The purpose is to promote the interests of life assurance policyholders. The policyholders' association will appoint two members to the Board of Länsförsäkringar Liv. The policyholders' association consists of 48 members. These are elected by life insurance policyholders via the annual value statements

based on proposals from the election committee of the policyholders' association.

- To ensure the independence and integrity in the relationship with the owner, the Board of Länsförsäkringar Liv will in future consist of a majority of independent members. Two of the independent members, will be appointed by the policyholders' association of Länsförsäkringar Liv and the remainder by the owner, Länsförsäkringar AB.
- The Chairman shall be appointed by the owners. The decisive influence in a limited liability company – including insurance companies – must lie with the owner. Such ownership and influence are also accompanied by responsibility. In a Group, such as in the case of Länsförsäkringar AB, the Board and the President of the parent company are responsible for fulfilling the requirements established by the owners, meaning that operations shall be conducted based on certain fundamental principles and following certain overall guidelines that ensure the best possible customer benefit for everyone in the customer collective. There are major benefits for both the life assurance and non-life insurance collectives when a mutual life assurance company can be included in a corporate group. This is a prerequisite for attaining economies of scale. Through the Chairman, shareholders can impose clear requirements on operations. In a corporate group, the operative interaction between the Chairman and President is a key factor in ensuring smoothly functioning operations. Efficiency is not promoted when the President in a life assurance company has two reporting channels – one to the Group CEO and the other to the Chairman. Consequently, the Group CEO should also be the Chairman of Länsförsäkringar Liv.
- The Board will internally appoint the Vice Chairman from among the independent members.

### **Control and follow-up**

- *Board's working method* – a review will be conducted of the working method and routines of the Board in an effort to clarify certain issues, such as Länsförsäkringar Liv's mission from the owners and routines governing decisions and the follow-up of internal transactions.
- *Instructions for handling conflicts of interest* – The purpose is to ensure a balance between the customer collective in situations when a conflict of interest may exist.
- *Independent examination* – In consultation with Länsförsäkringar AB, the new policyholders' association will appoint an independent investigating group when any case of a major conflict of interest arises.
- *Rule governed compliance function* – In pace with the growth of operations, it has become evident that there is a need to expand the compliance function's area of responsibility and to strengthen its resources. Länsförsäkringar AB and

Länsförsäkringar Liv have decided on the extended responsibility of this function. The compliance-function shall have a combined Group responsibility for:

- Protection of the operating license
- Brand protection
- *Separate auditors* –Länsförsäkringar Liv shall have a separate auditor from that of non-life insurance operations. The auditors for life assurance and non-life insurance operations shall, however, derive from the same auditing firm.
- *Internal auditing* – Länsförsäkringar Liv will have its own internal auditing. An overview of the working area and resources of internal auditing will be conducted in cooperation with Länsförsäkringar AB.
- *The work procedures* - for Länsförsäkringar Liv's follow-up and control of asset management will be further formalized.
- *Finance committee* – The majority of members of the joint Finance Committee in Länsförsäkringar AB is to be appointed by the Board of Länsförsäkringar Liv.

#### **Contractual period for asset management for life assurance**

The management agreement signed between Länsförsäkringar Liv and Länsförsäkringar AB in 1998 gives Länsförsäkringar Liv considerable freedom of action. The agreement may be terminated with three months notice.

The investigating group concludes that Länsförsäkringar Liv has thus for all practical purposes assumed responsibility on behalf of its policyholders for evaluating asset management at very brief intervals, a task that could prove very difficult in practice or nearly impossible. A longer period is required to evaluate asset managers and it is an advantage with fixed, realistic periods for evaluation when Länsförsäkringar Liv is forced to take a more distinctly active position. For Länsförsäkringar Sak, asset management is based on a long-term agreement with ABN AMRO, at the same time as the non-life company also only has an agreement with short notice period with Länsförsäkringar Liv.

Accordingly, the contractual period in the management assignment between Länsförsäkringar Liv and Länsförsäkringar Sak will be renegotiated in an effort to gain an extension in return for certain annual financial compensation for Länsförsäkringar Liv.

#### **Internal loans**

To reduce the financial overlap between non-life insurance and life assurance, the loans that non-life insurance raised from Länsförsäkringar Liv in connection with the merger with Wasa in 1998, will be redeemed prematurely (December 2003). Länsförsäkringar Liv has received compensation for the difference between the contractual loan interest rate and current market interest rates.

### **Information**

In an effort to improve information to life assurance policyholders, the existing information material and all customer documents have been reviewed. Moreover, a number of special projects commenced during 2003:

- *Greater clarity in the annual report* – Greater attention will be paid to describing the governance of the life assurance company and customer influence and insight. Accounting will provide a summary account of the legislation and regulations that govern the company's operations and how external auditing, internal auditing and the compliance function operate. The strategy for asset management, distribution of investment assets and the return on each asset class will be reported. Any internal transactions that have occurred between the life and non-life collectives will be reported, as well as the financial synergies arising between these two collectives. Also, the annual report will prove an account of how the Board has complied with the regulatory system governing the Board.
- *Continuous financial information* – Each quarter, Länsförsäkringar Liv's provides information regarding the company's collective consolidation and solvency levels. The quarterly information shows the company's total return and distribution among the investment assets.
- *Enhanced annual value statement* – During 2003, Länsförsäkringar Liv has drawn up a revamped annual value statement with more explicit information than in the past, including more detail management costs.
- *Life-long saving* – During autumn 2003 and spring 2004, Länsförsäkringar is conducting an extensive information and training program entitled "Life-long saving" for life assurance customers and employees in the Länsförsäkring Alliance. The aim is to strengthen expertise in pensions and pension saving. To date, some 6,000 customers have participated in more than 80 customer meetings nationwide.

### **Allocation of leasing contracts**

Parallel with the independent investigation, Länsförsäkringar AB conducted an internal examination of the allocation of apartment leasing contracts. The examination was reviewed by Bertil Edlund, who did not raise any objections to the conclusions.

The internal investigation showed that customers of Länsförsäkringar have not suffered financially from either the leases or the renovations carried out. No irregularities were uncovered.

The examination covered the allocation of apartment leases and renovation costs for the residential properties that Länsförsäkringar AB and its subsidiaries Länsförsäkringar Liv, Länsförsäkringar Sak, Agria Djurförsäkring and the partly owned Humlegården held at mid-year 2002. The investigation covered rental leases since the beginning of the 1980s.

The investigation shows that of the 947 apartments included in the Group's portfolio in summer 2002, 124 allocations were made during the past 20 years to employees, employees' children and to the regional insurance companies and their employees. Seven leases were signed with the Länsförsäkringar AB Group as the tenant and were used for short-term leasing for employees who commuted on a short-term basis to Stockholm. The Board concludes that the allocation to employees' children does not comply with the criteria according to which allocation should be undertaken. As the Board sees it, the reason for this is the far-reaching decentralization and the absence of clear rules within the Group. Overall, seven apartments were renovated to beyond normal standard. In all cases agreements were signed with the tenant to the effect that the tenant should pay for renovation beyond the normal standard, in cash or through higher rent.

The investigation shows that the renovation costs for one of the apartments included in the Humlegården portfolio was notably high and amounted to about SEK 20,000/m<sup>2</sup>. In view of the fact that the apartment had not been maintained since the 1930s, an extensive renovation was required. In addition, the piping was changed in conjunction with the renovation. As a result, the cost of the renovation can be justified. The rent amounts to SEK 250,000/year (SEK 1,051/m<sup>2</sup>) and is adapted to the standard of the apartment and the prevailing rental regulations and is thus on market terms. If the apartment is sold to a tenant-owner cooperative, the tenant-owner rights are to be offered to the employer when employment ceases and thus no gain accrues to the tenant.

Länsförsäkringar AB's President, Tommy Persson, resides in a property previously owned by Länsförsäkringar Liv, and which was reclassified as a tenant-owner unit in December 2002. According to an agreement from September 2002, the apartment will be offered to Länsförsäkringar AB with no gain for the President when his term of employment ceases.

A new policy has been drawn up at Länsförsäkringar AB governing the allocation of apartment leasing contracts and which includes the following points:

- Employees may be allocated leases to solve emergency situations, such as divorce or in the event of recruitment involving a change in residence. Normally, temporary leases are offered with the employees as the signer of the contract.
- Apartment leasing contracts may be allocated to the regional insurance companies or other companies in the group to be used as over-night apartments instead of incurring hotel expenses. In such cases, the company signs the lease.
- In all cases, the rent is to be based on market rates and repairs above and beyond the normal standard are to be paid by the tenant.
- Rental leases are not to be allocated to employees' children.

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Länsförsäkringar, with 24 independent regional insurance companies and the jointly owned Länsförsäkringar AB, is Sweden's only customer-owned and locally based banking and insurance group. Länsförsäkringar has Sweden's most satisfied customers and is the most competitively priced bank with the most loyal customers according to the Swedish Quality Index. Länsförsäkringar is the "Life Assurance and Non-life Insurance Company of the Year" according to the Affärsvärlden business weekly and was named "Bank of the Year 2002" by the Privata Affärer business magazine. Länsförsäkringar offers a broad range of insurance and financial services for companies and private individuals. Länsförsäkringar is the market leader in the Swedish non-life insurance segment, with a market share exceeding 30%. The market share in life and pension assurance is 10.8% and 2.8% in banking. Länsförsäkringar also includes Agria Djurförsäkring (animal insurance). Länsförsäkringar manages assets of SEK 130 billion. Premium income in 2002 amounted to about SEK 20 billion.