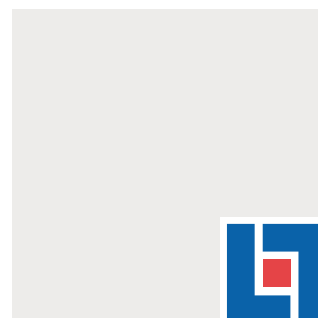
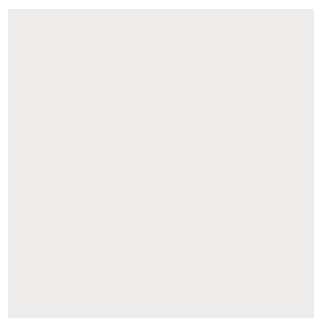
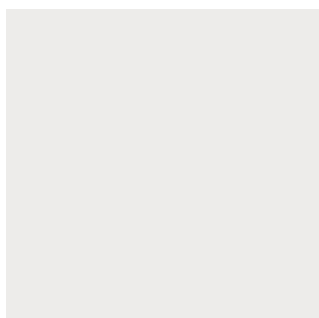
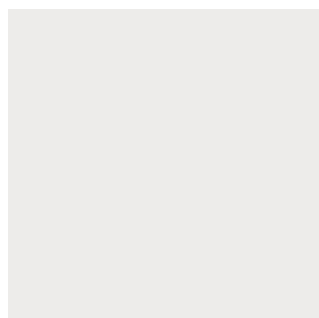
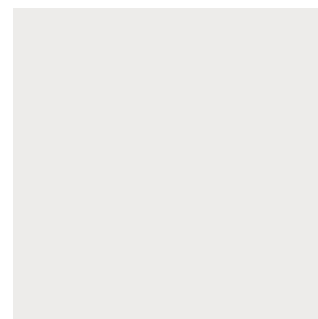
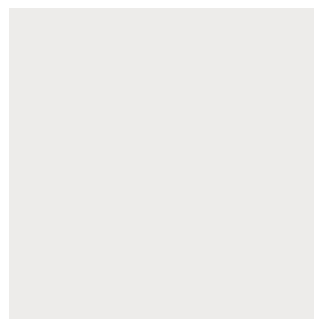
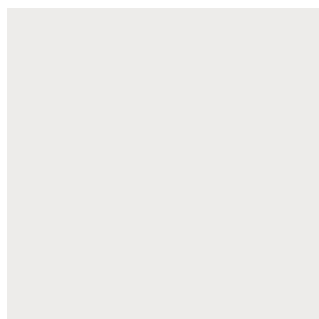
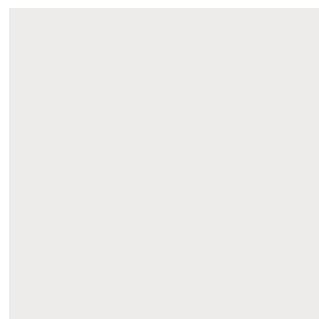
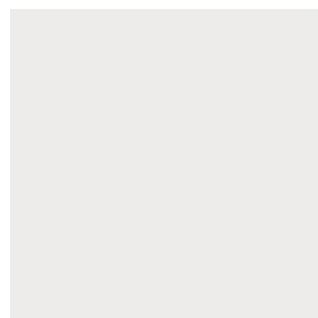
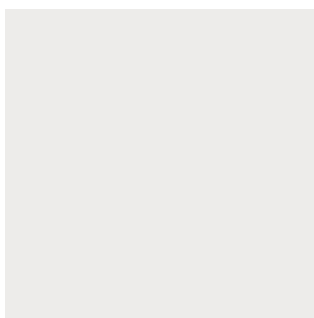
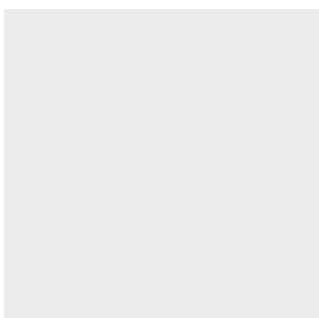
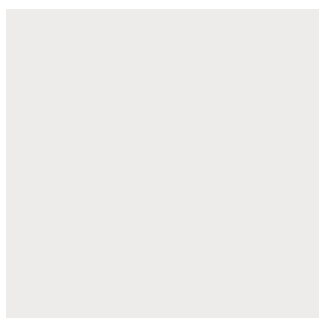
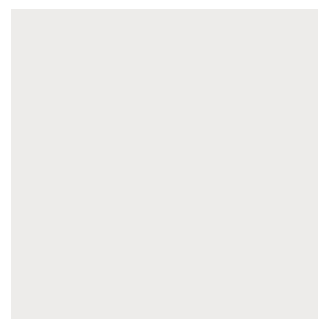
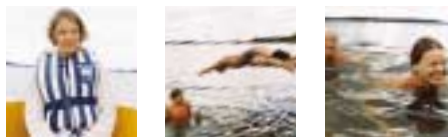


# Länsförsäkringsgruppen

OPERATIONS IN 2002







# Länsförsäkringsgruppen

OPERATIONS IN 2002



## Structures and ways of working

The coordination within Länsförsäkringar is based on a strong belief in proximity to the customer. Local decisiveness combined with joint strength are keys to the Alliances's successes.

page 12



## Länsförsäkringar in society

Länsförsäkringar often plays a prominent role in the county – even in other areas than insurance and banking.

page 20



## Customers and distribution

Länsförsäkringar is close to its 2.9 million customers. There are a total of 90 offices nationwide, of which 80 offer both insurance and banking services.

page 24



## The business environment

The year 2002 was historically weak, in which the stock exchange fell 37%. However, not everything is bleak. The economy rebounded in 2002, although the increase was relatively modest.

page 28



## Market overview

Non-life insurance, life insurance and banking operations – three core businesses for Länsförsäkringar. However, all are areas with varying conditions and logic.

page 32



## Non-life insurance

Länsförsäkringar strengthened its leading position in the non-life insurance market. Major successes were reaped and new opportunities in a huge market in the future were opened.

page 38

# Life and pension insurance

Among other effects, the slump in financial markets resulted in the bonus rate being reduced to an historically low level. Despite this, growth was favorable and market shares increased.

page 48



# Bank and fund operations

With Sweden's most satisfied bank customers and the recognition as "Bank of the Year," 2002 could be considered a breakthrough year for Länsförsäkringar's full-range bank.

page 54

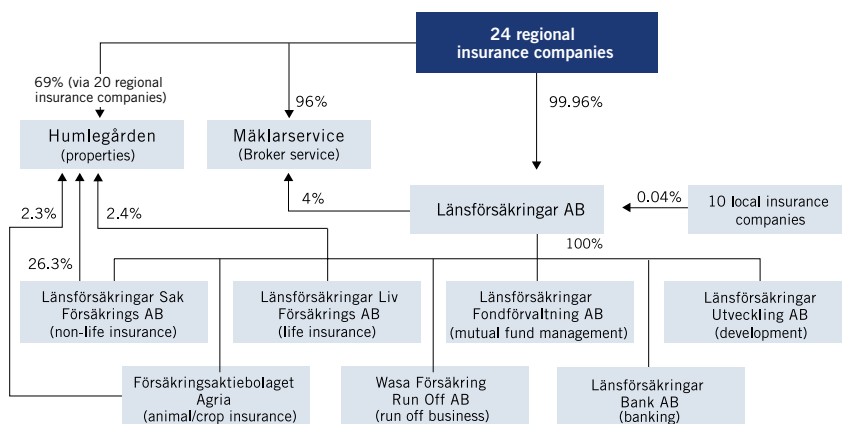


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## Organization



## Key figures

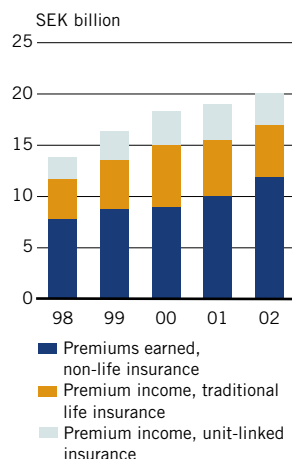
Premiums earned for own account, non-life insurance	SEK 11.9 billion
Premium income for own account, life insurance	SEK 8.1 billion
Bank deposits	SEK 14.7 billion
Bank lending	SEK 19.9 billion
Funds, assets managed	SEK 26.3 billion
Net asset value, non-life insurance	SEK 14.8 billion
Solvency margin, non-life insurance	117%
Solvency level, life insurance	120%
Market share non-life, premiums	29.2%
Market share life insurance, new sales	10.5%
Market share bank, deposits	2.6%
Market share bank, lending	2.0%
Number of customers	2.9 million
Number of employees	5,700

## Local roots

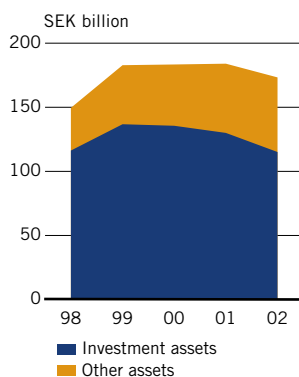
Länsförsäkringar's structure, with 24 independent, customer-owned regional insurance companies, is based on a strong belief in the importance of a local presence. To achieve additional benefits of scale and strengthen the local concept, the 24 regional insurance companies work together through the jointly owned Länsförsäkringar AB and its subsidiaries.



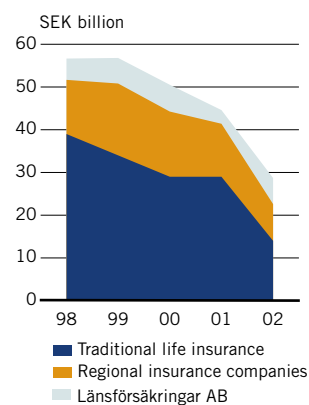
Revenues



Assets



Net asset value





PRIVATA AFFÄRER

## The challenger has grown up

Competitive interest rates, low fees and Sweden's most satisfied customers made Länsförsäkringar the "Bank of the Year" in 2002. After having been named "Challenger Bank of the Year" a year earlier by *Privata Affärer* magazine, the challenger has grown up. The award is solid evidence that Länsförsäkringar has developed successfully into a full-service bank for private persons and farmers.

### **Privata Affärer's citation was as follows:**

*"The challenger has grown up. Länsförsäkringar now offers the most important banking services and a large network of offices throughout the country. Its interest rates are among the best in the market, its fees are competitive and a bonus system benefits those who are also insurance customers."*

*An ambitious training program for the bank's advisors and very good marks from customers in a number of surveys show that the award for the year is well-deserved."*

## Bohuslän was flooded



In a short period during the summer three violent storms and torrential rains battered Tjörn and Orust in Bohuslän in particular. Approximately 500 claims were reported to Länsförsäkringar Göteborg och Bohuslän, and approximately 400 additional claims were reported by the local companies with which Länsförsäkringar has reinsurance contracts.

## Major market successes

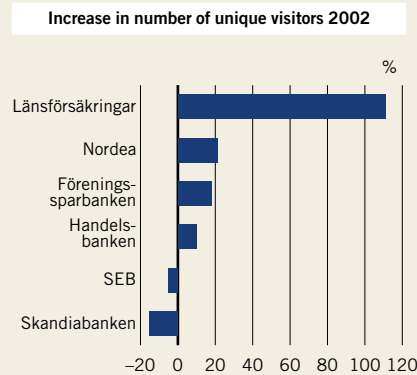


Länsförsäkringar's market shares continued to grow in all three core areas: in non-life insurance, to 29,2% (28.7); in life insurance and unit-linked insurance by 2.8 percentage points, to 10.5% (7.7), and in banking to 2.6% (2.5).



### Länsförsäkringar grew fastest on the Internet

Among Swedish banks and insurance companies, Länsförsäkringar grew fastest on the Internet in 2002. The number of persons who visited the regional companies' websites and the common home page, or who used Internet services during the course of a month, more than doubled during the year.



The other insurance companies had too few visitors to make it possible to measure an increase.

Source: Nilsen Netratings

### Länsförsäkringar and Sweden Post in banking service cooperation

During the year Länsförsäkringar and the Swedish Post began a cooperation that made it possible for Länsförsäkringar's nearly 400,000 bank customers to carry out a number of banking services in Sweden Post's offices, in stores and through rural mail carriers throughout the country.

### Brand name promotion again wins awards

Länsförsäkringar's "Fängelset" was awarded the gold medal in the financial-

advertising class at the European "Eurobest" competition for advertising films. Eurobest is one of the most prestigious advertising competitions in Europe. The film was developed to

show that Länsförsäkringar is offering banking as well as insurance services. At the awards ceremony in London Länsförsäkringar also received the Epica Awards prize.

### Länsförsäkringar started share trading via the Internet

Länsförsäkringar's challenge to the large banks – which resulted in the "Bank of the Year" award in November – also included the introduction of share trading via the Internet. Customers were then able to begin trading Swedish shares via the Internet and by telephone. The service is simple and user-friendly and also contains tools and services for the advanced trader.

### Good image and attractive employer

During the spring Länsförsäkringar was ranked in a tie for fifth place among companies that consumers consider to have the best image, according to a study conducted by International Business Survey. Ikea and Ica were the Swedish companies that headed the list. No other insurance company or bank was among the top 20 companies.

In the rating of Sweden's most popular employers, Länsförsäkringar ranked eleventh again in 2002, thereby confirming its year-earlier position.



## Cooperation with ABN AMRO in asset management

Better possibilities for a high and secure return, lower management fees and a larger number of international funds to choose from. Those were some of the reasons why Länsförsäkringar last spring signed a cooperation agreement with one of the world's leading asset managers, ABN AMRO. Under the terms of the cooperation, ABN AMRO will handle the management of the

greater part of Länsförsäkringar's assets. The assets consist of savings funds of the regional companies' life insurance and mutual fund customers. Responsibility for the return to customers remains with Länsförsäkringar, and customer-contact persons are still available in the 24 regional companies. Länsförsäkringar is also exercising ownership responsibility and making deci-

sions on the direction of strategic investments, and on levels of risk. Since ABN AMRO took over management of the assets the relative return on shares and interest-bearing securities has improved. However, the period has been too short to permit a proper comparison with the situation when operative management was being conducted under Länsförsäkringar's auspices.



### **“A single financial package is the best pillow”**

The marketing program during the past year focused on communicating the clear advantages, to private persons and farmers, in placing all their financial business with Länsförsäkringar. Under the slogan, “A single financial package is the best pillow,” Länsförsäkringar offered customers full-service insurance and financial solutions for housing.

### **Austerity in life insurance operations**

Länsförsäkringar's life insurance operations underwent structural changes during the past year, due in part as a consequence of the financial crisis. The Life Division in Länsförsäkringar AB created a new organization that became effective January 1, 2003 with a staff of 450 persons, resulting in a surplus of approximately 100 persons. Costs in the life insurance operations have been reduced by SEK 200 M on an annual basis.

### **Regional companies to write automobile insurance**

During the year it was decided that, beginning January 1, 2004, third-party liability insurance be written by the regional companies and that Länsförsäkringar Sak will stop offering the coverage on that date. This further strengthens the local concept and competitiveness in the field of third-party motor insurance is increasing, since business decisions will be made closer to the customer and liability and property damage insurance will be written by the same insurer.

## **Länsförsäkringar decided to introduce right of transfer**

Länsförsäkringar decided to introduce the right of transfer for both existing and new customers. The rights are being introduced by stages and in the first stage the 300,000 Government employees who selected Länsförsäkringar in last autumn's choice of pensions will be able to transfer their pension-savings. The next stage will comprise all new products being sold and the objective is that all of Länsförsäkringar's pension customers will have transferred during 2004.

## **Länsförsäkringar's fixed-income fund management again ranks first**

Länsförsäkringar was named “Fixed-income Fund Manager of the Year” for 2002 by Sparöversikt magazine. The award was based on an evaluation of the funds' results in recent years and also takes into account the risk taken to achieve results.

Länsförsäkringar has a tradition of successful management of both short- and long-term interest-rate funds and the award confirms that the cooperation with ABN AMRO is off to a good start. There is good continuity on the fixed-income team since a number of Länsförsäkringar's fund managers

transferred to ABN AMRO's subsidiary, Alfred Berg, during the year.

Länsförsäkringar has six fixed-income funds. The long-term interest-rate funds – where the Bond Fund, the Eurobond Fund, the Mega Bond and the Mega Government Bond Fund had a return of more than 7% – developed best during the year. Länsförsäkringar's short-term funds also developed favorably. The Liquidity Fund and the Money Market Fund rose by more than 4%. Management fees in Länsförsäkringar's fixed-income funds range between 0.15 and 0.60%.

## **Sweden's most satisfied customers**

For the second consecutive year Länsförsäkringar had Sweden's most satisfied customers in both banking and insurance, according to the “Svenskt Kvalitetsindex” (Swedish Quality Index), which is compiled annually at the Stockholm School of Economics. The average results for the entire industry declined, compared with the preceding year. The premium increases during the year and the weaker return on life insurance were the probable causes. This is having an impact on customer satisfaction and the loss is generally greatest for companies at the top of the list. Länsförsäkringar has had the most satisfied customers in the private market for eleven years in a row. In the corporate market (non-life insurance), the Alliance has headed the list since 1994 when Länsförsäkringar participated for the first time.

# Stable platform for continuing growth

The year 2002 was for Länsförsäkringar a year of both substantial market successes and weak results. In terms of earnings it was one of the worst years ever as a result of the trend in financial markets.



Tommy Persson, Managing Director, Länsförsäkringar AB

Combined, today's 24 regional insurance companies constitute a complete Alliance in banking and insurance, with three core businesses: non-life insurance, life insurance and banking. Despite the negative trend of the stock market, Länsförsäkringar has strong balance sheets and a continuing good solvency ratio in life insurance. The platform for continuing growth is stable.

Länsförsäkringar has undergone major changes in recent years. In the mid-1990s Länsförsäkringar was a group consisting of

24 local non-life insurance companies with a market share of approximately 20%.

Today, this share has grown to nearly 30% at the same time that the Alliance now has three strong core businesses. The share of the market for life insurance is approximately 10% and an early negative trend of the market was reversed during the year as a result of programs in the field of occupational pensions. Despite sharp declines in values on stock markets since March 2000, assets have doubled since the mid-1990s.

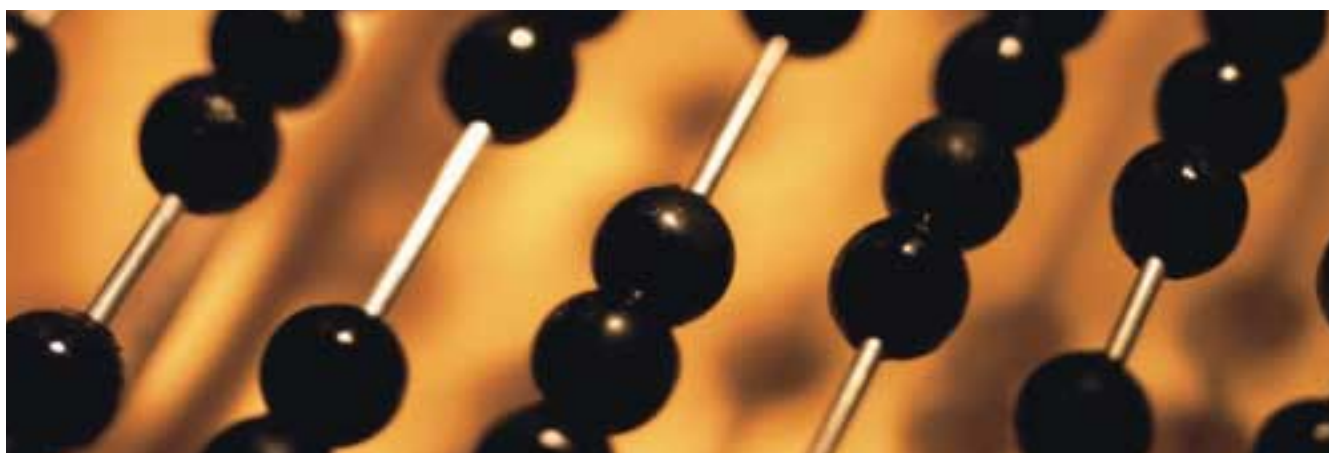
In less than ten years in the banking field we have started and developed an operation with assets of SEK 22 billion and which is growing – by 59% in the past year alone. The share of the market for deposits has risen to nearly 3%, and we are growing strongly in lending, notably in the mortgage field where lending in the first two months of 2003 has increased by SEK 1.5 billion.

A large part of the growth has occurred through acquisitions, including Wasa in 1998, but our organic growth has been strong, not least in insurance and banking in recent years. The number of employees in the Alliance has not increased at the same rate as the increases in volume of business, but amounts to approximately 5,700, compared with about 2,800 in the mid-1990s.

Although we have had very good results to date, the focus on three core businesses is not complete. Our growth objectives – notably in banking and life insurance – are substantial and acquisitions are something that we are always considering. The underlying factor in the focus on three core businesses is the customer-owned form of operations. The customers in each regional company are the only principals we have since non-life insurance customers are owners of the businesses. To create competitive products, terms and fees in banking and life insurance as well, these operations have been built up and an increasing number of non-life insurance customers are becoming more involved and are also becoming banking and life insurance customers in Länsförsäkringar.

## Strategic strengths

Länsförsäkringar occupies a very strong position in the Swedish market. This position is based on a number of strategic strength factors, some of which are unique to Länsförsäkringar. The first strength lies in the fact that we are a federation consisting of 24 regional insurance companies that have non-life insurance companies as their owners. This has given us a clear and firm vision of our task, and who our principals



are. By being local we have kept close to customers. We know a great deal about them and, not least, we have the ability to make decisions quickly. And because we have a single principal – the customer – we have a unique focus on the customer. These are conditions that guide us in our daily work.

## **2.9 million customers**

### **– Sweden's most satisfied**

Our customers constitute our second strength. Our customer base consists of approximately 2.9 million customers who year after year have been Sweden's most-satisfied non-life and life insurance customers. We are building our organic growth on the premise that existing customers, mainly non-life policyholders, will find cost-effective and administrative reasons for also becoming banking and life insurance customers. In addition to competitive, fairly priced products, we are taking steps to ensure that customers, in all their contacts with us, see a unified Länsförsäkringar and that they are treated as customers, not in terms of their involvement with products. In recent years, to be able to offer this approach we have invested approximately SEK 500 M in new customer systems and changed processes in order to further develop all customer relationships. Based on

these systems and processes, we are now also improving our written communications so that it will be organized and complete. In particular, we are placing great emphasis on increased clarity.

### **Strong balance sheets**

Our strong financial position is a third strength. Despite the negative trend during the past three years, Länsförsäkringar is strong financially. In non-life insurance we have a solvency margin that sharply exceeds the levels of all competitors. Three years ago, in life insurance, we had a balance sheet that absorbed a decline of 50% without causing the collective consolidation ratio to fall below 100%. Now the decline became even greater, something that no one had been able to foresee. On the contrary, as recently as three years ago Länsförsäkringar was criticized for, among other things, having a collective consolidation that was too high. Our assets today are 20% higher than our guaranteed commitment to customers – our solvency ratio is thus 120%.

The collective consolidation ratio, however, is lower than 100%, which means that our assets at the present time are lower than our total commitments to our customers. Being below 100% for a time is not in

itself a problem since most life and pension-insurance policies are paid over a long period of time. However, it is important to again be over 100% within three years.

To strengthen the return we instituted a major program of change during the year. In our financial operations we are focusing completely on the composition of the balance sheets, and the distribution between types of assets and levels of risk. The responsibility for total return thus remains with us while operational management is handled, on assignment from us, by joint-venture partners. During the year we concluded a cooperation agreement with ABN AMRO comprising the greater part of the operative management of the savings for life insurance and fund customers, with the result that the relative return has improved compared with results when management was conducted under our auspices. Management costs have decreased at the same time.

### **Well-known brand**

Our brand and the strength it represents constitute our fourth strength factor. Länsförsäkringar possesses the strongest brand in insurance and one of the strongest in all categories in Sweden. In recent years the brand has been broadened substantially and more and more people now recognize it

and appreciate that it also comprises life insurance and banking operations. We are working constantly to preserve and strengthen the brand and our values: Being close to customers, being clear, reliable, durable and, not least, prompt in our relationships with customers.

### **We are where the customers are**

The ultimate consequence of being local and customer-owned – our strong positions in local markets – constitute our fifth strength. As a result of local independence all decisions that are important for customers are made close to them. In recent years we have sharply increased the number of offices, in particular those that offer banking services. Personal contacts are the starting points for Länsförsäkringar's customer relations. We are supplementing these contacts with representatives, brokers, the Internet, automated teller machines, direct-marketing programs and other activities. We will never abandon the principle that personal contacts are the most important. That is what has made ours the most-satisfied customers in Sweden, and what is responsible for the successes we have achieved in the market.

### **We fill needs that no other can offer**

The sixth strength, which is also unique for Länsförsäkringar, is that our three core businesses make it easy for customers to have their needs met and handled in a single location. In the housing field, for example, we can offer insurance, housing loans and protection for survivors – supplemented with loss prevention advice and service. In addition, a bonus is offered that increases as a customer's involvement grows. The full-service projects in banking and insurance that we have begun to develop for owners of

housing will be followed by a number in other areas. We are also seeing the clear results of this first concept. An increasing number of owners of single-family residences who are insurance customers are now obtaining housing loans from Länsförsäkringar and a growing number of new insurance policies on such residences are being written at the same time that customers obtain housing loans from us.

### **Poor financial results**

Operating results in non-life and life insurance were weak due to the continuing negative trend in financial markets. Operating results in banking improved and will continue to improve sharply in coming years as a result of the increasing volumes of business and as the depreciation of large investments in the Internet bank, among other projects, decrease.

As a result of the poor results we have reviewed and are continuing to review our costs of operations, management and claims-settlement. The number of employees in life insurance has been reduced by nearly 25% and similar efforts to increase efficiency are being made in all operations. The objective set in non-life insurance is to achieve a combined ratio of 100 within a few years. In Information Technology, a program designed to increase efficiency by approximately 20% is starting during the year.

### **Improved information to customers and the market**

Clear information to customers will be an increasingly distinct competitive tool. During the year we improved the value statements sent to life insurance and unit-linked insurance customers. We are proceeding with the other core businesses and

are reviewing all customer documents. Since we are customer-owned, it is natural for us to always be trying to increase customers' insight and influence. During the year we will decide how customers' insight and influence are, to be developed in life insurance.

As a result of the borrowing program in our banking operations, the level of ambition for financial information distributed to the market, to customers and to the media will be raised.

### **Strong position but the business environment causes concern**

Länsförsäkringar is well equipped. In areas where a few years ago we lagged behind competitors we have now caught up with – and in many cases even passed – them. Internally, we are preparing for continuing growth at the same time that we are sharply examining costs and efficiency. The trend in financial markets is disturbing, however, not only for the banking and insurance industries but for the entire social economy. In spite of this we continue to be optimistic about the future and our ability to continue to grow and create customer benefits through our basic concept of being close to customers and owned by them.

Stockholm, March 18, 2003



**Tommy Persson**

Managing Director, Länsförsäkringar AB







## Structures and ways of working



# Concepts underlying Länsförsäkringar's operations

Länsförsäkringar's development is as logical as it is natural. By means of the mutual (company-owned) form of company, there are no other specific ownership interests to be considered beyond the company's customers. Everything that is developed in the form of products, concepts or system support must have pure customer needs as starting point.

The business concept makes clear that non-life insurance, life insurance and banking are core businesses of the Länsförsäkringar Alliance. Based on this, the assignment is to offer total solutions with different combinations of non-life policies, accident and health policies, life insurance policies, pension-saving plans, fund savings and various banking services.

In a Sweden in which the trend is toward a clear division in the field of insurance and financial services, Länsförsäkringar is moving in the opposite direction. Customers are being offered a totality of banking and insurance services under the same brand through the 24 regional insurance companies. During 2002 the offering of products and services under the "Banking & Insurance" banner has been further developed and promoted. The banking services have continued to be developed and when *Privata Affärer* magazine in the autumn announced the "Bank of the Year" award it was clear evidence that Länsförsäkringar had succeeded in changing over from a niche bank to a full-service bank. This broadening of the product line was also supported by strong growth in the other areas.

However, more than good products are required in order to measure up to the customer-oriented concept that is the foundation for Länsförsäkringar's operations.

Customers must perceive it to be natural and beneficial to concentrate their banking and insurance business in Länsförsäkringar. This approach characterizes the entire business. Thus, for example, the development of beneficial total solutions for customers are to be given priority. During 2002 an attractive package comprising life insurance, non-life insurance and banking products was developed for home owners. Another distinct customer benefit is the "totality" of a customer meeting. All meetings with customer, whether they are face-to-face or via the Internet must be based on the customer's needs and the totality of Länsförsäkringar's offering.

## **Voluntary cooperation**

The cooperation in the modern Länsförsäkringar has gradually developed from an exchange of experience to today's comprehensive common operation. The basic concepts that have been developed over two centuries and adapted to our times are still valid today. Time has only demonstrated the strength in an organization and business model that is based on local, independent and customer-owned regional insurance companies that cooperate voluntarily. There is agreement in Länsförsäkringar that the local proximity

and independence have been decisive factors in the Alliance's substantial successes. Decisions that are important for the customer are made close to the customer. Annual General Meetings and the Board of Directors of a local regional company are the highest decision-making authorities on matters that pertain to the company's operations. This means, among other things, that each regional company owns its own income statement and balance sheet. Thus all cooperation among regional companies is voluntary and the federation form of organization is based on this independence.

## **Cooperation through Länsförsäkringar AB**

The cooperation among the 24 regional companies takes place through the jointly owned Länsförsäkringar AB and its subsidiaries. The company was formed in 1936 to meet the regional companies' need for reinsurance. Responsibility for the internal reinsurance system is still an important task but increasingly larger common resources have been built up over the years. Länsförsäkringar AB's task is to create conditions for the regional companies to be successful in their respective markets. Länsförsäkringar AB is the parent company

of all subsidiaries in the jointly owned Alliance that has operations in life insurance, unit-linked insurance, banking, non-life insurance, run-off and development, as well as animal and crop insurance through Agria. Asset management, which until the summer of 2002 was handled in a subsidiary of Länsförsäkringar AB, now takes place through cooperation with one of the world's leading asset managers, ABN AMRO. The Alliance's common development projects are also conducted in Länsförsäkringar AB, which possesses specialized expertise in product development, financial services, information technology (IT) and market communications. The regional insurance companies determine from time to time what the joint operations in Länsförsäkringar should comprise. This is set forth in a consortium agreement and presented in detail in the Länsförsäkringar AB Board of Directors' guidelines for operations. This way of working can be changed over time in accordance with the wishes of the owners, the regional insurance companies.

### Local and common

The structure of the alliance – with local independent companies that cooperate through a jointly owned company – imposes substantial demands on clarity between regional companies and the common operations. The business model of the Länsförsäkringar Alliance is based on 24 regional insurance companies that have chosen to conduct certain operations together. As commissioned by the local companies, Länsförsäkringar AB is responsible for conducting these operations. The structure of the alliance can thus be described as the opposite of that of a group in which operations are delegated from central units to local units. The premise for cooperation in Länsförsäkringar is that as much of the operations as possible should be conducted in the regional companies. In principle, all customer contacts take place in regional companies. At the same time, the advantages of large-scale operations in the fields of insurance and financial services are substantial. The con-

cession for life insurance as well as the charter for banking operations are held by Länsförsäkringar AB. Formally, for example, there are now 24 banks throughout the country. But this is what the structure looks like, viewed from a customer's perspective. The basic idea in the regional company concept is that a county's inhabitants and companies should be able to obtain all types of insurance and banking service through a local company.

### Decisions based on a consensus

The Länsförsäkringar concept – that local, independent and customer-owned companies cooperate voluntarily – also imposes heavy demands on acceptance of common decisions. The independence of the regional insurance companies means that all decisions that apply to, or affect, all companies in the Länsförsäkringar Alliance must be based on a consensus. This imposes special demands on decision-making pertaining to common operations. And it also imposes demands on regional compa-

## Environmental program

# Länsförsäkringar is being certified environmentally



Länsförsäkringar has been working in accordance with a common environmental policy for a number of years and its environmental program constitutes a strategic area that is designed to permeate all business operations. The program is important for a number of reasons. Customers' interest in the environment and their insight is increasing each year. It is of key importance to be perceived as – and naturally to actually be – an environmentally concerned player in order to attract both customers and new employees.

### From word to action

Länsförsäkringar is working with environmental management systems in accordance with the international ISO 14001 standard. In June 2003, according to plan, all 24 regional insurance companies, Länsförsäkringar AB's non-life division, its environmental company and Agria Djurförsäkring (animal insurance) will be certified.

### Organization

The Alliance's collective environmental program is promoted and coordinated through the

nies that have voluntarily agreed to participate in a federation. Even voluntary cooperation unavoidably involves a certain yielding of independence. This principle involves a commitment on the part of all regional insurance companies to seek to find common solutions even in cases where opinions in the Alliance are divided.

### **Broadened operations in Länsförsäkringar**

Länsförsäkringar has a total of more than 2.9 million customers and no brand in Swedish insurance is stronger. Nor is any brand so closely associated with non-life insurance. The broadening of the brand is under way, with the objective of strengthening the Alliance's positions strikingly in the savings and lending fields within a few years. One position is not to be abandoned in order to assume another one. The simplicity, proximity and local decision-making power upon which successes in non-life insurance were built are being transferred to the financial services.

### **The mutual concept**

## **The customer is the only principal**



The regional insurance companies are mutual companies, a form that is particular to the insurance field. Each regional insurance company is owned by its non-life policyholders. As a purely practical matter, the mutual form means that a company's capital belongs to the customers and that no profits are distributed to an ownership circle as is the case in a corporation. The mutual company's profits accrue in their entirety to the customers in the form of a bonus and through the build-up of credit. In the record year of 1999 the regional insurance company's customers received a total of SEK 860 M in bonuses. In 2002, despite the sharp downturn in financial markets, bonuses totaling SEK 102 M were paid. Länsförsäkringars' life insurance company are owned by the non-life operations and operated in accordance with mutual principles, whereby all profits are returned to the policyholders.

## **in accordance with ISO 14001.**

regional companies' Environmental Council. The operating program in each regional company is organized through the respective environmental coordinator. Via the coordinator and because the program is integrated in regular business planning, the entire business is also infused with an environmental perspective.

### **Environmental aspects**

In connection with a review of key environmental aspects, the settlement of claims for losses in the form of the use of such materials as plastics and metals in car and

building repair work proved to be the most important. Emissions of carbon dioxide and, to a certain extent, the consumption of paper, are environmental aspects. Accordingly, all regional companies have to take steps to reduce the use of PVC, metals and carbon dioxide.

Länsförsäkringar AB has undertaken to help regional insurance companies achieve their objectives for reduced use of PVC and metal. Certification of the regional companies will comprise their entire operations: non-life insurance, life insurance, banking

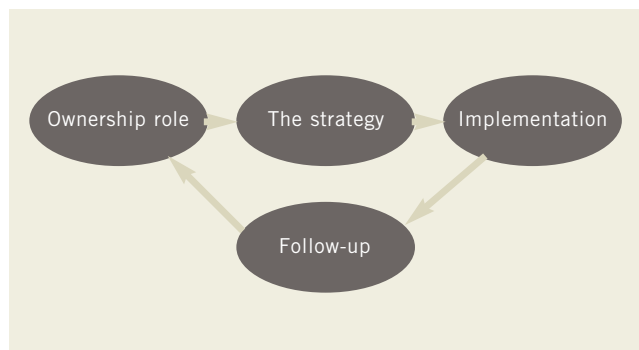
operations and business support activities. A total approach is also being taken in the common companies in connection with their business planning in 2003.



# Strategy for a competitive return

The responsibility for financial management within Länsförsäkringar rests in part with each regional insurance company and in part with Länsförsäkringar AB. In the latter company there is a specialist function (referred to below as “Finance”) that is responsible for asset management for the Alliance's life and non-life insurance companies, plus Agria Djurförsäkring and a number of small Group companies.

An important element in creating a competitive return is a well-accepted decision-making process, with clear routines and interfaces. To be able to achieve a competitive return, Finance applies a strategy for capital management that is summarized in a so-called investment process. The process consists of four parts.



In rough outline, the investment process may be summarized by saying that the *ownership role* stands for visions and objectives of ownership, which is the basis for *the strategy*. The strategy that is adopt-

ed is *implemented* and, finally, the management results are *followed up* and evaluated.

The **ownership role** stands for Länsförsäkringar's visions and objectives with ownership of the assets for the purpose of creating the highest-possible return for the insurance customers. The Boards of Directors of the operations in life insurance, non-life insurance, funds and Agria are responsible for management and determine visions and objectives. Visions and objectives are described in a number of policy documents such as those dealing with ownership policy, solvency policy and debt-coverage policy. These policies constitute the framework within which the companies' investment policies are to be managed. The ownership role also includes

the ownership power that is exercised at annual meetings, for example, as representatives of the customers.

Under the **strategy**, Finance calculates the desired long-term distribution of assets

for each company. This part is very important, not least for the traditional management of life insurance companies, where customers are guaranteed a certain level of return – currently 3% – (before

fees and yield tax) over the savings period. The long-term strategy is determined primarily based on the risks in the companies' balance sheets, on the asset and liability sides, and on their covariation. The strategy is also affected by legal restrictions and by restrictions resulting from Länsförsäkringar's visions and objectives with ownership. The long-term strategy is summarized in the form of a reference portfolio. The reference portfolio shows how the assets are to be distributed long-term between types of assets such shares, interest-bearing securities, Alternative Investments and property so that the return shall be as high as possible. Decisions pertaining to the reference portfolio are of key importance since surveys show that a significant percentage of a portfolios results over the long term can be ascribed to the distribution between types of assets.

However, it is not always possible or most effective to invest based on the long-term reference portfolio. This may be due, for example, to risks in the balance sheet or in investment markets. In these situations Finance calculates a shorter-term distribution of assets in the form of a normal portfolio that may deviate from the reference portfolio in some respects.

The strategy element also includes Finance's choice of a suitable management structure and type of manager.

When **implementing** the strategy, Finance has to find the best managers of shares, interest-bearing securities and Alternative Investments. Länsförsäkringar has elected to have a single manager, ABN AMRO, manage the largest percentage of shares and interest-bearing securities. To expose ABN AMRO to competition, a number of competing managers have been chosen to administer a small percentage of the assets. Alternative Investments are handled by Nordic Alternative Investment Advisors and the property portfolio is managed for Länsförsäkringar Alliance by the Humlegården property company.

Implementation of the investment strategy also includes defining assignments for the managers. This includes specifying the amount of risk managers may take in the form of deviations from the normal portfolio and also relative risks, the comparable indexes that are to apply, the yield requirement and other restrictions and definitions related to a management assignment. The manager's task then is to create the best possible return, given the framework and guidelines he/she has received. This takes place through so-called active management whereby a manager, for example, may choose to have a composition of shares in a portfolio that differs from the comparability index that applies to the portfolio.

**Follow-up** means that Finance regularly provides information on yields and valuation to the Board of Directors of each life insurance and non-life insurance operations in Länsförsäkringar AB. The Board of Directors is thereby always informed on the manner in which management of the assets is developing. The evaluation of management consists of a regular qualitative and quantitative analysis of the managers and management results. The evaluation also includes regular meetings between specialists from Finance and persons in charge of ongoing management. The managers' adherence to prescribed frameworks and guidelines is also checked in the course of follow-ups.

## Local throughout the world with ABN AMRO

During 2002 Länsförsäkringar and ABN AMRO began a joint venture involving the ongoing management of the greater part of Länsförsäkringar's assets, totaling approximately SEK 100 billion, that are administered for the account of customers. The objective of the joint-venture agreement is to obtain a high and secure return on assets.

Under the terms of the cooperation, effective as of June 2002, ABN AMRO is handling the ongoing management of the greater part of the savings of Länsförsäkringar's life insurance and fund customers.

Through the cooperation, customers gain access to global management of a high international class. Demands for international capacity for analysis and management on the part of asset managers have increased dramatically.

Today it is necessary to be able to evaluate all investment alternatives that are available in the world's financial markets. The cooperation with ABN AMRO also means that Länsförsäkringar's customers are gaining access to more international funds, both for direct fund savings and for savings in unit-linked insurance.

Responsibility for the return on customers' capital remains with Länsförsäkringar, which also exercises ownership responsibility and determines the strategic investment orientation and risks. ABN AMRO's management is taking place against the background of clear levels of risk and yield requirements established by Länsförsäkringar. Länsförsäkringar can terminate the ten-year management agreement if the yield requirements are not met.



# Länsförsäkringar's property holdings

Länsförsäkringar's property holdings are held in the respective regional companies and in the Humlegården property company, which is jointly owned mainly by regional insurance companies and Länsförsäkringar Liv. Humlegården has a property portfolio worth approximately SEK 5 billion that is concentrated in Stockholm's inner city and which contains office buildings. Following the additions that have been made, Länsförsäkringar AB's premises in the Gärdet section of Stockholm have a market value of approximately SEK 2 billion.

Länsförsäkringar Liv's property portfolio, which contains office build-

ings, shopping centers, residences and other properties, is more heterogeneous. It has been decided to reduce and concentrate this portfolio through a SEK 3 billion sales program, of which SEK 1 billion was carried out in 2002. The objective is to sell another SEK 2 billion worth of property in 2003 and then have a portfolio valued at approximately SEK 5 billion.

## **Organization of property operations**

Earlier, Länsförsäkringar Liv and Humlegården had separate organizations. Considering that the portfolios are relatively similar, and the limited size of

each organization, it has been decided to form a common organization. This was done through the formation by the two companies – Länsförsäkringar Liv and Humlegården – of a common management company. This company has two principals with equal ownership. Greater efficiency is being achieved through this organization. The number of employees was reduced from approximately 60 to about 35, as a result of the improvements in efficiency and Länsförsäkringar Liv's small property holding.

Improvements in efficiency are being made in all areas and management operations are being integrated; management is being based on optimal areas of operations, not on who owns the properties.

The new organization assumed responsibility for the properties in November 2002.

## **Return on the life insurance portfolio**

The total return on the properties in the life insurance portfolio for 2002 was marginally negative. This was a combination of direct return and change in value.

## **Trend in Humlegården in 2002**

The Humlegården limited partnership reported a profit of SEK 83 M for 2002. In addition to operating profit, the increase in value in the portfolio amounted to SEK 93 M, attributable primarily to gains from development.





## Alternative Investments are managed separately

During the latter part of the year it was decided that the advisory services pertaining to Alternative Investments should be separated from Länsförsäkringar's own operations. As a result of this decision, a number of persons from the financial department of Länsförsäkringar AB are conducting advisory operations in their own company, Nordic Alternative Investment Advisors (NAIA), on assignment from Länsförsäkringar. The underlying strategy is that Finance's operations can now be focused on the real core operations that involve searching for and following up managers and finding the optimal strategic allocation of assets. At the same time this has enabled the advisory organization for Alternative Investments to hold and recruit competent employees in a manner other than that as a part of a large organization. Another decisive factor is that the organization – by being able to offer other investors advisory services and the ability to invest in the type of assets, should be able to distribute costs so that Länsförsäkringar's total management costs will be lower.



## Excerpts from Länsförsäkringar's ownership policy

Länsförsäkringar operates based on an ownership policy that describes how ownership should be exercised in its capacity as representative for insurance and fund savers. The objective is that the policy should help to create the greatest possible value in the management of savings funds that are entrusted to Länsförsäkringar. The company is among the larger Swedish institutional owners but only in exceptional cases is it among the dominant owners in individual companies, and it should therefore seek alliances with other large owners.

### Länsförsäkringar's views on some important matters

- Nominating committees should propose candidates for membership on Boards of Directors, and the efficiency of a Board's work is greatest if the number of members is limited to between 7 and 9. A Board's relationship to a company and its management, as well as to ownership groupings and other interests, should be characterized by independence. It is especially important that company management, the Board and shareholders have common interests. Board members and members of a company's management should therefore be shareholders. Incentive programs should be applied for company managements. The work of the nominating committee should also include setting the fee for the Board and evaluation of incentive and options programs that are linked to profits rather than to the market price of the company's shares.
- The Board of Directors and Management must provide correct and complete information on all matters of importance to the shareholders so that the work of the Board becomes as transparent as possible. The Chairman of the Board should be elected at a General Meeting, of shareholders. At the General Meeting, the President should report on his engagements outside the Company and the amount of time they take.

- Ethics have a substantial impact on the functioning of the capital market. Each member of the Board of Directors therefore has a special responsibility to ensure that the Company performs in all respects in a manner associated with good ethics.

### Environmental issues

A company's attitude to the exterior environment is of major importance for the long-term well-being of both the company and others. Awareness of this is generally substantial. Länsförsäkringar avoids being the owner of companies that deliberately violate generally accepted practice.

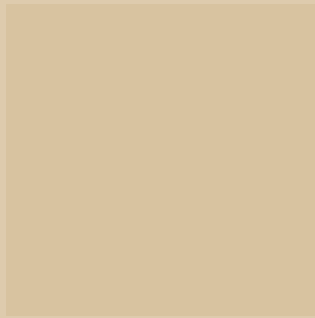
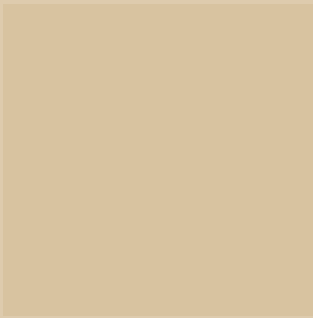
### Restrictions

In its exercise of ownership Länsförsäkringar must concentrate its involvement on a limited number of matters. In practice, this means focusing on Swedish companies and, in particular, on those of great importance for long-term management results. Länsförsäkringar's management is designed to create the greatest possible value for the company's customers. As a result, shares in individual companies are purchased and sold, which in turn means that Länsförsäkringar is not necessarily a long-term owner.

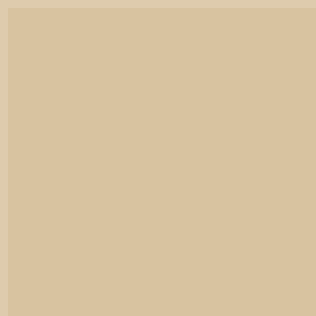
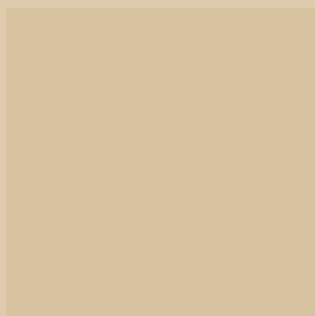
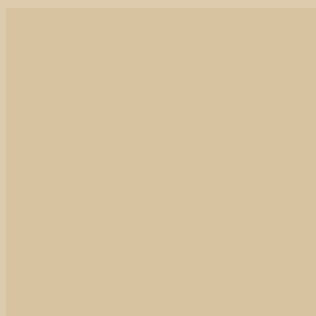
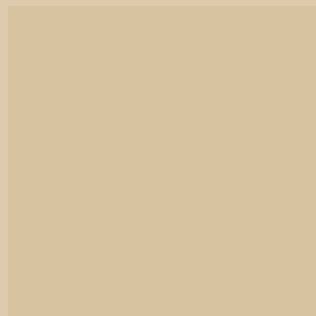
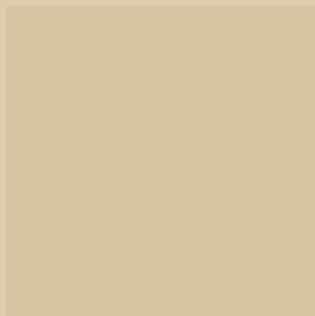
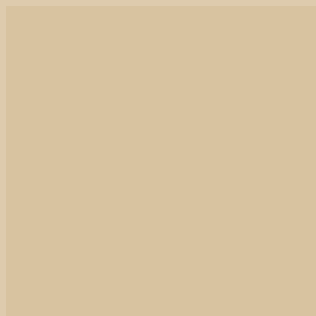
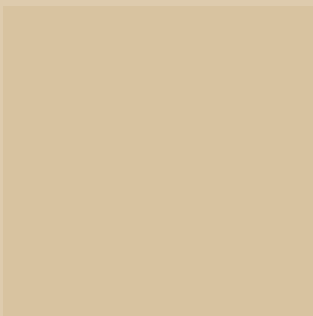
Länsförsäkringar is aware of the importance of active ownership for the success of an individual company, its shareholders and industry in general, and thus for the well-being of the country.

### Forum

Shareholders' power is exercised at General Meetings of shareholders, primarily through election of the Board of Directors and auditors and by expressing an opinion with respect to the management of the Board and the President. Länsförsäkringar participates in as many General Meetings as possible. The importance of public opinion where ownership matters are concerned can be substantial. Länsförsäkringar therefore takes part in the public discussion of issues.



## Länsförsäkringar in society



Länsförsäkringar often plays a prominent role in its own county, in addition to pure core activities in banking and insurance. Länsförsäkringar's regional insurance companies participate in and support activities in their own communities. These activities include assistance for youth soccer teams, contributions to enable one county's ambulance helicopter to continue emergency flight operations and support for neighborhood surveillance projects established to prevent burglaries. Everything to benefit the people of the community and – in the long-term perspective – Länsförsäkringar.

Claims-prevention personnel Björn Göteby and Kenneth Johansson manage Länsförsäkringar Skåne's successful neighborhood surveillance programs.



## Neighborhood cooperation reduces burglaries

They call themselves Neighbors against Crime. Since the activities were started in 1995, 51,000 households have become involved in Länsförsäkringar Skåne's efforts to prevent private household burglaries.

Residents of neighborhood surveillance projects keep a watchful eye on each other's homes. They take note of unfamiliar people in the area. If a neighbor is away on vacation or business, for example, they park a car in the family's driveway, pick up their mail, mow the lawn or hang laundry in the backyard.

Everything to give the impression that the owners are not far away. Burglars should be fearful of break-in attempts.

### Fewer burglaries

The neighborhood cooperation project in Skåne Province is one of several similar programs conducted by the Länsförsäkringar Alliance. Länsförsäkringar Skåne took the idea from Östgöta Brandstodsbolag, the first company in the Alliance of regional insurance companies to start a successful neighborhood surveillance project during the 1980s.

"Housing areas with neighborhood surveillance programs have 10–15% fewer burglaries than other residential areas," says Kenneth Johansson, claims-prevention manager for Länsförsäkringar Skåne. He and his colleague, Björn Göteby, specialize in neighborhood cooperation programs.

In the beginning, they pursued the initiative through contacts with homeowner associations.

The media noticed their efforts, and today they receive a continuous flow of questions about participation in and establishment of new neighborhood surveillance programs. They start by arranging a meeting of the area's residents as well as local police authorities, emergency rescue personnel and a lock or security alarm company.

"The homeowners receive practical tips on various ways to improve the safety and protection of their homes, both from burglaries and other damages. We also distribute signs and stickers they can display in the area," explains Kenneth Johansson. Regularly scheduled meetings are also arranged for the approximately 1,600 contact persons.

### Continued contacts

If participation in a given area starts to decline, we provide assistance that helps the residents maintain the program's momentum. In some cases, we have arranged new information meetings that led to a restart of efforts by the area's homeowners.

Neighborhood surveillance programs are directed toward all households in Länsförsäkringar Skåne's area of operations, regardless of whether or not they are customers of the company. The operations are focused primarily on private housing areas, but Kenneth Johansson and Björn Göteby have also started neighborhood surveillance programs in areas consisting mainly of apartment buildings, including some areas in the suburbs of Malmö.

"It's easier to generate interest and commitment for neighborhood protection programs in areas comprising private homes. Perhaps residents there have closer contacts with each other," says Kenneth Johansson.

He and Björn Göteby are careful not to advertise the company's products during their information meetings.

"It's a question of credibility. Police authorities and people who are not customers do not want to attend any sales meetings," says Björn Göteby. "But the operations give the company a good name, which might lead to sales at some point in the future."

### Many new customers

Kenneth Johansson says the neighborhood surveillance programs are claims-prevention activities. In parallel, many people have discovered that Länsförsäkringar Skåne offers attractive insurance terms and conditions. In the concept called LänsSkydda (CountyProtect), customers receive a 5% discount on premiums for private homes or household insurance if they are members of a neighborhood surveillance program. In the event of a burglary, their deductible is reduced from SEK 1,200 to SEK 600. They can also receive other discounts if they have ground surge breakers, approved burglar alarms and door locks, etc.

"We have gained a large number of new customers in the neighborhood surveillance areas. When people decide to change insurance companies, Länsförsäkringar Skåne is often their first choice."

## Active claims work in Bergslagen

All regional insurance companies work with claims-prevention activities. Länsförsäkringar Bergslagen was named "Claims-prevention Company of the Year" in 2002 by Länsförsäkringar Alliance.

"Helping customers prevent damage to their property is just as important as efforts to keep premiums at a low level. In addition, we also hold our claims compensation costs down," says Erik Troedsson of Länsförsäkringar Bergslagen. Seven employees work full-time in claims-prevention activities, and several projects are now in progress within the company. Two examples are:

- New private homes that customers want to insure are inspected by a building engineer who is sent to the homes to inspect wet rooms, seal leaks in floor drains and replace batteries in fire alarms.
- Safe Farm, a project conducted in cooperation with the Federation of Swedish Farmers (LRF). Farmers who invest in farm safety, including installations of ground surge breakers, receive discounts on their agricultural insurance premiums. There are nearly 200 certified farms in Bergslagen today.

## Support for increased traffic safety

Länsförsäkringar Stockholm conducts various comprehensive activities to prevent damages.

The company sponsors the Stockholm's Fire Department On-Duty Fire Inspector, for example. The service provides information about fire prevention to members of the fire department, thereby helping to prevent damages in this area.

Länsförsäkringar Stockholm is also involved in different neighborhood protection programs. In Södertälje, the company is participating with police authorities and businessmen in a project designed to reduce car thefts. The company supports the Road Safety Organization (NTF) of Stockholm County in NTF's efforts to promote increased traffic safety. In the autumn of 2002, the program of cooperation was manifested in an advertising campaign against drunk driving. Fourteen

large posters were mounted alongside main roadways leading into Stockholm next to 2.5 meter-high figures depicting vultures and the grim reaper with a snaps glass in his hand. The word "Cheers!" was emblazoned on the posters "One of four traffic fatalities in Stockholm traffic is caused by alcohol. Drive sober!"



## Ambulance helicopter now has time for more missions

Since June 2020, Länsförsäkringar Uppsala has been providing financial support for the ambulance helicopter at the University Hospital. After the strong financial results in 1999, the Board of Directors, instead of raising bonus payments to customers, decided to support an activity that helps people injured in traffic accidents, for example, receive more immediate medical attention. By providing traffic accident victims with medical attention more quickly, rehabilitation times can be shortened, resulting in lower costs for traffic and accident insurance. The contribution to the medical ambulance amounts to SEK 1.25 M annually through year-end 2003. The funds have enabled the helicopter to remain on duty for longer periods of time.



## Instead of Christmas cards

A growing number of companies are starting to donate money for charitable causes instead of sending Christmas cards. Länsförsäkringar Skaraborg and Blekinge Länsförsäkringsbolag are two examples.

For the past few years, Länsförsäkringar Skaraborg has donated SEK 10,000 to Hospice Gabriel in Lidköping, which provides care for persons with terminal diseases. The money has been used to purchase equipment that helps alleviate pain. For the second consecutive year, Blekinge Länsförsäkringsbolag donated money in 2002 to RIA's activities in Blekinge Province. RIA is a Swedish-language acronym for Advice in Alcohol questions. The money has been used to buy food during the Christmas holidays for visitors and guests – homeless and otherwise deprived people – at RIA care centers.

## Support for cultural activities in sparsely populated areas

When the Municipality of Mellerud planned to build a new high school, a group of local enthusiasts suggested that a concert hall be erected next to the school. However, considering the estimated cost of about SEK 17 M, many other people raised their eyebrows and thought it was an impossible project for a depopulating community in Dalsland Province. The concert hall was built, however, thanks to the support of local sponsors, including Länsförsäkringar Älvsborg. It was named Kulturbruket and officially opened on November 23, 2002.



## Annual support to Swedish folk music

Länsförsäkringar Kalmar county, in cooperation with Visfestivalen Västervik, an annual folk music festival, has established a scholarship fund in memory of Fred Åkerström, a Swedish troubadour who passed away in 1985. The scholarship has been awarded in a fixed amount of SEK 25,000 for the past years. It is awarded annually to a person who has made significant contributions to preserve and develop Swedish folk music.

Since it was established in 1987, the scholarship has been awarded to Lasse Tenander, Lena Willemark, Åsa Jinder, Finn Zetterholm and Olle Adolphson, among others. Last year, it was awarded to the singer Kjell Höglund.

Tomas Östin, administrative manager of Länsförsäkringar Kalmar county, sees the scholarship grant as a form of support for the annual folk music festival, an important event that attracts a large number of tourists to Västervik.

“The festival is extremely important to private industry in Västervik and, as the county's insurance company, we also protect our interests by contributing to the music festival and supporting its continuation in future years.”



## Floor ball and night wanderers

Länsförsäkringar Halland sponsors the annual Golden Globe Games, a floor ball tournament, in cooperation with Halland's School Sports Association. All seventh-grade students are invited to participate in the tournament. The prize money is used to buy sports equipment for the schools.

“The tournament meets many of the requirements that are placed on a good sponsorship project,” says Mats Ericsson, President. “We are seen and attract attention. We also support an important activity for young men and women, and we spread the image of a company that contributes to the local community.”

Länsförsäkringar Halland is also a “community-certified” company, a form of recognition for companies actively engaged in efforts to support a safer community. “Trygga Laholm” and “Trygga Halmstad” are examples of projects that are included in community certification, which also include the participation of police and other local authorities. The project encompasses activities ranging from information to prevent various types of harassment in schools to “Night Wanderers,” groups of adults walking the city's streets at night.





## Customers and distribution



# Proximity and simplicity create Sweden's most satisfied customers

The 24 regional insurance companies have a combined total of 90 offices in all parts of Sweden. Länsförsäkringar's more than 2.9 million customers, accordingly, have ready access to service and advice regardless of where they live in the country. As a result of ongoing brand expansion, the regional insurance companies are also expanding their complete-coverage insurance operations to include full-service banking activities. Banking activities are now offered by 80 of the Alliance's slightly more than 90 offices.

Länsförsäkringar is striving to create a clearly defined customer focus. Its customer orientation is based on the mutual form of ownership to be owned by its customers and to serve as the only player in Sweden that offers products under the same brand to private individuals, farmers and business customers (banking activities do not offer business services, however) within the entire financial sector. The customer-orientation concept is a matter of addressing the customer's need to be perceived as a chosen client, to receive timely and accurate information and to have easy access to contacts with Länsförsäkringar. The concept also includes the customer's right to be treated with respect and be offered best-value products. Länsförsäkringar offers products both in non-life insurance, life and pension insurance and products that cover savings requirements in mutual funds, bank accounts and the need for loans. Agria Djurförsäkring supplements the product range with animal and crop insurance.

## Distribution

Länsförsäkringar's strategy is based on close market proximity. Its customer contacts and operations close to customers are

made possible through the local offices of its 24 regional insurance companies as well as programs of cooperation with Svensk Kassaservice (Sweden Post). Via Sweden Post's cash service offices and rural mail carriers, customers are able to make cash deposits and withdrawals as well as foreign-account payments. Bank customers can also make withdrawals from all bank ATMs in the country – Länsförsäkringar has 42 proprietary bank ATMs. The Internet is a channel that complements the Alliance's personal and local service offering and further increases accessibility. Share trading via the Internet is a simple and user-friendly service that was introduced during 2002.

Länsförsäkringar's own sales personnel are supplemented by agents and franchisees. Independent insurance brokers provide another channel for customers. Private customers can also establish contact with their insurance companies through their employers, since many major corporations serve as an increasingly important customer-meeting place.

## Major corporations

As part of efforts to offer good life-insurance service and quality to major corpora-

tions, the regional insurance companies have recruited salespersons to work as key account managers. A unified unit has been established within the Länsförsäkringar Alliance to provide support to the regional insurance companies and Länsförsäkringar Mäklarservice (Broker Service) for more substantial contracts. A common strategy and business establishment plan has been formulated to secure the success of this area of operations. An important element in the business development plan is the capacity to offer the same service and advice, regardless of the business customer's geographical location. The establishment has proceeded satisfactorily. Länsförsäkringar has participated in several major procurement programs that have resulted in a number of contracts, including business agreements with Findus and Ikea.

During 2003, Länsförsäkringar plans to introduce a service that will enable business customers to offer their employees advisory

## Market shares, %

Non-life insurance	29.2
Life insurance, new sales	10.5
Banking	
– deposits	2.6
– lending	2.0

services related to occupational-pension insurance via the Internet. The company also offers administration services for its insurance products via the Internet.

### Broker service

Every year, a growing number of customers choose insurance brokers as their advisors in insurance questions related to business insurance and occupational pension insurance. The percentage of Länsförsäkringar's brokered insurance products increased again during 2002. Länsförsäkringar Mäklarservice works to develop and improve administrative services offered to brokers. The strength of Broker Service is the same strength that supports Länsförsäkringar's activities – its local presence and personal contacts with the broker, the customer's representative.

### Brand awareness

Länsförsäkringar has Sweden's most widely recognized and strongest brand among companies that offer banking services and insurance. Businessmen have the highest brand awareness with regard to Länsförsäkringar, and their knowledge of Länsförsäkringar also increased sharply during the past year. Knowledge and awareness of the Länsförsäkringar brand among private persons remains at a stable and high level.

### Customer meetings

In all customer meetings conducted by Länsförsäkringar, the customers should be made aware of the customer value-added created by concentrating their non-life, life insurance and banking business within Länsförsäkringar. It's a challenge for Länsförsäkringar to make customers realize the customer value-added factor in the entire offering, regardless of the different nature of personal in the private, business or agricultural market. Customer meetings also differ depending on the customer's need for non-life insurance, life insurance or banking products. The objective within Länsförsäkringar, therefore, is to develop complete-coverage offerings, package-product offerings for customers that contain products from more than one product area. One of the first package-product offerings was launched during 2002 for the target group comprising private homeowners. It is the first example in which Länsförsäkringar has customized an attractive solution for homeowners that includes life insurance, non-life insurance and bank products.

### Customer structure in private market

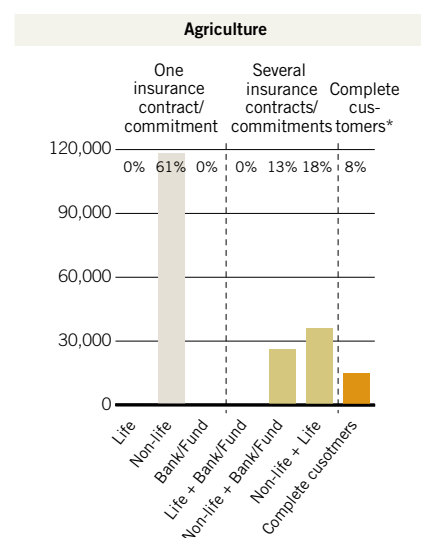
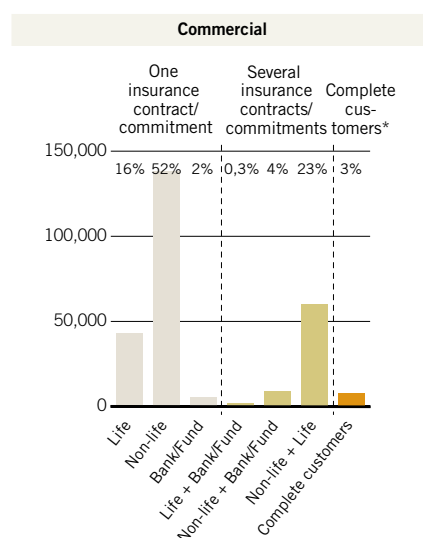
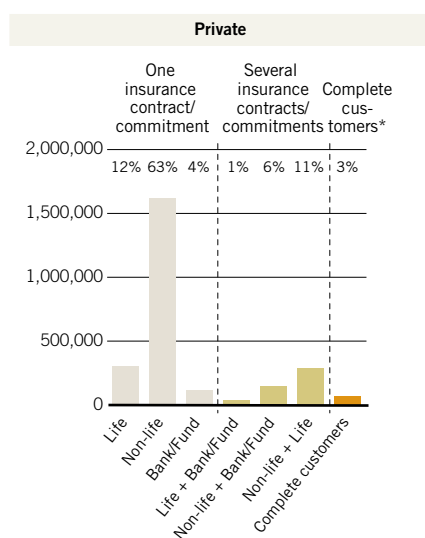
All age groups are represented in Länsförsäkringar's customer structure, with a marginal over-representation of men. The customers are somewhat older and have

marginally higher savings than the overall general population. Länsförsäkringar has 45% of all insured homeowners (private homes and tenant-owner apartments). There are approximately 1.8 million private homes and 0.8 million tenant-owner apartments in Sweden. More than 60% of Sweden's residents own their own homes. Two-person households account for 38% of privately owned households, with one-person homes accounting for about 11%.

Homeowners and their families are the strategic and natural target group in the private market. Since the need for insurance and bank services are lifecycle-based, the need for bank or insurance products to protect a person's welfare and property is something that creates demand throughout his/her entire lifetime. Most private homeowners have mortgages on their homes, they save to create a financial buffer and they have a greater need for automotive insurance than the overall general public.

Private homeowners offer substantial sales potential for Länsförsäkringar. Since most people buy their first homes in their 20s and 30s, the customer base is automatically renewed by focusing on this group. Loan requirements change with age due to a greater need to save. Insurance requirements also change and increase over the course of the lifecycle.

Number of customers with one and several commitments/insurance contracts, respectively, in 2002



\*Customers with at least one insurance contract/commitment within Non-life, Life and Bank/Fund.

## Customer structure, business and agricultural market

Number of companies in Sweden distributed by size  
No. of employees Companies

Sole proprietorship	628,033
1-4	145,792
5-9	33,558
10-49	28,457
>50	6,518

At year-end 2002, there were more than 800,000 registered companies in Sweden.

Companies with less than 50 employees are the dominant category. Nearly half of all companies in Sweden have at least one insurance contract with Länsförsäkringar. The largest segment of the customer stock consists of small and midsize companies in virtually all sectors of industry. Many are small owner-managed companies with strong local ties. There is a strong correlation between business economics in owner-managed companies and the

owner's personal financial position.

The industries in which Länsförsäkringar has its strongest representation are construction and manufacturing, farming and forestry. Farmers comprise a large and prioritized customer segment, and a large number of agricultural customers have their non-life insurance coverage through Länsförsäkringar as well as substantial savings and pension insurance requirements.

# Satisfied customers in Länsförsäkringar

According to Svenskt Kvalitetsindex (Swedish Quality Index) for 2002, Länsförsäkringar once again had Sweden's most satisfied customers. The Quality Index is compiled by the Stockholm School of Economics and is an independent survey conducted by SIQ, the Institute for Quality Development, Garantidata AB and the Stockholm School of Economics.

In a short period of time, Länsförsäkringar has also created Sweden's most satisfied customers among all banks in Sweden. Some of the reasons for this strong performance may be the company's local presence and perhaps its high customer satisfaction rating for non-life insurance activities has spread, with a growing number of customers choosing Länsförsäkringar instead of other banks.

Länsförsäkringar has also had the most satisfied customers in the market for both non-life

and life insurance every year for the past 10 years. Länsförsäkringar has also retained the highest loyalty rating among its customers. More customers stay with Länsförsäkringar, accordingly, compared with competing insurance companies. The survey also showed that Länsförsäkringar has the lowest percentage of complaints in the insurance industry. Länsförsäkringar entered the business market (non-life insurance) for the first time in 1994, and has been this sector's leader ever since.

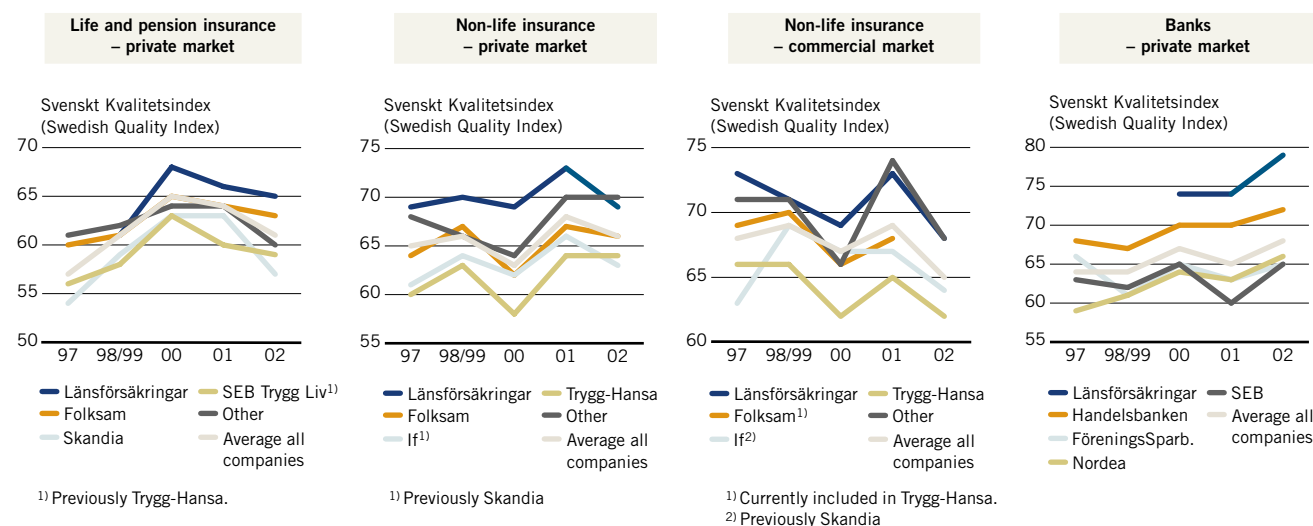
The overall insurance industry reflected a marginal decline in customer satisfaction ratings during 2002. The decline was probably caused by the stock market's negative effects on savings in mutual and unit-linked funds and life insurance, which have generally influenced opinions of the entire financial sector and, in turn, Länsförsäkringar.

## Länsförsäkringar's own customer satisfaction survey

Satisfied customers are a critical requirement for expanding the customer base. Länsförsäkringar's own customer-satisfaction survey during 2002 reflected a modest decline in satisfaction among insurance customers, but the overall rating remained high. Customer satisfaction among bank customers increased, however.

The analysis shows that a number of different factors influence customer satisfaction. More products, continuous contacts with Länsförsäkringar, the longer the customers have been with Länsförsäkringar, and the number of older men also have positive effects on customer satisfaction. Customers that have incurred damages are more satisfied than customers with no claims. Customers that know Länsförsäkringar is owned by its customers are also more satisfied.

## Customer satisfaction





# Business environment

# Market characterized by uncertainty

Last year was characterized by uncertainty. Continuous dark clouds emerged on the horizon and overshadowed everything else. However, the economy recovered during 2002 despite a continued stock market decline and geopolitical uncertainties.

Economic indicators started to turn upward toward year-end 2001, and the stock market temporarily slowed its decline. Year 2002, however, began with negative news in the form of emerging accounting scandals. The market was shocked that major American corporations such as Enron were forced to declare bankruptcy. Confidence in business executives and accounting firms suffered a serious setback. Uncertainties over the future ability of large corporations to generate profits were intensified by new uncertainties over the accuracy of their financial reporting ethics. The growing uncertainties led to an increased flight to safer investment havens. Share prices and interest rates continued to fall. The economy, nevertheless, showed signs of continued stability during the spring.

Companies and households showed increased optimism over future trends. Their optimism faded away quickly late in the summer, however, as the conflict in the Middle East continued to escalate. During the autumn, the threat of war with Iraq became much more serious. Due to these uncertainties, financial analysts downgraded their forecasts of economic growth, particularly for the early part of 2003. Concerns in the marketplace have slowed the process of economic recovery. Reduced uncertainties, therefore, will be the key element in getting the economy back on its feet and stabilizing stock market values.

## A few rays of light

The 37-percent decline in the Swedish stock market during 2002 does not necessarily mean that all signs have been negative, however. Growth has improved from the bottoms that were reported at year-end 2001. Households have benefited from lower interest rates, lower inflation and lower taxes. Real income development for private households, accordingly, has been favorable, contributing to a positive trend of consumer confidence. The low interest rates have also contributed to a continued increase in prices for private homes. Prices for single-family homes rose 10% during 2002, an indication that the wealth of private households has increased, despite the stock market decline. The future outlook is uncertain, however. In parallel with weaker economic conditions and the escalating compensation payments for absenteeism due to illness, the national budget has been exposed to growing pressure.

As a result, the disposable incomes of private households will decline during 2003 after taxes and social fees are paid. Combined with a projected increase in unemployment after all the notices of job terminations during the past year, household consumption will probably decline this year. The trigger for economic growth, accordingly, will have to come from increased investments by private industry. During recent years, companies have reduced their level of investments and

introduced strong cost-austerity measures. As a result, they are better prepared for economic recovery than previously. It is not very likely, however, that a sharp upswing in industrial investments is immediately pending. As long as widespread uncertainty continues to characterize the market, most companies will maintain a cautious approach. The US GDP increased by 2.4% in 2002, which was much higher than its very modest growth of 0.3% in 2001. EMU, however, continues to fall behind. At the same time as households in the US, and to a certain extent Sweden, have continued to consume at a relatively strong pace, conditions for European households have been more worrisome. Unemployment is stuck at a high level, and the budget situation has not created any scope for economic stimulation measures. Incomes in the EMU region, in other words, have been much lower than incomes in the US and Sweden. In addition to the general decline in market demand, private industry has also been affected by the weaker USD. A stronger euro creates a tougher competitive climate for European export companies.

In summary, prevailing uncertainties will slow down the process of economic recovery, but once the geopolitical climate starts to stabilize, we should expect a gradual improvement in economic growth during the year. A more robust recovery is not expected until 2004, however.

### Markets down for third straight year

Global stock markets declined both in 2000 and 2001. Furthermore, the Swedish stock market year in 2002 was the worst year in history in terms of stock market performance. The Swedish stock market continued to suffer in relation to broader market indices due to its large exposure in the telecom sector. Ericsson's share price plummeted from SEK 40 in the beginning of the year to SEK 6 at year-end, a decline of 85%.

A broader American stock index declined 24%, and a leading global index was down 20% during 2002. Accounting scandals, continued weak corporate earnings, general uncertainties over the economy and geopolitical concerns were key factors behind the bleak stock market climate in 2002. High expectations on the capability of corporations to generate future earnings continued to be adjusted downward throughout all of 2002. Corporate earnings have improved after the introduction of various cost-cutting measures. Productivity in the US has remained strong. When the uncertainties start to decline, there is reason to look forward to

an increase in overall willingness to assume greater risks. Companies will eventually resume new investment activity, and investors will probably find their way back to the stock market. The risk for setbacks continues to loom large, however.

### Interest rates at historically low levels

In parallel with the stock market decline, interest rates also continued to fall during the past year. In the US, the long interest rate was reduced by 1.35 basis points, and the corresponding Swedish rate was down 0.65 basis point. Long-term interest rates, accordingly, have been reduced to historically low levels. Due to continued general uncertainties, investors have turned away from the stock market to seek safer investment alternatives, which forced interest rates down during the year. Furthermore, the economic outlook has been relatively bleak, and the threat of inflation has been virtually non-existent. Weak economic conditions, declining stock market prices and uncertainties over the Iraq conflict also induced the US Federal Reserve to implement additional measures to stimulate the economy during the autumn. The

US key rate is now at an historical low of 1.25%. The European Central Bank (ECB) has followed suit, reducing the prime rate to 2.50%. Riksbanken (the Central Bank of Sweden) raised interest rates twice during the spring, when economic indicators were still pointing upward. In conjunction with renewed market concerns during the autumn, however, Riksbanken withdrew its earlier increases by reducing the prime rate to 3.75%.

In view of limited indications that would otherwise confirm an ongoing economic recovery, there is no reason to believe the central banks are in any hurry to revise their monetary policies in a more restrictive direction. In Europe, on the contrary, additional reductions in interest rates are more likely than assumptions that a bottom has been reached. As for Sweden, a strong issue during 2003 will be the national referendum on EMU. A "yes" to EMU would probably mean that Swedish interest rates would start to approach the level of EMU interest rates, since the country's entry into the monetary union would also mean that Sweden's future monetary policy would be managed by ECB, not

## The year of the krona

For the past several years, the general impression has been that the Swedish krona has been undervalued. The Swedish economy has shown strengths that should have led to a strengthening of its currency, such as a strong surplus in the nation's balance of payments, sound government finances and low inflation. The stronger krona has been largely attributable to the general decline in the US dollar. The value of the krona in relation to the dollar has

risen 17%, while its strength against euro has increased by a more modest 2%. In relation to Sweden's largest trading partners, based on the TWC-index, the krona appreciated by about 4.5% during 2002. In the future, naturally, the outcome of the national referendum on Sweden's membership in EMU will be a critical factor in the development of the krona in relation to the euro. The krona has potential to strengthen against the euro regardless of the outcome in the referendum. However, should the Swedes vote "no" it will almost certainly lead to an initial decline for SEK. Considering the weaker outlook for business growth in the Eurozone, relative to the US, it is

more likely to assume some recovery for the dollar, although the large deficit in its balance of payments would indicate the reverse effect. The krona could become marginally stronger during 2003, particularly in relation to the euro.





Riksbanken. Speculation over the result of the referendum remains open, with an even division between yes and no advocates and a growing percentage of undecided voters.

### Alternative Investments

*Private Equity.* The continued decline in stock market prices around the world has now started to have a serious impact on price expectations among sellers of unlisted companies. The previous low level of acquisition among buyers of mature, unlist-

ed companies (so-called Buyouts) was reversed during the latter part of 2002 and a number of significant transactions were implemented. Interest among industrial players in acquisitions of the portfolio companies of Private Equity players remains extremely low, however, and the market is not receptive. In the Venture Capital segment, which has suffered through several years of difficult conditions, there are still no signs of improvement.

*Absolute Return.* As would be expected, the dramatic increase in demand for hedge funds during the latter part of 2002 has led to the establishment of hedge fund activities by many new players. Unfortunately, however, the quality of many of the funds is poor, and it won't be long before investors will be disappointed. In 2002, hedge funds reflected their worst performance results in a long time. US hedge funds, for example, yielded their worst results since 1987 (-3.4%).

## Tough property market

The property market in Stockholm during 2002 was characterized by higher vacancies and lower rent, mainly as a result of the economic decline in the region.

Another reason is the increase in new production of office facilities, which created added pressure on rent levels. Some of the new production has been speculative, whereby property owners had not contracted any tenants when construction operations were started.

Vacancies at year-end amounted to nearly 10% in the Greater Stockholm area, ranging from slightly more than 15% in Kista to 6-7% in the city.

Rent in the most attractive areas of central Stockholm at year-end 2002 has been estimated at about SEK 4,500, with

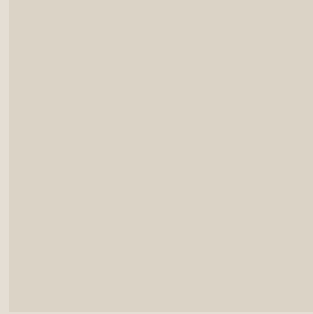
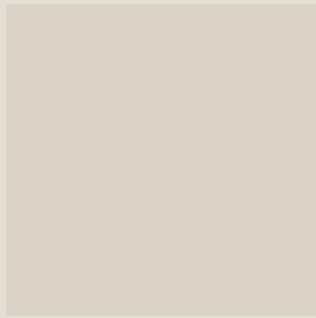
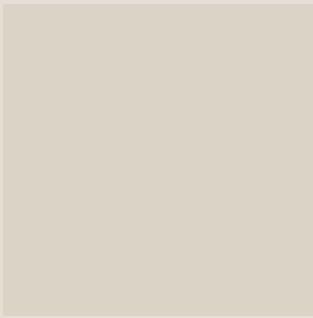
a declining scale to levels in the range of SEK 1,500 in Kista.

The rental market also reflects a "flight to quality," with special focus on property location, condition and effectiveness.

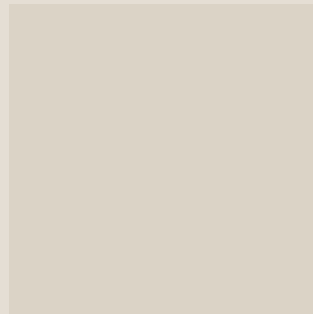
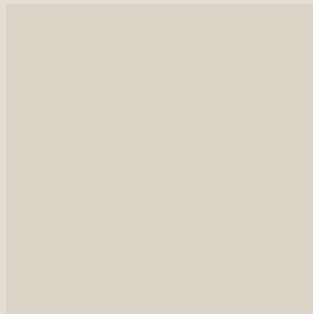
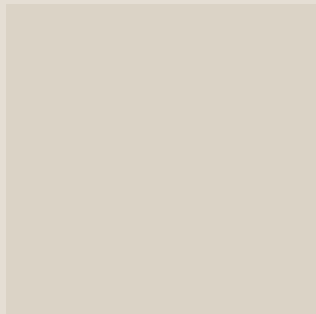
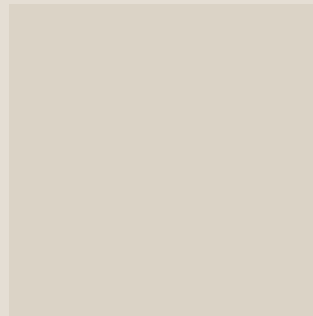
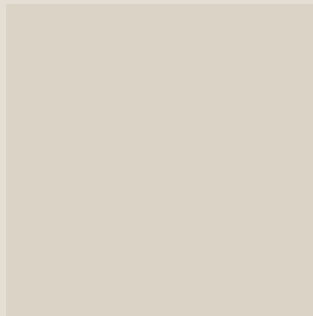
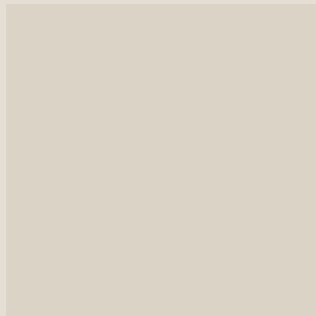
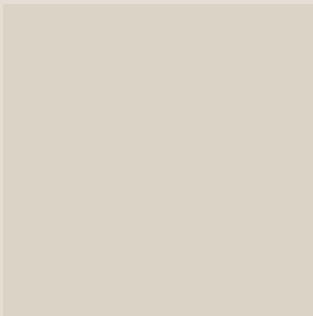
A marginal increase in activity in the rental market has been noted over the past six months. Although the decline in rent levels appears to have slowed down, it is difficult to determine if a reversal is imminent. General economic growth has remained weak, and there are still no clearly discernible signs of a rapid and strong economic recovery. There is cause for cautious optimism in appraisals of the property market, however, although a brighter economic picture is expected to

emerge during the second half of 2003. The property market has been characterized by growing interest from foreign investors. Stockholm has now become a part of the European property market map, and larger objects in particular are attracting more international buyers than previously. In parallel, Swedish institutions have become less active as buyers, a trend that has been offset by increased activity by private persons. It is likely that more international funds will buy properties in Sweden. Because of its size, the Stockholm market will probably be the primary focal point of interest for international investors. The transparency of the Swedish property market has also increased.





## Market overview



# Need for security increasing in times of concern and uncertainty

The global political situation is tense and, at home, a gradual deterioration of the social safety net is gaining momentum. One effect of the increasing uncertainty is a change in living patterns, highlighted by a growing need for security. It is affecting our need to protect ourselves and the importance of long-term savings.

People's need for security is expressed in different forms, as reflected in LänsUnder-sökningen, a survey conducted annually by Länsförsäkringar. Two of three people interviewed were not sure if healthcare services would function as intended if and when they need medical attention. Since people are living longer and working for increasingly shorter periods of their lifetimes, most people today have to assume a greater responsibility for their healthcare protection, care and pension plans. Personal finances are another cause for concern. Slightly more than half of the population is worried about making ends meet. Three of ten said they were concerned about losing their jobs.

The need for security is also reflected in personal savings. The nature of bank savings accounts has become more long term. Bank accounts are now the most widely used form of personal saving in Sweden, with seven of ten people saving their money in banks, based on the results of LänsSpar, a survey of personal savings patterns conducted by Länsförsäkringar in the autumn of 2002.

## Three core activities with different business logic

Länsförsäkringar today has a customer offering based on three core business activities: banking, life insurance and non-

life insurance. Each of the core areas of activity is based on a different business logic, but they also share many common aspects of business operations. Banking and non-life insurance are characterized by customer demand for concrete products and services, and the customers are relatively well informed. Banking activities are characterized by a more everyday form of customer relations, primarily because the number of customer transactions is much larger than the number and frequency of customer contacts that are required for life and non-life insurance customers. In life insurance operations, customers do not have a clear understanding of their personal requirements and, as a result, they often ask for support, advice and information. Life insurance activities are also a matter of much longer business relations

which results in increase unsecurity.

Another difference is that it's not as easy today for customers to change life insurance companies, compared with changing bank or non-life insurance company.

Customers today demand greater openness in banking and insurance, in addition to demands for lower fees.

Demands will increase with respect to communications with customers and prospective customers. A basic demand, which is not always met by companies in the life insurance sector, is that customers should understand what they are buying, what it costs and how their savings will accrue during the contract period, for example. Simplicity and comprehensible will become key components in competition between different companies.



## Life insurance market 2002

The prolonged stock market decline in Sweden and the rest of the world had serious negative effects on life insurance companies and their customers during 2002. The total return on assets under management was negative, with a decline in both collective consolidation and solvency ratio. As a consequence of this trend, life insurance companies reduced bonus rates on several occasions and gradually reduced the percentage of equities in their investment portfolios.

Growth in the life insurance market during recent years has shifted from its former dominance by the capital-endowment insurance market to a stronger focus today on occupational pension plans, which are now three times larger than capital-endowment plans. The occupational pension sector is growing steadily, and accounts for the strongest growth in the major insurance companies. The rapid expansion of this sector of the market is primarily attributable to deregulation in the col-

lective-bargaining sectors of the market. Savings in capital-endowment insurance plans have declined in both relative and absolute values, compared with the years shortly before and after the new millennium, mainly because of the decline in stock markets around the world.

Sales of private pension insurance have reflected a lateral trend during recent years, in parallel with continued growth for IPS solutions. Another reason for the stagnation in pension insurance sales is that all collective-bargaining sectors now offer their employees opportunities to select their own supplementary pension investments, which seems to reflect a feeling that their pension insurance needs have already been covered. This has also resulted in changes in distribution forms, with the workplace emerging as a new marketplace supported by tools such as the Internet, telephony and web portals.

### Did you know that...

One of two people today saves in a pension or endowment insurance plan. Insurance savings, accordingly, have remained at a constant level, based on comparisons of personal savings during the past three years.

#### FACTS ABOUT SWEDISH LIFE INSURANCE MARKET

Number of players	20
Premium income, total SEK M	93,518
– Traditional life insurance, SEK M	45,443
– Unit-linked insurance, SEK M	48,075
Sales value, total SEK M	131,000
– Occupational pension plans, SEK M	91,000
– Endowment insurance plans, SEK M	30,100
– Private pension plans, SEK M	7,000
Assets, SEK M	1,280,770
– Equities, SEK M	477,727
– Fixed income, SEK M	567,381
– Properties, SEK M	56,354
– Other assets, SEK M	179,308
Bonus rate, industry average, %	1.8
Total return, %	–9.7

Source: Association of Swedish Insurance Companies



## Non-life insurance market 2002

The non-life insurance market was characterized during the year by increased costs, caused partly by torrential rains and thunderstorms. Repercussions from September 11, 2001 and continued instability in the global geopolitical arena also led to increased costs for reinsurance during 2002.

Non-life insurance is a mature market and business growth is not particularly high, accordingly. Future market growth lies in new areas such as environmental insurance products and health and medical insurance plans. Non-life insurance companies have also been affected by negative trends in the financial markets. The previous high level of return on capital enabled insurance companies to maintain premiums at a relatively low level. Today, however, the emphasis is on profitable insurance operations and, in parallel with rising claims compensation costs, premiums are being increased. As a result of the higher premiums introduced in the insurance industry, premium income in

the non-life insurance market increased by 14.3% during 2002.

Increased costs for damages via Trafikförsäkringsföreningen (Traffic Insurance Association) and increased liability compensation for persons injured in traffic accidents via third-party liability insurance have led to a sharp increase in third party liability insurance premiums by most non-life insurance companies.

After 10 years of strong pressure on premiums, the premium volume in the business market has now risen to the level that prevailed in the early 1990s, as reflected in revenues of SEK 10.6 billion today. The ongoing debate in the commercial insurance sector concerning the need for insurance has been intensified, since the competition today basically consists of only three major players – Länsförsäkringar, Trygg-Hansa and If, which have a combined market share of 76%. At the same time, claims compensation costs for some sectors of industry are so

high that insurance companies refuse to offer insurance, or the premiums are so high that customers feel unable to bear the premium costs or costs for claims-prevention measures that would otherwise improve the risk factor.

Swedish non-life insurance is different in the international perspective, partly because companies today are offering an increased range of packaged products for most requirements. Premiums in Sweden are also generally lower than premiums charged by global players.

### Did you know that...

One of every six people in Sweden worry about their homes, the possibility it might be destroyed by fire or burglarized. Many people have accepted the consequences of their fear of fire at home and installed fire alarm systems and fire extinguishers. In view of increased premiums in most sectors of the market, claims-prevention activities are becoming increasingly important.



### FACTS ABOUT SWEDISH NON-LIFE INSURANCE MARKET

Number of players	25
Premiums paid, total	43,400
– Commercial and property insurance, SEK M	10,600
– Household and homeowner insurance, SEK M	8,800
– Third-party liability insurance, SEK M	7,900
– Motor vehicle insurance, SEK M	9,400
– Health and accident insurance, SEK M	3,300
– Marine and transport insurance, SEK M	2,100

Source: Association of Swedish Insurance Companies



## Bank market 2002

Competition in the Swedish bank market is intense. Today's bank customers are much more aware than only 10 years ago. And they place stronger demands on their banks. Customers are also more prone to change bank if they are offered better conditions elsewhere, or to spread their business between a number of different players. Overall, however, Swedish bank customers are relatively loyal. According to Svenska Bankföreningen (the Swedish Banking Association), a full 83% of the country's population has no plans whatsoever to change bank.

### Changed market

A great deal has changed since the Swedish banking market was deregulated in 1985. The four major banks have faced increasing competition. Sweden's membership in EU made it easier for new banks to establish operations. Many players were attracted by the multi-billion SEK profits reported by the country's leading banks and, over the past 12 years, the number of publicly listed banks in Sweden has risen from 15 to nearly 50. There are also a large number of savings banks and member banks.

### New players

A few new players established operations in the bank market during 2002. Ica's new banking activities, for example, attracted widespread attention. The success of the new players is largely attributable to dissatisfaction among Sweden's bank customers over the decline in service and increased fees charged by the country's major banks. Today's tough market conditions, however, have started to impact the banking sector. For the first time in several years, Finansinspektionen (the Financial Supervisory Authority) has no bank charter applications pending.

### Major banks lost 17%

Deposits by the general public are a key element in all banking operations. At year-end 2001, total deposits amounted to SEK 1,100 billion. Households accounted for 40% of total deposits, with 32% attributable to Swedish companies and 23% to foreign accounts. According to statistics released by Riksbanken (the Central Bank of Sweden), three of the country's major banks have lost 17% of their total deposits from households in the past two years. The trend for smaller banks is better, however. Since November 1999, the banking operations of both SkandiaBanken and Länsförsäkringar have grown by nearly 50%.

### Increased lending

Lending to private households has increased sharply during recent years. At year-end 2001, lending in Sweden amounted to SEK 1,300 billion. Swedish companies accounted for 50%, households 20% and foreign borrowers 27%. Total lending by home mortgage institutions amounted to SEK 1,100 billion. According to the Financial Supervisory Authority's most recent Savings Barometer, outstanding debts in private households today amount to 112% of disposable income, compared with 99% in 1998. Lending operations, deposits and housing loans have become increasingly important to banks in parallel with the decline in brokerage commissions, mutual fund charges and other forms of income from the stock market.

During the period 1993–2002, the average interest rate on household deposits was 2.7%. Deposit and lending rates have both reflected a downward trend since the beginning of the 1990s.

### Global leader in Internet banking

The first bank services via the Internet were launched in Sweden seven years ago, and today Swedish banks are the global leader in terms of their Internet offering of bank services. According to the Swedish Banking Association, more than four million people use the Internet today for their banking transactions, and 366,000 became affiliated with an Internet bank during 2002. More than 60% of all Swedish households have a home computer, which is one of the main reasons for the popularity of Internet banking services.

### Did you know that...

Bank accounts are the most widely used type of savings among private persons today. One of every seven residents of Sweden has a bank savings account. Bank savings is just as common among men as women.

### FACTS ABOUT SWEDISH BANK MARKET

Number of players	130
Total deposits and lending, SEK M	2,281
Total deposits and lending, private households, SEK M	502
Total lending, SEK M	2,381
Lending to households, SEK M	288
Mortgage loans, SEK M	1,275

Source: Swedish Banking Association







## Non-life insurance



# Market achievements and new opportunities

The local, customer-oriented organization has again showed that it's a winner. Continued significant success was achieved in the marketplace. Market shares increased in both the private and business sectors.

The total market share, calculated as premium payments received, increased during the year by 0.5 percentage points to 29.2%. Higher market shares were reported in both the private and business sectors. The number of business insurance policies increased by slightly more than 15,000, and housing and accident insurance policies in the private market increased by nearly 100,000. The number of motor vehicle insurance policies increased by 136,000.

Länsförsäkringar also has high goals for business growth in non-life insurance operations. The goal for 2003 is to continue to take market shares, with a year-end target level of slightly more than 30%. The strongest business growth will be achieved in new markets now being created in health and security areas, and environmental insurance supported by producer liability mandated by the European Commission. Länsförsäkringar has developed the world's first producer liability insurance products in this area.

## Increased premiums

Sharply rising costs in both the private and business markets have forced the industry to introduce substantial increases in insurance premiums. In the past, the high level of return on capital enabled insurance companies to maintain premiums at a relatively low level. With the continued stock market decline, however,

return on capital can no longer compensate for unprofitable insurance operations. Länsförsäkringar has a stable base, however, which has reduced the company's need to increase premiums, compared with most of its competitors.

Trafikförsäkringsföreningen (TFF) (a Swedish-language acronym for Traffic Insurance Association), which regulates damages to uninsured and unknown motor vehicles, has been impacted by a sharp increase in so-called parked-car damages and damage to roadway equipment such as signs and guardrails, etc. TFF's claims compensation costs are divided proportionately among the insurance companies based on their premium income.

Heavy summer thunderstorms also affected many regional insurance companies in the form of higher claims costs.

## New market opportunities

In the non-life insurance sector, social commitments for the general public's welfare have been shifting gradually to private market players for the past several years. The shift has been reflected in greater undertakings for traffic injuries and damages and the development of private supplements to society's responsibilities for healthcare and medical treatment.

Interest in producer liability and recycling insurance has increased. During the autumn, EU approved a new directive

## Important events

- Länsförsäkringar increased its market share for non-life insurance from 28.7 to 29.2%.
- Heavy thunderstorms in August – 1,590 claims and total costs of SEK 86 M.
- Länsförsäkringar environmentally certified in accordance with ISO 14001.
- EU directive approved in December calls for recycling insurance as a means of securing producer liability for electrical and electronic products.
- Work was started to achieve the goal of a combined ratio of 100. Efficiency improvements and higher premiums were introduced, as well as increased focus on claims-prevention activities.
- The year was characterized by increased premiums in both the private and commercial markets.
- A decision was reached whereby the regional insurance companies will offer third-party liability insurance, effective January 1, 2004. Länsförsäkringar Sak will discontinue its third-party liability insurance operations at the same time.

## Commercial

# 15,000 new policies

Länsförsäkringar continues to attract corporate customers. Its market share today is 34% and the growth trend is positive. Higher premiums combined with increased new sales of more than 15,000 policies, including the acquired companies Svenska Brand and the Allianz' Swedish operations, have increased premium volumes attributable to commercial insurance (excluding agriculture) to nearly SEK 2.7 billion.

The competition is declining and, after Trygg-Hansa's acquisition of Folksam's commercial operations, there are only two major competitors: If and Trygg-Hansa. In view of the very sharp increase in premiums in the re-insurance market and the industry's poor results in terms of compensation claims, strong focus will be placed on the profitability of every product area in the corporate market.

Commercial insurance	2002	2001
Gross premiums earned, SEK M	2,767	2,144
Market share, commercial and property, premiums paid, %	34.3	34.1

regarding producer liability for electric and electronic products. Länsförsäkringar is the first company in the world to develop a producer liability insurance product, and the anticipated potential for a future market in this area is considered favorable.

The recent launch of Länsförsäkringar's new customer system has enabled the entire organization, including both sales and claims departments, to access information on all customer contacts. The new system creates opportunities to improve and adapt Länsförsäkringar's dialogue with its customers.

## Continued consolidation

The insurance industry's ongoing consolidation in the non-life insurance sector continued with Trygg-Hansa's acquisition and integration of Folksam's commercial customers and Cox's boat customers as well as If's divestment and integration of Dial and Volvia. Länsförsäkringar has transferred the customers of its acquired company Svenska Brand and the Swedish operations of Allianz to the regional insurance companies. The divestment of Lita Försäkring was initiated during 2002, and its customers are being transferred to the regional insurance companies, thereby providing greater access to customer-oriented service and claims adjustments and settlements.

## Regional insurance companies to write third-party liability insurance

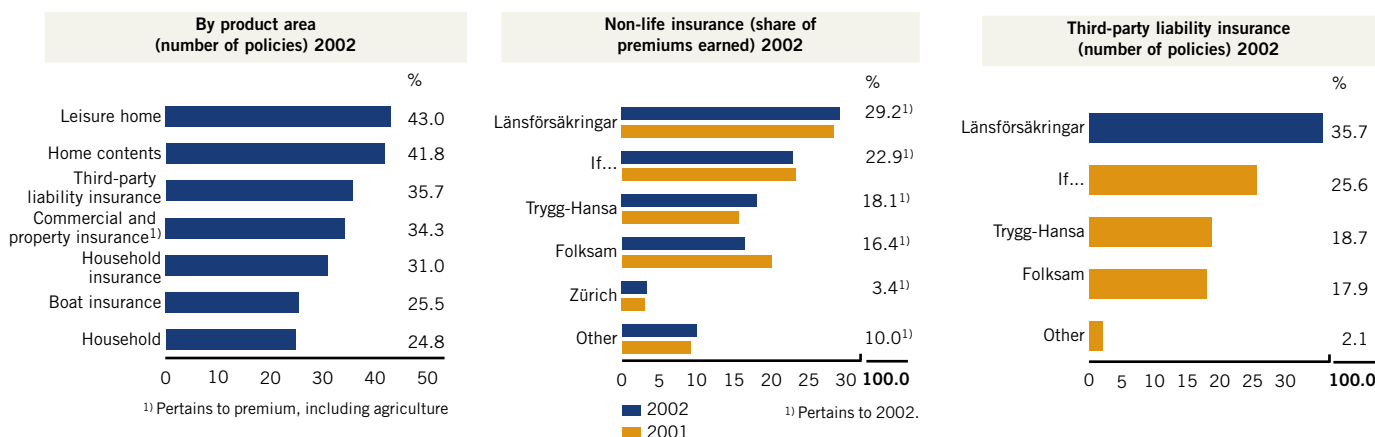
A decision was reached in 2002 whereby the regional insurance companies will offer third-party liability insurance, effective January 1, 2004. Länsförsäkringar Sak will discontinue its third-party liability insurance operations. The decision will further strengthen Länsförsäkringar's local business concept with no change in the Alliance's strength. Its competitiveness in motor vehicle insurance will increase by moving the decision-making process closer to the customers and providing the same insurer for the Alliance's liability and third party hull insurance operations.

## Reinsurance

The reinsurance market is still strongly characterized by the terrorist attack on the World Trade Center, for which only a fractional portion of claims has been paid, despite the relatively long period of time that has elapsed since the incident. The re-insurance industry shows weak profitability, due in part to the increase in damages due to natural causes and the negative effects of recent lapses in business liability ethics in the US business world.

As a result, the industry is financially weaker, and many reinsurance companies have been downgraded by credit rating institutions. Some companies are in dire

### Market shares



need of additional capital. Two companies that Länsförsäkringar had close relations with, SCOR and Gerling Globale, are facing very serious financial problems. Gerling Globale, which was the sixth largest reinsurer in the world, is gone from the market today, while SCOR has achieved some success in efforts to solve its problems.

As a buyer of reinsurance, Länsförsäkringar will continue for a few more years to operate in a market characterized by fewer players, tougher terms and conditions and high prices. Choosing the right company that will also still be in business when the claims fall due for payment is a major challenge in today's market. The problem is manifested most clearly in long-term undertakings, such as liability and motor vehicle insurance operations.

Factors that may benefit Länsförsäkringar are the company's market-leading role and its strong consolidation. Through lower claims compensation costs, fewer major damage claims and its financial strength, Länsförsäkringar should be able to improve its capacity for reinsurance procurements. Its common procurements and the member-company pool provide additional strengths in the tough reinsurance market. The new market conditions also present good business opportunities for Länsförsäkringar's international department, which underwrites business under-

takings from foreign insurance companies. This area of operations offers clear opportunities, and the operations are being increased cautiously.

### Run-Off

Prior to 1993, both Länsförsäkringar and Wasa, in a number of different companies, conducted extensive reinsurance and international direct insurance business. The run-off of this business is now being managed within Wasa Försäkring Run-Off in the Länsförsäkringar AB Group.

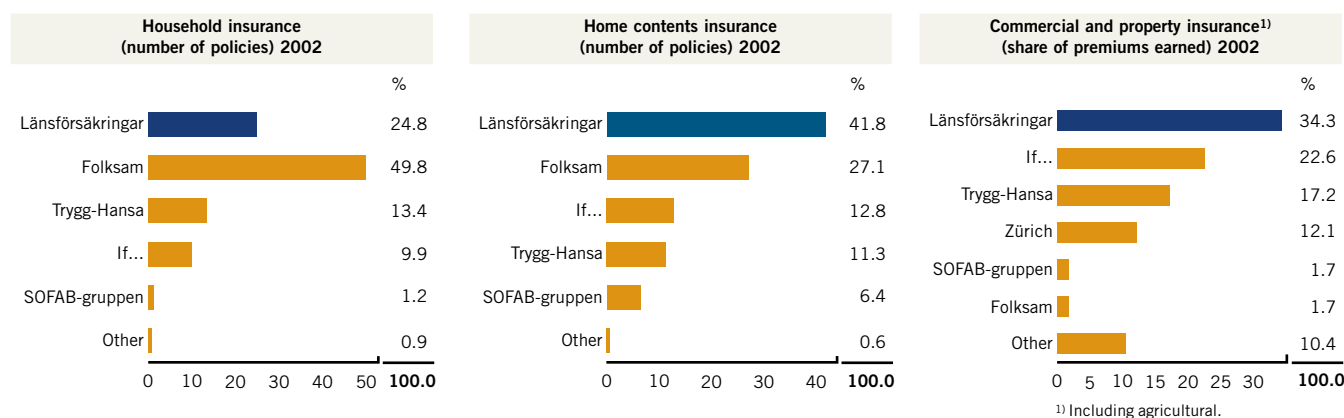
Länsförsäkringar has allocated SEK 0.9 billion for future claims payments and the assignment is to commute its commitments in the most cost-effective manner. As a result of these efforts, provisions for future claims were reduced from SEK 1,219 M to SEK 872 M during 2002. The portfolio is analyzed continuously, with particular priority on the most risk-filled items. Special emphasis is also placed on transactions involving asbestos.

The insurance portfolio in the British subsidiary Wasa International (UK) Insurance Ltd was transferred during the year to Sweden to further enhance the efficiency of Länsförsäkringar's divestment activities in the Run-Off Division. The transfer of operations to Sweden will also sharply reduce the Division's operating expenses.

### Environmental insurance

Länsförsäkringar's development of insurance products that cover producer liability for the environment continues to show favorable results. There is growing interest in producer liability and recycling insurance from several different product areas. During 2002, for example, Länsförsäkringar signed contracts related to passenger cars, trucks and construction and forestry machinery. Increased interest has also been noted from customers that see obvious market value through product offerings that include guaranteed recycling backed by an insurance solution. As an interesting example of this, Länsförsäkringar entered a co-operation agreement in January 2003 with Bravida, one of the Nordic region's leading installation companies. The agreement calls for recycling insurance for different types of installations, such as ventilation rooms. In November, approximately 24,000 Mazda and Suzuki owners received recycling certificate for their automobiles, which generated positive customer response.

The potential for producer liability insurance was further strengthened in December 2002, when the EU approved its new directive regarding producer liability for electric and electronic products. The directive will place demands on manufacturers to accept their individual responsibility for recycling the products they put



on the market and, furthermore, secure their commitment with an economic guarantee. In the latter part of the autumn, Länsförsäkringar conducted a seminar in the EU Parliament to explain how these types of insurance solutions can contribute to solving the issue of producer liability for product recycling.

Expectations for 2003 are that market interest in recycling insurance will continue to grow.

### Claims adjustment

Claims adjustment is the moment of truth both for customers and insurance companies. With its non-bureaucratic and customer-oriented approach, now is the time for Länsförsäkringar to provide the security that customers demand and expect. Länsförsäkringar's own customer survey, Satisfied Customer in Länsförsäkringar (NKIL), which was conducted in 2002, showed that customers who incurred some

form of damages during the past year are more satisfied than customers that did not incur damages. This held true for both service and availability as well expertise and customer-orientation. The company was able to achieve its strong customer-satisfaction rating by fulfilling its own high internal demands on close proximity to customers and local claims adjustment. The number of claims received by the Public Merchandise Complaints Board has

## Households

# Stronger position within key target group



One of Länsförsäkringar's defined focus areas is to offer homeowners a secure and simple, complete-coverage solution for their housing economy. Under the slogan "A concentrated financial package is the best pillow," the company offers complete-coverage insurance and financial solutions. Household insurance customers are offered attractive housing loans and survivor indemnity protection at the same place as they secure household insurance coverage. This enables them to consolidate their living expenses, in addition to providing options to choose and combine different services and offerings.

Länsförsäkringar increased its market shares in the household insurance sector during 2002. Within the subsec-

tor comprising private and leisure homes insurance, Länsförsäkringar is clearly the leading player with market shares of 41.8% and 43.0%, respectively. In the home content insurance sector, where Folksam is the market leader with its collective-bargained policies, Länsförsäkringar also increased its share from 24.5 to 24.8%. The number of homes is expected to increase marginally during 2003, but housing production will probably be restricted to about 20,000 new homes, which reflects virtually the same growth rates shown during 2001 and 2002. A more substantial increase in the construction of new apartment buildings is not expected until 2004, when Boverket

(the National Housing Board) projects that about 24,000 new homes will be built. Based on the Board's long-term forecast, nearly 100,000 new apartments will be created in Sweden over the next four years.

During 2002, settlement claims paid by Länsförsäkringar for water damage alone amounted to approximately SEK 900 M. The claims development curve for the entire industry is rising and expensive. Water damages are also considered an environmental threat since they often lead to the build-up of mold, which poses a health threat to the building's residents and workers contracted to repair the damage. Demolition creates demolition mass that must be disposed and drying operations to repair water damages require large amounts of energy.

Household insurance	2002	2001
Gross premiums earned, SEK M	2,523	2,114
Household, number of policies	684,100	650,200
Homeowners + home content, number of policies	681,700	661,400
Leisure home, number of policies	249,300	243,100
Market shares, household (homeowners + household), number of policies, %	31.0	30.7



declined. Länsförsäkringar's percentage of claim adjustment reversals, when the insurance company is ruled to have appraised a claim incorrectly, declined from 18% in 1997 to 9% in 2001.

### Claims prevention

Five of six households have installed fire alarms in the home, and more than one of three households have a fire extinguisher. Fire prevention, accordingly, is the most common form of claims-prevention in private households, and Länsförsäkringar delivered 44,000 fire alarms and 17,500 fire extinguishers to customers during 2002.

During the year, Länsförsäkringar also participated in a nationwide water damage survey as part of the Alliance's claims-prevention activities. Water-damage prevention has become an increasingly important part of efforts to reduce claims compensation costs, and Länsförsäkringar has produced "Advice and directions for water-damage safety in the home" to support homeowners and craftsmen. In cooperation with other industry-specific organizations, Länsförsäkringar is taking part in efforts to develop new and improved sealing materials for tile ware and clinkers. Boverket (the National Housing Board) has announced that one of its high-priority areas of activity through year 2005 will be to reformulate building regulations due to the negative trend of water damage claims.

Länsförsäkringar has noted that a growing number of young men and women are reporting injuries suffered in traffic accidents, and the company is taking action to reverse this trend. One example

is a program of cooperation between Länsförsäkringar Bergslagen, police authorities, NTF and local moped distributors – a program intended to reduce accidents caused by "souped-up" mopeds.

For its commercial customers, Länsförsäkringar has produced an information brochure that describes in simplified terms how companies can prevent damages and spread knowledge about business and personal-crisis management.

In cooperation with Svensk Handel, Länsförsäkringar has arranged safety seminars and produced a claims-prevention folder for business and commerce. Another example is Länsförsäkringar Älvsborg's work with local companies to prevent burglaries. The work has generated highly favorable results, and claims attributed to burglaries are down 34%, from SEK 11 M to SEK 7 M.

As in previous years, Länsförsäkringar has continued to conduct very active claims-prevention programs in the agricultural market. Comprehensive efforts have been focused on the Safe Farm concept, for example, to increase safety through installations of ground surge breakers and fire extinguishers. Farmers are offered increased safety and significantly lower insurance premiums accordingly. Major work efforts have also been conducted within Statens Elektriska Kommission (the National Electrical Commission) to introduce demands on fireproof plastics in electrical materials. The growing number of fires caused by solid fuel lines has increased the need for more claims-prevention cooperation agreements with associations of chimney sweeps.

## Agriculture

# Product development strengthens position

Agricultural insurance is included as part of the market in overall industry statistics, and Länsförsäkringar estimates its market share at 80–85%. During 2002, Länsförsäkringar introduced a new insurance plan for manors and special homes, thereby providing a better product to insure historical buildings. Safe Farm, a membership-insurance product offered in cooperation with LRF, showed favorable development during the 2002. The number of customers that meet membership requirements doubled during the year. Because of its position as a strong market leader, the competition is trying hard to take market share, and Länsförsäkringar regards the small community companies as its strongest competitors.

Agriculture	2002	2001
Gross premiums earned, SEK M	919	851
Agricultural insurance, number of policies	188,000	184,900
Tractor insurance, number of policies	251,000	243,400



## Motor vehicle

# Market growth characterized by increased premiums

The number of new cars registered in Sweden increased by 3.2% to 254,000. The statistics do not include direct imports of passenger cars. Nearly 270,000 cars were scrapped during the year, yielding a net negative change in the total number of passenger cars. The higher number of scrapped vehicles was attributed largely to an increase in scrapping charges. Länsförsäkringar's market growth continued, and its market share for third-party liability insurance increased by 1 percentage point to 35.7%.

The motor vehicle insurance market attracted widespread attention during the year as a result of sharply increased premiums. The reasons for the increase were not only related to the normal increase in compensation costs, but also to legislative changes that have created a need for stronger claims reserves for previous damages and injuries. Part of the strong increase was also due to damages caused by unidentified vehicles, damages to parked cars and hit-and-run cases.

Utilization of the offer procedure for passenger car insurance that has been available for the past year via the Internet has increased very rapidly. During the first few months, 20,000 offers were submitted and, by year-end 2002, Internet offers were averaging 60,000 per month. A continued strong increase is expected in 2003.

Efforts to replace five motor vehicle insurance systems with a new, user-friendly computerized system were continued and, following partial delivery of the equipment, a new offer system with capacity to store customer information in one place is now in operations.

Länsförsäkringar's position of market leadership in the commercial vehicle market was strengthened during the year. More than one-third of all company-owned vehicles in Sweden are now insured by Länsförsäkringar. Higher insurance costs have created increased interest in claims-prevention investments. Efforts to prevent and limit damages incurred in traffic, therefore, have led to an even greater interest from business customers. Crisis folders, crisis management manuals for trucking companies and machine owners, for example, have been favorably received in the marketplace.

Third-party liability and motor vehicle insurance	2002	2001
Gross premiums earned, SEK M	4,901	3,988
Passenger cars, number of policies	1,461,900	1,361,200
Motorcycles, number of policies	55,600	47,700
Market share, number of policies, %	35.7	34.7



## Health and welfare

# Strong focus on leisure sector

Länsförsäkringar continues to focus on health and welfare through efforts to market healthcare insurance and development of new supplementary insurance concepts. During 2002, the group healthcare insurance operations of Svenska Brand, a Swedish company acquired earlier by the Alliance, were integrated in Länsförsäkringar's operations. New individual healthcare insurance products have been launched and received favorably by the market. Despite the sharp increase in premiums, the number of insurance policies remained unchanged. Including the acquired operations of Svenska Brand, the number of insured persons doubled during 2002. Approximately 50,000 persons are covered by healthcare insurance offered by Länsförsäkringar, corresponding to a market share of about 40%.

A development plan to complement the Alliance's insurance concept in the health and welfare sector was formulated during the year. There is very signif-

icant potential in areas such as health in the workplace and the demographic segment comprising elderly people.

Absenteeism from work due to illness continued to increase sharply in Sweden during 2002. The problem has been a focal point in the public debate, and various aspects of the issue are now being discussed. The customers – primarily companies – are becoming increasingly aware of the problem, and they need solutions to reduce the economic consequences. Healthcare insurance is being used increasingly as a safety net for the companies. Healthcare insurance cannot make a company's employees healthier, but it contributes to more rapid rehabilitation and their return to the workplace, which reduces costs both for absenteeism due to illness and production shortfalls caused by absenteeism. Competition in the market continues to increase, and the relatively new players are achieving significant growth.

The market demographic comprising the elderly also represents a major social problem. Fewer gainfully employed members of society are being forced to bear the costs for geriatric care for a growing number of retired people. Obligatory geriatric care insurance plans have been discussed, as well as senior living facilities and other solutions to provide for tomorrow's pensioners.

There is substantial development potential in the sector comprising health and welfare. Customers need help in this area and, in line with Länsförsäkringar's core values, future development opportunities in health and welfare are now being studied. The focus today is placed on health in the workplace and security for the elderly.

Medical and accident insurance	2002	2001
Gross premiums earned, SEK M	379	303
Market share, medical and accident, premiums paid, %	11.3	11.4



# Quality work continues

Länsförsäkringar's specialist company for animal and crop insurance, Agria Djurförsäkring and its subsidiaries, which operated with a strong focus on profitability in 2002, was able to break the negative trend of recent years and report a technical result of SEK 29 M (loss: 13 M). Premium income rose to SEK 685 M (605). Year 2002 was also a successful year in terms of Agria's strategic capital.

Growth in the number of customers and higher premiums, combined with reduced operating costs, SEK 5 M in nonrecurring revenues and lower than anticipated compensation payments, were primary factors in the company's positive result. The return on investment assets was relatively favorable, due in part to strong returns on interest funds, Alternative Investments and property, which offset the decline in equities.

Never before in the company's 112-year history has the number of insured horses risen as strongly as the increase during 2002, with a 4.5% rise reported to 107,000 horses. The strongest increase was noted in the number of insured cats, however, which increased by 14%. Farm animals and the smallest animals – rodents, ferrets, small pigs, birds and reptiles – are also increasing steadily. The number of insured dogs was down marginally, however. Agria's market share amounted to 64.1% (64.8).

Veterinary costs continued to rise more sharply than the consumer price index, which affects Agria's insurance



## KEY FIGURES

	2002	2001
Premiums income, SEK M	685	605
Market share, %	64.1	64.8
Number of customers	351,000	342,000

benefits and premiums. For procurements of veterinary care services, therefore, Agria has an important role in the interaction between veterinary hospitals and the customer. Efforts to slow the rising costs and provide support for customers and their procurements of veterinary care are extremely important. During the spring, Agria signed direct claims adjustment contracts with nearly 200 veterinary hospitals and clinics. The contracts secure the high-quality information that is needed for direct

claims adjustment and, accordingly, contribute positively to both the claims process and cooperation between the clinics and Agria in cases involving a lack of clarity.

## Strategic capital was strengthened

Agria's strategic capital was strengthened in different ways during the year. In January, Agria received the Web Service Award for 2001, a confirmation of favorable results generated by Agria's website, which was also confirmed by the number of visitors to the website. For the second consecutive year, the number of visitors increased by more than 100%. The website's emergence as an important sales channel is also manifested in the growing number of insurance products sold via the Internet. One of every 10 cat insurance plans is sold via the Internet today. CustomerCenter, Agria's largest sales channel, sold 36,500 (32,000) insurance policies during 2002.

A restructuring was implemented during February 2002 to focus and distribute work routines related to claims processing, sales and Agria's cooperation organizations. An evaluation of the organizational structure was started toward year-end, which will lead to changes during 2003. Work with the SIQ-model has been continued as part of efforts to develop Agria's business operations. The evaluation by SIQ (Institute for Quality Development) shows that results have been increased to the 600-point level – an improvement since 1999 when Agria received the Swedish Quality Award.



## Boats

# New concept for boat owners

Prior to the 2002 season, most of the regional insurance companies adopted a new boat concept. In addition to new conditions and rates, it includes a claims-prevention program against theft. Boat customers are offered a broad range of products at attractive prices, from engine locks to sophisticated tracking and positioning systems for more expensive boats.

Growth in the number of insurance products sold during 2002 was highly positive, with Länsförsäkringar reporting an increase of slightly more than 10%. The market share rose to 25.5% (23.8), creating a market-leading position.

Historically, boat insurance has always been a profitable area of operations, with a claims percent of about 60%. During the summer of 2002, one of the warmest summers in many years, leisure boats were used more than normal and claims costs, accordingly, were also higher than normal. There was a particularly sharp increase in expensive damages incurred on the water, such as grounding damages, but also a marked increase in thefts of boats and engines that led to increased claims compensation costs.

Following its acquisition of Cox's boat insurance operations, Trygg-Hansa increased its market coverage and will be Länsförsäkringar's main competitor in 2003.

Boat insurance	2002	2001
Gross premiums earned, SEK M	76	58
Leisure boats, number of policies	68,200	61,700
Market share, number of policies	25.5	23.8



## Comments on results in non-life insurance operations

Länsförsäkringar's results and key ratios in non-life insurance operations are the sum of results in 24 independent, regional insurance companies and the Länsförsäkringar AB Group, which includes Agria Djurförsäkring.

Key figures	2002	2001
Premiums earned for own account, SEK M	11,859	10,030
Technical result before bonuses, SEK M	-432	449
Operating results before bonuses, SEK M	-4,025	-3,225
Operating expense ratio	23	25
Combined ratio	113	115
Technical result as % of premiums earned for own account	-4	-4
Net asset value, SEK M	14,657	18,712
Solvency margin, %	117	175
Number of consumer policies	3,720,000	3,519,000

Premiums earned for own account increased by 18% during the year to SEK 11,859 M (10,030). The improvement was attributable to Länsförsäkringar's successful achievements in the marketplace and higher premiums that were introduced throughout the industry.

The technical result for non-life insurance operations amounted to a loss of SEK 432 M (449), or a negative 4% (neg: 4) of premiums earned for own account. The claims ratio remained unchanged at 90% during 2002, and the expense ratio declined to 23% (25). This has led to the combined ratio declining to 113% (115). Within the next few years, a combination of efficiency-enhancement measures,

increased premiums, claims-prevention activities and market growth will reduce the combined ratio to 100.

Despite the sharp decline in global stock markets during 2002, Länsförsäkringar has a strong solvency margin of 117% (175) in non-life insurance operations, which is higher than its competitors. Due to negative changes in the market value of investment assets, operating income for the year was a loss of SEK 4,025 M (loss: 3,225 M). Operating income for the year includes SEK 1.1 billion in non-recurring revenue from Länsförsäkringar's cooperation with ABN AMRO.



## Life and pension insurance



# A focus on efficiency and profitable growth

In 2002, efficiency-enhancement and a shared responsibility for the overall picture have been the guiding principles of the life insurance operations of Länsförsäkringar. The emphasis has been on activities that promote efficiency in the future and lay the ground for profitable growth. Länsförsäkringar continued to focus on occupational pension plans for large companies and this is starting to show clear results.

The year 2002 was also a year of concern in the financial markets with mainly falling share prices worldwide. Despite this, Länsförsäkringar experienced strong growth and increasing market share.

Länsförsäkringar's life insurance operations are based on the same recipe for success as the rest of its operations – namely, a local presence, the personal contacts and the convenience afforded to customers by the Company's wide product range. Länsförsäkringar has a complete range of products for long-term life, short-term life and disability. Most products are distributed via personal selling by the 24 regional insur-

ance companies' own sales personnel, franchise holders and brokers. The products for the broader market are primarily distributed through automated sales channels such as the Internet and election portals.

In view of the major changes that have taken place in the life insurance market, in 2002 Länsförsäkringar carried out a review of its entire life insurance operations. The purpose of the review was to refine the strategies, focus on the market campaigns, reduce costs and enhance operational efficiency, as well as to take measures to improve the investment income. The allocation of responsibility was clarified and

the entire organization is now adapting itself to its new roles. This has changed the life insurance operations of Länsförsäkringar AB and during the year the workforce was reduced from slightly more than 550 to approximately 450 at year-end.

## **Bonus, solvency ratio and collective consolidation**

As a result of the negative trend of the financial markets, particularly the share markets, the bonus rate was reduced on September 1 to the historically low 0.5%. The average bonus before tax and fees was 2.2% (4.8) during the year. Since Läns-

## **Major events**

- Market shares rose sharply, to 10.5% (7.7) measured as a percentage of new sales, and 9.1% (8.7) as a percentage of premium income.
- According to the Swedish Quality Index for 2002, Länsförsäkringar had the most satisfied life insurance and pension plan customers in Sweden, for the tenth consecutive year.
- A decision was taken regarding new and existing customers' transfer rights. The right to transfer was introduced gradually, beginning with new customers.
- In June 2002, ABN AMRO took over the ongoing management of most of the assets of Länsförsäkringar Liv.
- Länsförsäkringar Liv took over some 50 employees from the Arrowhead IT consulting company, with the aim of further increasing development resources in life insurance operations.
- A review of Länsförsäkringar's life insurance operations in view of the major changes that have occurred in the life insurance market. Strategies were refined, market campaigns focused and costs prior to 2003 reduced by SEK 200 M on an annual basis.
- New organization in the Life Division of Länsförsäkringar AB. The division was adapted to its role – that is overseeing the products, processes and systems for the future life insurance operations, and the workforce was reduced by approximately 100 employees.
- Länsförsäkringar intensified its focus on the market for occupational pension plans. This focus increases opportunities to grow in the markets for occupational pension plans and private insurance.

# Collective consolidation ratio policy

As of January 2003, a collective consolidation ratio policy is being applied that complies with the general recommendations of Finansinspektionen (the Swedish Financial Supervisory Authority). The collective consolidation ratio policy has the following features: All investment income belongs to the insured. Investment income is transferred to the insured as bonus interest. Saving a certain percentage of the investment income in the form of net assets creates opportunities for higher investment income in the future and, in turn, higher bonus payments. A certain measure of collective consolidation should always be available, partly to ensure that negative market movements do not have a direct impact on insurance capital and partly to ensure that Länsförsäkringar Liv can fulfill its obligations to the insured even in times when the investment income is low. The bonus interest shall reflect the long-term nature of the

customers' investment. As a result, decisions concerning bonus interest rates should be farsighted and sustainable. Collective consolidation is affected by the bonus interest rate, the current yield, the daily fluctuations in asset value, premium payments, insurance claims and operating expenses. The collective consolidation ratio is permitted to vary between 100 and 120. The appropriate collective consolidation ratio level within the interval is established on a case-to-case basis in view of the risk that Länsförsäkringar Liv perceives in the financial markets and the extent of the risk in the balance sheet. The bonus interest is set so as to ensure that an appropriate collective consolidation ratio is achieved.

If the collective consolidation ratio falls outside the interval, the bonus interest is set so as to return collective consolidation ratio to the interval within three years.

försäkringar started with life insurance operations in 1986, Länsförsäkringar Liv's customers for traditional life insurance have received an average bonus of 10.7% per year.

Länsförsäkringar Liv has a strong balance sheet, and on December 31, 2002 its solvency ratio amounted to 120% (141). Solvency ratio is a measure of how well a life insurance company succeeds in fulfilling its guaranteed commitments to customers.

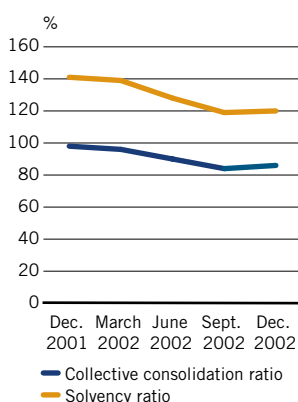
At year-end 2002, the collective consolidation ratio was 86% (98). Collective consolidation ratio is a measure of the market value of the assets of the life insurance company compared its total commitment to customers. In practice, the collective consolidation ratio is used as the basis for determining the bonus.

During the year, Länsförsäkringar has had a solvency policy whereby the collective consolidation ratio has been allowed to vary between 105% and 125%. The appropriate collective consolidation ratio was determined on a case-by-case basis, partly on account of the risk that Länsförsäkringar considered to lie in the financial markets, and partly on account of the selected balance sheet risk. If the collective consolidation ratio were to fall outside the interval, the bonus would be set so as to return the collective consolidation ratio to the established interval within two years. These were the circumstances behind the reduction of the bonus rate to 0.5%. As of January 1, 2003, a collective consolidation ratio policy has been applied that complies with the recommendations issued by Finansinspektionen (the Swedish Financial Supervisory Authority).

## Sales

According to statistics from Försäkringsförbundet (the Swedish Insurance Federation), total new sales in the Swedish life insurance market in 2002 amounted to SEK 130,221 M (155,507), measured as

Collective consolidation ratio and solvency



The collective consolidation ratio is defined as the market value of the company's assets relative to the company's total commitment – that is, technical appropriations and distributed bonus. Solvency ratio is a measure of how well a life insurance company succeeds in fulfilling the guaranteed commitments it has to its customers.

sales value (current premiums multiplied by 10 plus single premiums). This corresponds to a reduction of 16% compared with the preceding year. The market for occupational pension plans, which accounts for 70% of the total market, declined 10% and amounted to SEK 90,962 M.

Länsförsäkringar's sales increased by 14% during the year, amounting to SEK 13,646 M (12,018). The market share rose from 7.7% to 10.5%. Sales of insurance based on annual premiums amounted to SEK 12,729 M (10,301), whereas sales of lump-sum insurance plans amounted to SEK 917 M (1,717).

The focus on pension and life insurance solutions for large corporations achieved success more rapidly than was expected. In 2002, several major transactions were carried out with large companies and large organizations. The regional insurance companies participated in various ways in the focus on large corpora-

tions. The larger regional insurance companies hire one or more pension plan managers. Others engage in regional cooperation. A third group purchases resources from a common unit to focus selling efforts on customers in their own areas of operations. The model implies that all regional insurance companies can enter the market for large corporations. Länsförsäkringar's growth in the market for occupational pension plans was 32%, and its sales value amounted to SEK 10,005 M (7,600), which corresponds to a market share of 11.0% (7.6). The sales values of the submarket for private pension plans amounted to SEK 658 M (682) and the market share rose from 8.4% to 9.6%. Within the submarket, the market share rose from 7.3% to 9.6% and the sales value amounted to SEK 2,969 M (3,321).

Sales via the regional insurance companies own sales force rose 11% and accounted for 53% of sales through personal selling in 2002. The regional insur-

ance companies franchise holders accounted for 12%, while brokers accounted for the remaining 35% of sales through personal selling.

### Premium income

Premium income on own account declined 8%, amounting to SEK 8,127 M (8,857), of which SEK 7,104 M (7,131) was premiums from automatically renewing insurance plans. Market share measured as premium income rose from 8.7% to 9.1%.

In the market for occupational pensions, which is important for Länsförsäkringar Liv, market share rose from 7.7% to 7.9% and premium income amounted to SEK 4,844 M (4,840).

Länsförsäkringar Liv's premium income from the private insurance market amounted to SEK 1,717 M (1,995) and the market share declined from 17.4% to 15.7%. Market share in the savings market rose to 7.0% (6.4) and premium income amounted to SEK 1,628 M (1,964).

## Management forms

Länsförsäkringar offers three forms of management for pension insurance: traditional management, unit-linked management and New World management.

### Traditional management

Traditional management provides a guaranteed annual yield of 3%, before charges and yield tax, on the capital saved. Länsförsäkringar Liv is responsible for management while ABN AMRO and other managers select securities in accordance with a specific mandate. Investments are made primarily in listed shares, bonds, properties and Alternative Investments. Since the operations are based on mutual princi-

ples, when the yield on managed capital exceeds the guaranteed amount, the surplus is distributed to policyholders in the form of a bonus.

### Unit-linked management

In unit-linked management, customers themselves choose their investment orientation and risk level. They are free to choose between mutual funds and fixed-income funds and risk associated with the development of the funds is borne by the customers themselves. This type of management provides opportunities for high yield at a higher risk – if the value of the fund declines. Länsförsäkringar's

range of funds includes funds under its own management as well as funds managed by managers outside Länsförsäkringar.

### NewWorld management

NewWorld is a mixed portfolio comprising 70% equities and 30% bonds. There is no active reallocation between the subportfolios. New World combines the high yield opportunities of unit-linked insurance with a basic guarantee, ensuring that the customer always has guaranteed savings premiums (less customary management charges), even if there is a decline in the financial markets.

## Investment income

The return on investment assets in 2002 amounted to a loss of 9.2% (loss: 4.2), which was somewhat better than the industry as a whole. For the third consecutive year, the world markets were characterized by declining exchanges, which is the single most important explanation of the negative return for the total portfolio.

The return on share holdings during the year was negative in an amount of 34.1% (neg: 15.9) and contributed 11.8 negative percentage points to the return on the total portfolio. The return for Swedish equities management was negative 44.8% (neg: 17.2), which is 6.2 percentage points below the benchmark index. The explanation for the discrepancy with the index is primarily the management's general focus on growth equities during the first half of 2002, which was replaced during the summer by a value-oriented share selection. The return on the foreign portfolio amounted to a total of minus 26.8% (neg: 15.1). The slowness of the trend compared with the index is due to the individual company selections and to an overweighting toward the growth sector. The share portfolios, both the Swedish and the foreign, recovered part of the decline in the last quarter of 2002. However, the year's

return was still negative.

In total, the holdings of fixed-income securities performed favorably during the year, and the return was 5.7% (5.1), which contributed 2.9 percentage points to the total portfolio. The return was 1.4 percentage points above the benchmark index. The discrepancy with the index is due mainly to an underweighting of American bonds and an overweighting in Swedish and European bonds for most of the year. During the fourth quarter, the duration of the portfolio was lower than that of the index.

The return on the property portfolio amounted to 1.7% (4.4), which corresponds to a contribution to the total investment portfolio of 0.1 percentage point. The result depends on the direct return combined with reduced property values for parts of the property. This primarily concerns centrally-located office properties in Stockholm, where Länsförsäkringar Liv has the bulk of its property holdings. Alternative Investments had a yield of 2.4% (6.2), amounting at year-end to 7% (6) of the total investment portfolio. Private Equity accounted for 65% of the portfolio for Alternative Investments at year-end, while the remainder consisted of Absolute Return funds.

## Earnings

The operations generated a net loss for the year of SEK 12,442 M (loss: 12,738). The loss is largely attributable to the negative investment income. During the year, Länsförsäkringar reviewed its handling of capitalized acquisition costs and in conjunction with the review introduced a declining balance depreciation model and carried out a dissolution of the balance-sheet item of SEK 274 M.

## Traditional life insurance

The earnings of Länsförsäkringar Liv amounted to a loss of SEK 12,546 M (loss: 12,567). Premium income amounted to SEK 4,996 M (5,404). Investment income was negative in an amount of SEK 9,791 M (neg: 4,457). Operating expenses amounted to SEK 1,101 M (999), of which SEK 91 M corresponds to the dissolution of capitalized acquisition costs.

## Unit-linked insurance

For 2002 Länsförsäkringar Fondliv reported a loss of SEK 632 M (loss: 160). Premium income amounted to SEK 3,131 M (3,453) and operating expenses amounted to SEK 788 M (310), of which SEK 183 M corresponds to the dissolution of capital-

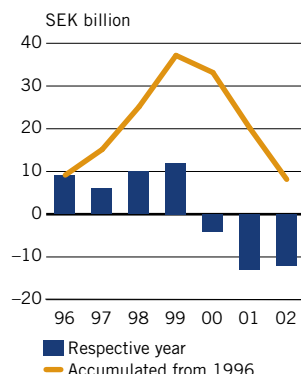
### INVESTMENT INCOME IN 2002 FOR LÄNSFÖRSÄKRINGAR LIV – TRADITIONAL INSURANCE

Investment	Market value 02-01-01	%	Net investment	Value change	%	Market value 02-12-31	%	Direct yield	%	Total yield	%
SEK M											
Interest-bearing, Swedish	22,227	24	10,701	417	1.6	33,345	40	1,387	5.5	1,804	7.1
Interest-bearing, foreign	21,191	22	96	-193	-0.9	21 094	25	1,049	4.9	856	4.0
Interest-bearing, total	43,418	46	10,797	224	0.5	54,439	65	2,436	5.2	2,660	5.7
Equities, Swedish	14,663	15	-3,534	-6,406	-47.0	4,723	6	300	2.2	-6,106	-44.8
Equities, foreign	22,692	24	-4,712	-5,915	-29.2	12,065	14	456	2.3	-5,459	-26.8
Equities, total, excl AI	37,355	39	-8,246	-12,321	-36.3	16,788	20	756	2.2	-11,565	-34.1
Alternative Investments	5,176	6	564	-177	-3.3	5,563	7	308	5.7	131	2.4
Properties <sup>1) 2)</sup>	8,677	9	-1,460	-181	-2.3	7,036	9	313	4.0	132	1.7
Financing of investments	-103	0	-418	0	0.0	-521	-1	-12	-3.6	-12	-3.6
<b>SUBTOTAL</b>	<b>94,523</b>	<b>100</b>	<b>1,237</b>	<b>-12,455</b>	<b>-13.3</b>	<b>83,305</b>	<b>100</b>	<b>3,801</b>	<b>4.1</b>	<b>-8,654</b>	<b>-9.2</b>
Other	4,031	-	543	-1,051	-	3,523	-	-207	-	-1,258	-
<b>TOTAL</b>	<b>98,554</b>	<b>-</b>	<b>1,780</b>	<b>-13,506</b>	<b>-13.8</b>	<b>86,828</b>	<b>-</b>	<b>3,594</b>	<b>3.7</b>	<b>-9,912</b>	<b>-10.1</b>

<sup>1)</sup> Properties includes the holding of the trading company Utile Dulci with net of market value and liabilities.

<sup>2)</sup> Properties includes Kista and shares in KB as well as a portion of external financing.

Life insurance 1996–2002



The year's earnings should be considered in relation to the approximately SEK 8 billion reported as accumulated by the life insurance business over the past seven years.

## Life insurance operations

The life insurance operations are conducted through the 24 regional insurance companies. The concession for all life and medical insurance business and property insurance business in the form of direct medical and accident insurance is held by Länsförsäkringar Liv. Traditional life insurance is provided by Länsförsäkringar Liv and unit-linked insurance by its subsidiary, Länsförsäkringar Fondliv. Länsförsäkringar Liv is a wholly owned subsidiary of Länsförsäkringar AB. Länsförsäkringar Liv is operated on mutual principles, so that all surplus generated by the company is transferred back to the insured in the form of a bonus. Since the company is not permitted to distribute any surplus to its owner, it is not consolidated in the Group accounts of Länsförsäkringar AB.

# Investment strategy of Länsförsäkringar Liv

During the year, the extended downturn of the equities markets in Sweden and in the rest of the world had an adverse effect on the finances of life insurance companies in the form of declining net asset values and deteriorated solvency. To ensure that the amounts agreed upon in the insurance policies will be honored, and to strengthen the solvency margin, during the autumn Länsförsäkringar Liv adopted and undertook a number of measures. The bonus interest was reduced and the level of risk of the investment portfolio decreased. By reducing the proportion of equities, increasing the proportion of fixed-income securities, and by cutting the levels of interest and currency risk by one-half, the overall risk of the investment portfolio was brought to an appropriate level. Moreover, an equities hedge against a sharp decline in the stock market was introduced to protect the portfolio against a severe downward stock-market scenario. As a result of the changes in the portfolio, during the year the proportion of equities in the portfolio was reduced by one-half – from 39% of the portfolio at the preceding year-end to 20% at year-end 2002.

Now, after the implementation of the portfolio changes, the asset-class allocation of Länsförsäkringar Liv's investment accords with the Normal portfolio as established by the Board of Directors, as follows:

## NORMAL PORTFOLIO, %

Fixed-income securities	64
of which Money Market (SEK)	9
Swedish bonds	28
foreign bonds	27
Equities	20
of which Swedish	7
foreign	13
Alternative Investments	11
Properties	5
	100

The investment strategy for 2003 can be summarized as a preparedness to increase the equities proportion without risking the sums agreed upon in the insurance policies. Given that the portfolio contains a proportion of short-term fixed-interest securities, it is possible to quickly change the asset allocation of the portfolio towards greater equities exposure. Increased exposure to equities will be combined with an extended hedging against a severe stock-market decline. Länsförsäkringar Liv is also prepared to implement further limitations on the interest risk of the portfolio.



## Bank and funds



# Strong growth for the Bank of the Year

Since the start seven years ago, the development of Länsförsäkringar's banking operations has been highly favorable. Länsförsäkringar has now taken the step from a niche bank to a full-service bank and is now a full-scale option for retail customers and farmers. During the year, the number of customers increased 12%. Business volume grew 34% to SEK 35 billion, and the total revenue rose 21%.

According to the Swedish Quality Index, Länsförsäkringar's banking operations have the most satisfied customers in Sweden, and were also named "Bank of the Year in 2002." Länsförsäkringar was also chosen "Fixed-Income Fund Manager of the Year."

Länsförsäkringar's bank operates through 24 independent regional insurance companies that work close to the customer in their locally defined markets. This creates a unique presence and familiarity with the market. The bank targets private customers and farmers, and is currently a full-service bank with which the customer can deal with all their banking needs. In addition to the limited banking company itself,

the banking Group comprises three subsidiaries: Wasa Kredit AB, which offers various forms of leasing and financing; Länsförsäkringar Hypotek AB, a mortgage institute; and WASA Garanti Försäkrings AB is responsible for run-off of various risk undertakings. Wasa Kredit and Länsförsäkringar Hypotek account for most of the lending of the banking Group.

## Full-service bank

Länsförsäkringar aims to be the customer's logical first choice in life and non-life insurance and banking services. During 2002, the banking operations developed their strategy from niche bank to a full-

service bank, and can now offer complete solutions in the areas of investment, borrowing and payments.

The Länsförsäkringar Alliance's strong financial position provides the banking operations with a strong platform for sustainability, developmental power, and good value for money. Homeowners and farmers are Länsförsäkringar's strategic target groups in the banking market, and they are offered a total-customer concept with a high degree of customer value.

## Rapid growth in deposits and lending

An increasing number of customers are choosing Länsförsäkringar to be their main

## Major events

- The Swedish Quality Index rated Länsförsäkringar as having the most satisfied bank customers in Sweden in 2002. During the year, 43,000 new bank customers signed up with Länsförsäkringar. At year-end, the bank had a total of 393,000 customers.
- Named "Bank of the Year 2002" by the magazine *Privata Affärer*.
- Launch of Länsförsäkringar Hypotek, which offers mortgages under its own auspices. During the year, lending rose 235%.
- The bank expanded its investment offering with securities trading via the Internet – a simple, user-friendly service with the same competitive price philosophy as the other bank service.
- Cooperation with Sweden Post/Swedish Cashier Service gave bank customers access to offices and rural mail-carriers throughout the country.
- The bank's lending to the general public rose 59% to SEK 19.9 billion, while deposits from the general public rose 19% to SEK 14.7 billion.
- Standard & Poor's gave Länsförsäkringar Bank a credit rating of K1 for short-term lending and BBB+ for long-term lending.
- After year-end, the magazine *Sparöversikt* named Länsförsäkringar "Fixed-income Fund Manager 2002."

bank, and it is currently Sweden's sixth largest bank for private customers and farmers. The number of customers rose during the year by 12%, to 393,000. Deposits by households rose 19% to SEK 14.7 billion. Lending increased 59% to SEK 19.9 billion. Länsförsäkringar Hypotek developed highly favorably during the year. Lending rose by SEK 5.5 billion (235%) to SEK 7.8 billion. The number of customers rose 200% from 10,000 to 30,000.

### A focus on profitability

Operating income in 2002 amounted to SEK 19.5 M. Total revenue rose at a considerably higher rate (21%) than administration expenses (10%). Volumes must be further increased, however, to produce satisfactory profitability. Net interest income improved 27%. Net commissions declined 42%, due primarily to the increase in card-

related costs. The capital adequacy ratio for Länsförsäkringar Bank was 8.08% at year-end. The percentage of doubtful receivables in total lending decreased during the year from 0.43% to 0.15%. Loan losses amounted to SEK 13 M.

### Favorable credit rating

Standard & Poor's assigned Länsförsäkringar Bank a credit rating of K1 for its short-term Swedish borrowing and BBB+ for its long-term borrowing.

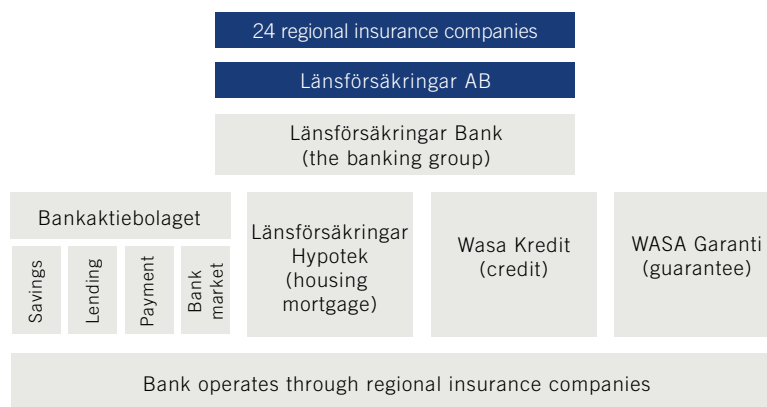
According to Standard & Poor's, the rating reflects the bank's strategic significance within Länsförsäkringar, its strong degree of capitalization, the favorable quality of the credit stock and the solid financing.

In the summer of 2002, Länsförsäkringar issued banker's certificates to support the robust expansion of the mortgage market. This enables the bank to borrow a maximum of SEK 4 billion.

### Consolidated customer offering in banking and insurance

Länsförsäkringar has Sweden's strongest brand in non-life insurance. In spite of this fact, relatively few people are aware of Länsförsäkringar's banking operations. According to a brand survey in December 2002, only 18% of Sweden's population and 29% of Länsförsäkringar's customers are aware that the Alliance also offers bank services. Of Länsförsäkringar's 2.9 million customers insured, only 15% used one or more of the Alliance's bank services. This implies that the customer base has a huge potential – both to provide the banking operations with more customers and to sell more services to current customers. Intensive efforts are therefore under way to increase people's awareness of Länsförsäkringar's banking operations. This is being done through a number of offerings highlighting Länsförsäkringar's

Länsförsäkringar Bank – a part of Länsförsäkringar



With life and non-life insurance, the banking operations form a core area of Länsförsäkringar's operations.

#### Länsförsäkringar Hypotek

Following its cooperation with SBAB, during the year Länsförsäkringar launched Länsförsäkringar Hypotek, which provides first mortgages under its own auspices. This means that Länsförsäkringar now has a complete housing mortgage offering to retail customers. Housing mortgages increased 235% to SEK 7.8 billion during the year. Länsförsäkringar Hypotek's operating profit amounted to SEK 36 M.

#### Wasa Kredit

Wasa Kredit is a finance company whose operations are aimed at the markets for cars, computers and heavy equipment. Wasa Kredit's operating income amounted to SEK 54.0 M. Its lending volume amounted to SEK 6.2 billion at year-end and the number of customers was 97,000.

#### WASA Garanti

WASA Garanti is responsible for risk commitment run-off activities in the contracting insurance field, credit guarantees and rental loss insurance. The company also handles claims that arose during the real estate crisis of the early 1990s. During the year, the stock of leasing guarantees that the company handles declined faster than expected. Income before appropriations and tax amounted to SEK 24 M.

products and services and make it attractive for customers to concentrate all their banking and insurance products in the Alliance. The campaign has been effective: 88% of the 43,000 who became bank customers during the year initiated their contact with Länsförsäkringar. And 76% of the new customer had seen some form of market communication that had sparked their interest. At year-end, the bank had 393,000 customers. The long-term objective is that the majority of Länsförsäkringar's customers will also be customers of the bank.

#### **Employees key to successful interaction with customers**

A total of 500 people are involved in the banking operations, one-half of them through the regional insurance companies.

A successful customer meeting depends on knowledge of and understand-

ing of the customer's situation, requirements and potential, as well as knowledge of local market conditions. Employees who possess the necessary expertise and employ a customer-focused approach are crucial to the credibility of the bank's channels.

In addition to the focus on new value-oriented products, during the year the bank introduced a training package comprising a common platform for the 24 regional insurance companies. The One Customer sales support system, which was placed in operation during the year, is another key tool for employees. During the year, Länsförsäkringar certified 558 advisors who provide advice on funds and other savings vehicles. The certification means that these employees have completed training that is approved by and designed according to the requirements of the Fondbolagens Förening (Swedish Mutual Funds Association).

#### **Correspond to customer requirements and preferences**

As a result of its substantial investment in systems, products and channels, Länsförsäkringar's banking operations are well equipped to meet customers' expectations and requirements. The products and services well match the requirements of the retail and agricultural markets. The banking operations have 80 offices throughout the country and its Internet and telephone banking services are highly rated by customers. The new cooperation with Sweden Post/Swedish Cashier Service provides customers access to 1,350 offices and 2,700 rural mail-carriers throughout the country. The aim is that volumes, and consequently, profitability, will continue to grow, and that the bank will develop into an even more powerful full-range bank with considerably more customers than today.

## Bank of the Year and Sweden's most satisfied bank customers

The magazine *Privata Affärer* names Länsförsäkringar "Bank of the Year 2002." Its reasons were as follows: "The challenger has grown up. Länsförsäkringar now has all the most important bank services and a widespread network of branch offices throughout the country. Its interest rates are among the best on the market, its fees are competitive and it has a bonus system that benefits customers who are also insurance customers. An ambitious training program for banking advisors and excellent ratings by customers in several surveys show that the distinction is well deserved."

Länsförsäkringar also has Sweden's most satisfied bank customers, according to the Swedish Quality Index for 2002. Länsförsäkringar's customer satisfaction rating is 79. The average for all Swedish banks is 68. Länsförsäkringar is also considered to be the bank that offers customers the best value for

their money, and it has the highest ratings for perceived service and product quality in the country. The parameter measured is customers' satisfaction based on their overall experience of the bank, relative to both their own expectations and to an ideal

bank. Satisfied customers are the most important factor in the success of a bank. Therefore, these surveys, combined with the distinctions the bank has received during the year, are extremely valuable.



## Internet a key complement to personal contact



Today, approximately 60% of customers' payments are made by Internet, and the number of customers connected to Internet banking increased during the year by 18% to 209,000. In 2002, the Internet services were further developed to meet the special needs of agricultural customers.

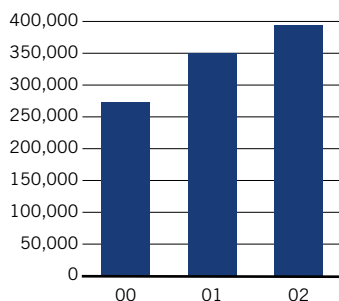
In 2002, the offering was expanded to include share trading via the Internet – a simple and user-friendly service based on the same competitive pricing philosophy as the other bank services. The Internet trading facility provides access to an advanced platform for trading in Swedish shares, and is the result of cooperation with OM. It was made available in November 2002.

Customers who sign up for share trading via the Internet gain access to all the lists on Stockholmsbörsen – the A-List, Attract 40, New Market and the O-List. Trading may take place in Swedish shares and share-related instruments such as warrants, subscription rights, convertibles and depositary receipts.



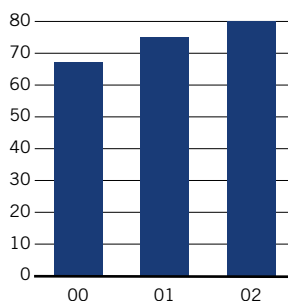
Länsförsäkringar provides service to its customers through 80 bank offices throughout the country.

Number of customers



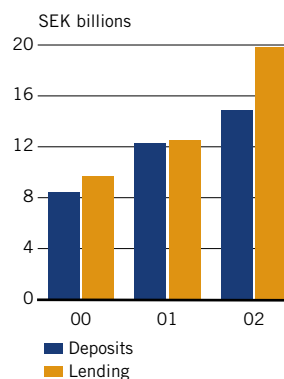
The number of customers rose 12% in 2002.

Number of branch offices



A total of 80 bank offices nationwide in 2002.

Deposits and lending 2001–2002



Total lending to the general public by the bank group amounted to SEK 19.9 billion in 2002, and deposits by the general public amounted to SEK 14.7 billion.

# Record growth for Länsförsäkringar Hypotek – the bank's own mortgage institute

Länsförsäkringar Hypotek performed extremely well during the year. Lending rose by SEK 5.5 billion to SEK 7.8 billion. The number of mortgage customers rose 200% from 10,000 to 30,000.

In 2002, Länsförsäkringar launched an offering that highlighted the many advantages for customers in

letting the Alliance take care of all their banking and insurance needs. The offering consisted of mortgage, survivor benefits, household financing and home insurance on highly advantageous terms. Residential products and the development of attractive packages for these customers continues to be a top priority for 2003.

The cooperation with Landshypotek (mortgages on agricultural and forestry-related properties) continued to develop favorably. Länsförsäkringar and Landshypotek market each other's services, which allows them to provide a comprehensive alternative in banking and insurance for farmers.



Lending by Länsförsäkringar Hypotek rose 235% in 2002.

## Mutual funds

# Negative yield from most funds

The anticipated recovery of the stock markets in 2002 did not occur. Instead, stock markets were affected by uncertainty regarding the state of the international economy. Of Länsförsäkringar's 26 funds with benchmark indexes, two of the funds outperformed their benchmarks and seven had positive yields in 2002. After year-end, Länsförsäkringar received the distinction "Fixed-Income Fund Manager of 2002" from the magazine Sparöversikt.

The range of funds is part of Länsförsäkringar's total savings product offering. The offering also includes savings accounts, Internet trading, endowment insurance and other products.

In 2002, Länsförsäkringar implemented several measures to strengthen its offering to customers who invest in funds. The most important of these measures is the cooperation with ABN AMRO. The

Swedish savings market is in the midst of rapid change and the percentage of international savings is rising. ABN AMRO has a global management organization with the resources necessary to evaluate the various investments available in the world's financial markets. The cooperation was commenced on June 1, 2002, and in the last seven months of the year, ten of 26 funds beat their benchmark index.

### Fund trends

Due to the weak performance of the stock markets, most of Länsförsäkringar's funds had negative yield in 2002. Technology-heavy equities funds performed particularly poorly. The Internet fund was the fund that declined the most – by 53%. But the Environmental Technology Fund, the Brain Fund and the Industry Focus Fund also declined sharply as a result of their concen-

tration in technology and growth industries, which had weak performance in 2002.

Länsförsäkringar's fixed-income funds had positive yield in 2002, as did the Property Fund, which was boosted by investors' flight to more defensive shares. The favorable trend of the PropertyFund, +6.9%, was also the result of the strong cash flows and high dividends reported by property companies. The positive yields of the fixed-income funds is attributable to the sharp decline in interest rates in the second half of 2002. Long interest funds especially developed favorably, which meant that the Bond Fund, the Eurobond Fund, Mega Bond and Mega T-Bill had positive yield of slightly over 7% in 2002. Länsförsäkringar's short interest funds also had positive trends. The Liquidity Fund rose 4.2%, while the Money Market Fund rose 4.3%.





The Growth Market Fund was the fund that developed best in relation to its benchmark index. Successful investments in companies that benefit early from a stronger global recovery helped push this fund's yield to 3.8 percentage points above its index. The full-year yield, however, was negative, at -19.4%. The Real Estate Fund, which had a strong performance, outperformed its benchmark index by 2.6 percentage points.

The fixed-income funds performed on a par with the index during the first half of 2002. During the autumn, however, the fixed-interest funds fell somewhat behind their benchmarks. This was mainly due to the managers' expectation that the long interest rates would rise after a sharp drop in interest rates. Their expectations were not fulfilled, however, and therefore the funds rose less than their benchmark indexes did.

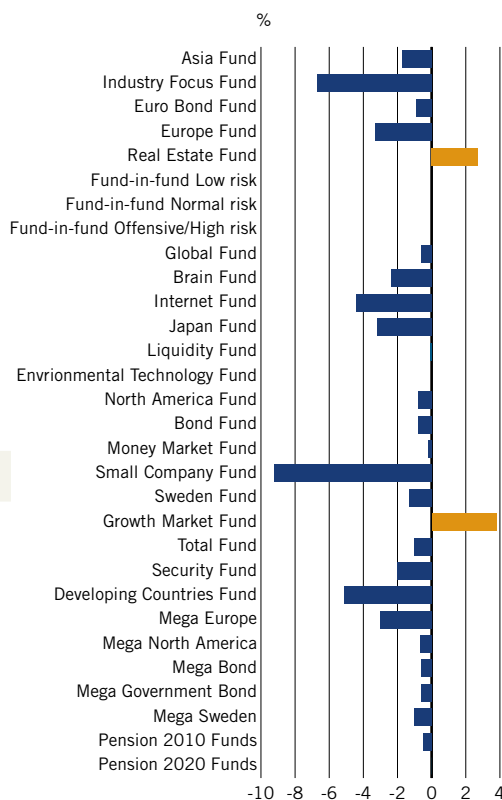
## Short fixed-income funds predominant in 2002

Short fixed-income funds dominated fund investment in Sweden in 2002. A total of SEK 26.9 billion was invested in this type of fund, while SEK 17.3 billion was invested in the next-most-popular fund type, equities funds. Total investment in mutual funds in 2002 amounted to SEK 57.2 billion, of which approximately SEK 44 billion were outside the PPM government pension plan. This brought the total

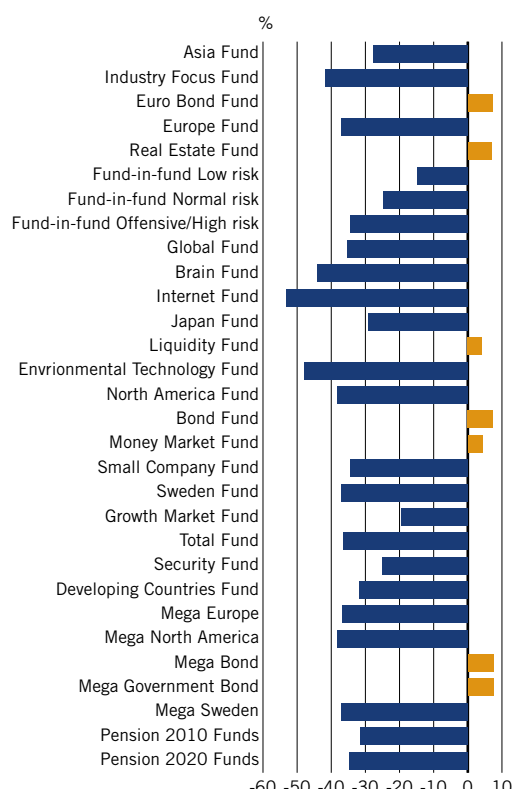
investment in mutual funds in 2002 to the same level as in 2001.

All types of funds reported positive net investment in 2002. Compared with 2001, the distribution among fund types was essentially the same. However, there was a slight increase in equity funds and other funds, while the share of fixed-income funds and balanced funds was slightly less.

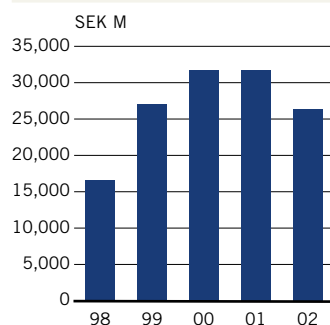
Performance in 2002  
compared with relevant index



Development of funds in 2002



Assets under management at  
Länsförsäkringar 1998-2002



# Long-term perspective key to successful HR work

Länsförsäkringar coordinates and develops personnel issues via a human resources group comprising human resources managers in Länsförsäkringar Alliance. The Länsförsäkringar human resources management team has given priority to a few key areas for a joint development focus.

One of the successful development areas of the past few years is the efforts to be an even more attractive employer. In 2002, for the second year in a row Image Survey International ranked Länsförsäkringar as the 11th most popular employer in Sweden. Länsförsäkringar's key attractive features were:

- a well-known corporate group within the industry
- solid financial position
- a corporate group that is growing quickly
- consideration for employees

Länsförsäkringar ranked higher than other employers in the financial sector, such as Skandia, Föreningssparbanken and Trygg-Hansa. The only employer in banking and insurance with a higher ranking is Handelsbanken, in second place. The survey included 300 Swedish companies. Many regional insurance companies are also highly esteemed employers, as was shown by the results of the customer satisfaction surveys carried out at each of the companies.

Apart from the ongoing effort to remain an attractive employer, efforts have also focused on employees' ongoing skills

development. Otherwise, HR activities have focused on new and old areas of development.

### **Profile designed to appeal to young university graduates**

One of the measures undertaken was designed to increase the Alliance's appeal to young university graduates. In 2002, this effort, aimed at students, continued. The purpose is to increase Länsförsäkringar's appeal as an employer for younger university students by increasing cooperation and exchanges with universities and colleges.

### **Trainees**

Länsförsäkringar carried out its first trainee program from September 2001 to September 2002. Thirteen trainees were recruited and have completed the program. They are now working in various areas of operations within Länsförsäkringar. The purpose of the trainee program is to strengthen Länsförsäkringar by providing young expertise for the Group's current and future requirements. The next trainee program is scheduled to begin in September 2003.

### **Change processes**

Change processes is a new area of development that was launched in 2002 and will continue to be in focus in 2003 for both managers and staff. The heightened competition and the requirements of increased profitability and reduced operating expenses are major considerations in the insurance industry. Consequently, Länsförsäkringar focuses intensively on improving its approach to change, the key being to establish comprehensible objectives and involve the employees in the change processes.

### **Workplace health**

Employees' health is a success factor for Länsförsäkringar. Länsförsäkringar AB is in the forefront in terms of workplace health, and this has become a high-priority development area for the entire Länsförsäkringar Alliance. It is hoped that Alliance's efforts in this regard will lead to the creation of conditions and tools for working with the physical work environment, the psychosocial work environment and individual health. There has been an increase in absence of 15 days or more due to sickness, however. A plan to improve rehabilitation has been launched to facili-

tate a quicker return to the workplace of employees with improved health.

#### **Structural transactions**

Länsförsäkringar and ABN Amro Asset Management

The strategic decision to abandon capital management operations under its own auspices and instead enter into a long-term cooperation agreement with ABN AMRO affected a total of 83 employees. Redundancy issues were resolved through new employment within Länsförsäkringar AB or ABN AMRO, retirement and voluntary severance packages.

#### **Humlegården Management AB**

Humlegården Management AB was formed in October. The company handles the administration and property management of the properties owned by Länsförsäkringar Liv, by the Utile Dulci property company and by Humlegården. A reduced property portfolio combined with effects of the efficiency enhancement achieved through a common organization led to a personnel reduction comprising 35 jobs. The employees affected were offered various solutions, for example, a development program provided by a human resources organization.



# Focus on skills development on all levels

## Training Center

During the year, the entire training resources of Länsförsäkringar AB were brought together in a single department creating opportunities to achieve higher quality and efficiency. It will also lead to increased course coordination and facilitate the skills development among employees of the regional insurance companies and Länsförsäkringar AB that will be necessary to support the expansion of the brand. The concentration of training resources in a single department will increase efficiency in the training operations by about 20%. The operations of the Training Center will be directed by a management team consisting of representatives of the regional insurance companies and the divisions of Länsförsäkringar AB.

## Länsförsäkringar University: academic distance education

To stimulate new impressions, provide qualified and regular skills development at the university level, Länsförsäkringar AB started its "Länsförsäkringar University." This is a cooperative arrangement with the universities on Uppsala and Lund that gives all employees the opportunity to study five or ten-week long courses in business economics and law.

## Leadership training

The LF Academy offers some ten different courses in management and leadership. During the year, courses were held in the following subjects: Scope for Leadership; Leadership Training for New Managers; and The Joy of Management. Moreover, every year a candidate is chosen for a management training program for younger women.

## Länsförsäkringar certifies its own advisors

In April 2001, the Fondbolagens Förening (Swedish Mutual Fund Association) established a requirement of expertise for mutual fund investment advisors. In 2002, slightly over 500 employees were certified after completing the mutual fund certification program. The purpose of the certification is to raise the level of expertise and instill sound ethics in the area of investment. Länsförsäkringar's training plan is approved by Fondbolagens Förening (the Swedish Mutual Fund Association).

## Investment School

Since its start in February 2001, nearly 3,500 employees have participated in the "Investment School I," a general knowledge platform for all Länsförsäkringar employees. In November 2002, Länsförsäkringar launched "Investment School II: the Meeting with the Customer." The idea was to equip all employees who have personal contacts with customers with the ability to suggest needs-specific products and supplementary services in banking and insurance.

## E-training in deposits

Bank employees of the regional insurance companies are the primary target group for this computer-facilitated training course offered as part of the bank's training package. This "e-training" is intended to provide all associates with a uniform approach to their work in terms of routines and systems, reduce handling errors and provide guidance in dealing with customers. Exercises focus on different customer cases to cultivate a customer-focused attitude and practice applying it in a realistic environment.

## Employee statistics

The statistics refer to Länsförsäkringar AB, to the regional insurance companies and to Länsförsäkringar Mäklarservice.

No. of permanent employees as of Dec. 31	2002	2001
– Women	3,106	2,946
– Men	2,643	2,470
<b>Total</b>	<b>5,749</b>	<b>5,416</b>
Permanent employees who resigned during the year	338	335
No. of new permanent employees	492	794 <sup>*)</sup>
Estimated future recruitment requirements in 2003 for the 24 regional insurance companies	185	200
*) of which 108 new employees of Länsförsäkringar Mäklarservice		

### Average age

Women	44	44
Men	45	45

	No. of employees	
Employee age distribution	2002	2001
0–30 yrs.	676	669
31–40 yrs.	1,646	1,590
41–50 yrs.	1,607	1,580
51–60 yrs.	1,632	1,561
61–	218	184

### Short-term absence (1–14 days or more, based on annual positions)

Women	1.7 %	1.5 %
Men	0.9 %	0.7 %

### Long-term absence (15 days or more, based on annual positions)

Women	3.7 %	2.5 %
Men	1.6 %	1.2 %

### Number of managers with staff responsibility

Women	191	159
Men	412	395

### WOMEN AND MEN IN POSITIONS OF TRUST WITHIN LÄNSFÖRSÄKRINGAR

	Women	Men
Managing directors	6	26
Management teams	73	216
Board members	86	274
Members of governing councils	289	1,172

**Management team:** including union representatives  
**Board of Directors:** regular members including union representatives  
**Governing council:** regular members



## Efficiency-enhancement of common operations

As early as 2001, Länsförsäkringar AB took several measures to adapt to the prevailing financial situation. One measure was to introduce a recruitment freeze, and another was to introduce a salary freeze for Group management. It was decided to implement early retirement, which was also a way of dealing with upcoming redundancy situations. It was also decided to start a Resource Center in order to give employees a guidance in their search for new employment. In 2002, Länsförsäkringar AB and its divisions conducted a review of their operations, which had an effect on both organization and staffing.

### A change process within the Life Division

In 2002, a change process was carried out to increase the competitiveness of Länsförsäkringar's life insurance operations. The overall goals of the change process were: competitive investment income, increased premium income, satisfied customers, motivated employees and a high level of efficiency. Of these goals, efficiency was deemed the highest. Intensive efforts are now under way to reduce operating costs.

To ensure sustained profitability, a review of the expertise, organization and staffing in the division was carried out. Since January 1, 2003, the new organization has been adapted to the role of the division – to develop products and services, and to provide service to the life insurance operations of the Läns-

försäkringar Alliance. The new organization has 450 employees, resulting in a redundancy of approximately 100 people.

### A change process within the Non-life Division

The Non-life division of Länsförsäkringar AB is also implementing a change process to analyze future expertise requirements to better meet the needs of the regional insurance companies and the needs of customers for new services. From having centered on business-focused operations, the division shall now focus on a consulting and specialist-based organization.

The change process began with an analysis of the operations in the form of functional plans that emphasized employees' professional qualifications. The evaluation of professional expertise was also based on established strategic key qualifications in line with the requirements of an organization of consultants and specialists. Staffing, expertise and efficiency must be competitive in terms of quality with comparable external operations now and in the future. In 2002, the number of employees amounted to 490. At year-end 2002, the number of employees had decreased to 438. In 2003, a further reduction will take place, and at year-end 2003, it is expected that the workforce of the non-life division will amount to 415 employees.



# Stable platform for integrated customer communications

Building on the advantages of a local presence, Länsförsäkringar offers customers a variety of different ways of communicating with their regional insurance company – personal contacts, and other channels such as the telephone, e-mail and the Internet. Utilizing IT in a manner that strengthens the local concept makes considerable demands on the underlying systems support and technology. To meet this challenge, Länsförsäkringar has had a clear IT strategy in place for several years.

Länsförsäkringar's IT strategy is based on the fundamental principles of a local presence and a broad product range embodied in the business concept. In 2002, the IT strategy began to produce visible results in that the first product system, which was based on the customer-oriented approach and complied with the model and components of the IT strategy, was placed in operation. It is fully integrated with the new comprehensive customer management system, "One Customer", which was also finalized and placed in operation in 2002. The IT operations support the customer-oriented approach by creating the necessary technical preconditions.

## Personal service

Länsförsäkringar is also making a substantial investment in new systems and procedures to simplify matters for the customer. The aim is to persuade customers to select Länsförsäkringar for their entire insurance and savings requirements, partly because they find the offer attractive, and partly because they feel that communicating with their regional insurance company is straightforward. This involves a new approach. The

previous approach was product-oriented, but the focus is now on customer needs and requirements. The new approach will enable the regional insurance companies to respond to customer questions quickly and efficiently. As a result of information concerning the customer's commitments, insurance staff will also be able to propose relevant insurance cover or savings solutions.

## More Internet-based banking and insurance services

More improvements have been made to increase customer's opportunities to view and handle their transactions regarding investment and insurance purchasing over the Internet. Apart from managing their banking by Internet, during the year, customers have also been able to conduct share trading by Internet. They can also review their payments and reinvestment of pension funds. Farmer customers can manage their agricultural financing via the Länsförsäkringar Internet site, which also provides a page devoted to household finances, where customers can obtain an estimate of how much a new home would cost them. It is also possible to calculate

the cost of non-life insurance by completing a form. This has been particularly popular for car insurance, and a total of approximately 600,000 premium calculations for non-life insurance were carried out during the year. Another new feature is that automotive shops can now access Länsförsäkringar through an extranet site, which makes it easier for customers who need to find out where a certain type of insurance is offered and what it covers. To date, the extranet site has been used for approximately 5,000 inquiries a month, and the claims adjustment process will eventually be even further automated. This will make the customer's situation in the claims adjustment process easier and rationalize the process for both insurance companies and automotive repair shops.

A basic platform has been created in the automotive insurance system to make it easier to make local changes in deductibles, prices and the product itself. This is a key aspect of the work required to be able to offer customers locally adapted services, which help to enable all regional insurance companies to act independently and local through all channels.



In this way, the IT strategy supports a more customer-oriented approach and the requirement of efficient use of resources.

### **Efficiency-enhancement**

Within the industry, IT costs are expected to increase for both banks and insurance companies, and to make up an increasingly large percentage of operating expenses. The IT analysis company Gartner estimates that IT-related expenses in insurance in 2000 accounted for 30–35% of total expenses, and that this percentage will increase to 50% by 2010.

Länsförsäkringar endeavors to achieve cost-effective production and development process. During the year, IT production was rationalized by 14%, through renegotiation of contracting agreements and internal efficiency-enhancement. A new internal model was developed to handle IT costs and steer processes toward more cost-effective approaches. A benchmarking was carried out for the IT operations in order to identify Länsförsäkringar's relative cost position. The comparison was made with comparable insurance companies in Europe. It showed that Länsförsäkringar's

IT expenses are high in several areas. The comparison and internal investigations have shown that these areas should be addressed wherever the greatest potential for further efficiency-enhancement lies.

The implementation of Länsförsäkringar's IT strategy involves efficiency-enhancement in itself, in that development becomes more rational through the component-based approach. It should be possible to use the components developed in all regional insurance companies and through all channels. Development work takes place on a single occasion, but the components may be used several times in different contexts. This eliminates duplication of work while improving security by ensuring that components are thoroughly tested. For example, the new automobile insurance system does not have its own customer database, but rather uses the database in the customer management system, which saves unnecessary updating.

### **Well prepared for the possibility of a transition to euros**

In 2002, discussions regarding Sweden's participation in the EMU became intense,

culminating in the decision to hold a referendum on September 14, 2003. In January 2002, Länsförsäkringar launched a "Euro project" to prepare for a transition to euros. The work of this project affected all regional insurance companies and product divisions of Länsförsäkringar AB, and resulted in an inventory of the operations in terms of amount information.

### **Security**

Great emphasis is placed on security within the IT operations of Länsförsäkringar. Strong focus on secure firewalls and ongoing supervision of the Internet site prevent ensure that attempts at intrusion do not succeed, and attempts that are made are carefully followed up and analyzed. The log-on procedure for the Internet services is more advanced than most. To increase convenience for users and employees, the security systems will be developed so that customers will only need to log on once per security level, regardless of what product they want to deal with.

# Local service with global scope

The regional insurance company provides customers in the Swedish market with local services of a high standard for customers. Swedish customers – both private persons and companies – are increasingly active abroad. Study, work and leisure take place in other countries to an increasing extent. Both large and small companies have operations outside Sweden. Just as it is natural that the regional insurance companies should be able to provide good insurance protections, claims service and advice throughout Sweden, the customer should also be able to receive good service in other countries.

Just as individual regional insurance companies obtain assistance from other regional insurance companies and the jointly owned Länsförsäkringar AB to provide local service throughout Sweden, Länsförsäkringar itself is part of several international networks created to enable their members to provide service internationally. This means customers can rely on their local representative to obtain help with customized life and non-life insurance for their operations in other countries.

Increased travel requires expansion of claims adjustment service so that travelers can obtain help quickly if they or their vehicles are involved in accidents in other countries. For acute situations, the tried-and-tested service provided by SOS International is used. The importance of having solid resources was particularly apparent after the bomb incident in Bali that claimed not only six Swedish lives but also led to a major requirement of assistance for other injured or traumatized Swedish travelers.

The EU's fourth automobile insurance directive took effect in 2002. Behind the title lies a requirement for all European

automobile insurers to provide expanded service to victims of traffic accidents. Briefly, this means that accident victims are entitled to have their claim processed in their native language, regardless of the nationality of the person who caused the accident or the location in Europe at which it took place. By means of an efficient network, Länsförsäkringar can provide this service smoothly right from the start. The core of this cooperation is the companies that are members of the Eureko Alliance, of which Länsförsäkringar has been a member since its acquisition of Wasa in 1998.

### Development

As major players in non-life and life insurance as well as banking in an increasingly concentrated national market, the Länsförsäkringar companies need to be aware of and influenced by innovations in other markets. The most important and most extensive cooperation takes place in the EurAPCo company (European Alliance Partners Company), which was formed in the autumn of 2000 to focus on development issues that can strengthen the partici-

pants in their own domestic markets. The joint owners include Eureko, Friends Provident, Länsförsäkringar, MAAF, Gothaer, Swiss Mobiliar and Topdanmark. The earlier cross-ownership ceased in 2002.

Länsförsäkringar also participates in Nordic cooperation via the Nordic Alliance, based on close exchanges and benchmarking among mutual insurance companies. This cooperation, which involves Gjensidige NOR Forsikring, Länsförsäkringar and Tapiola, includes banking issues. In 2002, efforts were launched to make the cooperation more focused and efficient. During the year, the former Danish member, Alm. Brand, left the alliance when the company was reorganized and listed on the Danish exchange.

### The importance of international contacts

Länsförsäkringar's customers benefit from the international service they can already obtain as a result of the company's international cooperation. This will in fact become increasingly important in the

future as new market conditions arise. The Single European Market will influence legislation and the economy. Changes may also take place in Sweden in that the involvement of the public sector may gradually be replaced by joint or private insurance systems. Länsförsäkringar will be able to develop new offerings to satisfy its customers' requirements more quickly and more efficiently through its open and constructive cooperation in EurAPCo and the Nordic Alliance.

International cooperation also improves opportunities to influence decision-makers at the European level. The resources Länsförsäkringar has established as a result of representation in Brussels have proved highly beneficial for its partners, and have been strengthened by cooperation with other players. Perhaps the most important issue in 2002 has been the work involving the WEEE directive. In this area, Länsförsäkringar contributed considerably to the legislation that will require all manufacturers of electrical and electronic devices to take responsibility for designing their products so that they may be recycled in an environmentally sound manner.

International contacts provide opportunities for human resources development as a result of management training exchanges activities and working in other countries for pre-determined periods. It is important for Länsförsäkringar to have an understanding of the conditions prevailing in other countries, in order to keep up with international development and provide its customers with high-quality international service.





**Managing Director:**  
Kjell Lindfors

**Board Chairman:**  
Lars Karbin

Länsförsäkringar Norrbotten had favorable market development in 2002. The volume of premiums rose by approximately 26%. Earnings from the non-life insurance operations were inhibited, however, by the ongoing negative trend of large claims. Through the acquisition of the insurance companies Svenska Brand and Lita and the Swedish operation in Allianz, the customers of these companies were offered insurance policies with Länsförsäkringar Norrbotten. The majority of these customers chose Länsförsäkringar Norrbotten as their insurer.

The weak financial markets had an adverse impact on both the company's asset management and its sales of life insurance. The bank operations continued to develop favorably. In 2002, Länsförsäkringar Norrbotten was certified in accordance with the environmental standard ISO 14001.

*Kjell Lindfors*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-38	2
Total assets, SEK M	397	389
Solvency margin, %	85	150
Number of employees	61	56
<b>Banking</b>		
Deposits, SEK M	108	93
Lending, SEK M	154	72
Lending on commission basis, SEK M	142	153
Number of customers	4,500	4,200
<b>Mutual funds</b>		
Market value, SEK M	22	35
Gross sales, SEK M	2	6
Number of customers	900	900
<b>Life insurance</b>		
Premium income, SEK M	123	154
Underwriting result, SEK M	-196	-186
Total insurance capital, SEK M	1,466	1,638
Number of customers	13,000	12,600
<b>Non-life operations</b>		
Premium income, SEK M	167	143
Underwriting result, SEK M	2	12
Combined ratio for own account, %	104	92
Total yield on asset management, %	-11	0
Number of customers	48,100	45,200

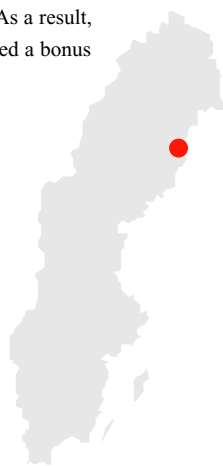


**Managing Director:**  
Rutger Arnesson

**Board Chairman:**  
Anders Nilsson

The past few years' earnings improvements in the non-life business were affirmed and the favorable market growth continued. The increase in the business market was particularly noticeable. Volume growth in the bank operations continued at an undiminished pace. Our focus on life insurance was strongly affected by the trend of the capital markets. Naturally, the three-year decline in stock markets throughout the world had a negative impact on both the life insurance operations and the trend of investment assets. Regarding the year's overall outcome, our asset allocation strategy enabled us to develop our bonus system. As a result, during the year our owners – the customers – shared a bonus of SEK 21 M.

*Rutger Arnesson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-107	-72
Total assets, SEK M	1,233	1,362
Solvency margin, %	252	286
Number of employees	132	127
<b>Banking</b>		
Deposits, SEK M	560	456
Lending, SEK M	570	285
Lending on commission basis, SEK M	188	236
Number of customers	10,400	9,400
<b>Mutual funds</b>		
Market value, SEK M	65	105
Gross sales, SEK M	13	13
Number of customers	2,400	2,400
<b>Life insurance</b>		
Premium income, SEK M	273	278
Underwriting result, SEK M	-288	-245
Total insurance capital, SEK M	2,590	2,768
Number of customers	24,200	23,500
<b>Non-life operations</b>		
Premium income, SEK M	312	310
Underwriting result, SEK M	19	16
Bonuses and discounts, SEK M	21	12
Combined ratio for own account, %	97	98
Total yield on asset management, %	-9	-5
Number of customers	90,200	87,300





**Managing Director:**  
Sören Westin

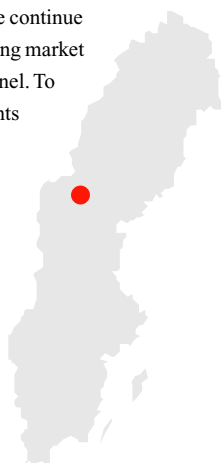
**Board Chairman:**  
Arne Normann

The strong sales trend in the non-life operations continued. Major premium increases brought balance to the insurance business, with the exception of the received reinsurance business. The trend in the bank operations, including strong volume growth, particularly in lending, was also encouraging.

Sales in the life-insurance business were on a par with 2001 – however, with ongoing profitability concerns. Naturally, the year's earnings were strongly affected by the ongoing stock-market decline. Exposure to the equities market is 22%.

Total yield was negative in an amount of 7%. We continue to work according to our established strategy: a strong market position, a broader brand and well-qualified personnel. To fulfill this strategy, we must utilize the IT investments made in recent years and continue our efforts to increase our level of expertise.

*Sören Westin*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-64	-23
Total assets, SEK M	659	716
Solvency margin, %	199	280
Number of employees	79	72
<b>Banking</b>		
Deposits, SEK M	267	215
Lending, SEK M	364	139
Lending on commission basis, SEK M	232	271
Number of customers	5,900	4,800
<b>Mutual funds</b>		
Market value, SEK M	18	26
Gross sales, SEK M	3	4
Number of customers	1,200	1,100
<b>Life insurance</b>		
Premium income, SEK M	110	107
Underwriting result, SEK M	-142	-132
Total insurance capital, SEK M	1,337	1,368
Number of customers	12,400	12,000
<b>Non-life operations</b>		
Premium income, SEK M	215	177
Underwriting result, SEK M	-4	-20
Combined ratio for own account, %	107	117
Total yield on asset management, %	-7	2
Number of customers	54,400	52,600



**Managing Director:**  
Anders Hörnfeldt

**Board Chairman:**  
Anders Källström

The year 2002 was a year of strong growth for Länsförsäkringar Västernorrland in premium growth on the non-life side. Despite a relatively sharp increase in premiums, the number of customers has grown. Earnings were negative, mainly due to the weak outcome of the company's asset management operations. Unfortunately, due to a heavy claims load, primarily toward the end of the year, the underwriting result was also negative. Earnings from financial operations were also restricted by the negative trend of the capital markets.

The bank continued to attract interest, which will require the company to undertake some expansion in 2003. Life-insurance sales in the coming year will focus sharply on the business market. The creation of the Västernorrland Fund is nearing completion, and the fund is expected to begin operating in 2003.

*Anders Hörnfeldt*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-77	-33
Total assets, SEK M	653	712
Solvency margin, %	150	214
Number of employees	97	92
<b>Banking</b>		
Deposits, SEK M	301	261
Lending, SEK M	156	72
Lending on commission basis, SEK M	93	109
Number of customers	6,500	5,800
<b>Mutual funds</b>		
Market value, SEK M	44	64
Gross sales, SEK M	8	9
Number of customers	27,700	29,200
<b>Life insurance</b>		
Premium income, SEK M	192	204
Underwriting result, SEK M	-262	-216
Total insurance capital, SEK M	2,422	2,574
Number of customers	19,600	19,200
<b>Non-life operations</b>		
Premium income, SEK M	278	235
Underwriting result, SEK M	-13	-21
Combined ratio for own account, %	109	115
Total yield on asset management, %	-9	2
Number of customers	64,700	61,700



**Managing Director:**  
Birger Lövgren

**Board Chairman:**  
Kjell Stafström

During the year, we had ongoing strong growth for all bank and insurance products. The company's total business volume is nearly SEK 1.3 billion. At the same time, operating expenses rose by a mere 3%. However, sharply increased claims costs and ongoing major restructuring of the company's internal finance business restricted the year's financial outcome. Earnings are expected to stabilize in 2003.

A project to redefine the company's image within the County of Gävleborg was launched in 2002, and will continue in 2003. This will

involve campaigns at our six branch offices, increased telephone accessibility, new insurance products, bank service and personal financial advice. A parallel campaign is being conducted in the business market, in which we are seeing a strong response to our advice concept and our product portfolio.

*Birger Lövgren*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-93	-303
Total assets, SEK M	588	737
Solvency margin, %	126	203
Number of employees	95	94
<b>Banking</b>		
Deposits, SEK M	303	253
Lending, SEK M	307	174
Lending on commission basis, SEK M	78	98
Number of customers	6,600	6,000
<b>Mutual funds</b>		
Market value, SEK M	33	45
Gross sales, SEK M	6	9
Number of customers	1,600	1,600
<b>Life insurance</b>		
Premium income, SEK M	189	191
Underwriting result, SEK M	-226	-215
Total insurance capital, SEK M	2,185	2,323
Number of customers	23,200	23,200
<b>Non-life operations</b>		
Premium income, SEK M	228	200
Underwriting result, SEK M	-29	-15
Combined ratio for own account, %	119	112
Total yield on asset management, %	-11	-36
Number of customers	72,300	68,600



**Managing Director:**  
Anders Stigers

**Board Chairman:**  
Bengt Gabriels

Our success in the market was ongoing in 2002. We increased our stock of insurance by 13,500 new policies, and now insure 80% of the detached homes and 54% of the companies in the county. Despite increased reinsurance costs, the financial outcome from the insurance business was 0. The uncertainty affecting the financial markets had an adverse effect on earnings.

Our focus on bank operations continued.

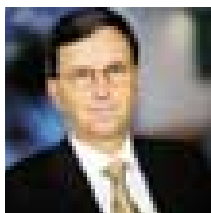
During the year, we increased the total business volume by 32% and 48% for first mortgages.

Despite the stock-market trend and unfavorable debate in the media concerning the life-insurance industry, sales increased by 14%. Given the profitability-improvement measures taken prior to 2003, we are expecting to maintain our strong position in the non-life insurance market and to continue to expand in the bank and life-insurance markets.

*Anders Stigers*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-703	-467
Total assets, SEK M	2,501	3,102
Solvency margin, %	282	481
Number of employees	192	169
<b>Banking</b>		
Deposits, SEK M	630	512
Lending, SEK M	810	432
Lending on commission basis, SEK M	268	317
Number of customers	14,000	11,700
<b>Mutual funds</b>		
Market value, SEK M	69	96
Gross sales, SEK M	13	18
Number of customers	4,300	4,100
<b>Life insurance</b>		
Premium income, SEK M	303	315
Underwriting result, SEK M	-323	-291
Total insurance capital, SEK M	3,147	3,465
Number of customers	30,300	29,800
<b>Non-life operations</b>		
Premium income, SEK M	650	560
Underwriting result, SEK M	0	-40
Bonuses and discounts, SEK M	78	65
Combined ratio for own account, %	105	115
Total yield on asset management, %	-24	-11
Number of customers	140,000	135,200



**Managing Director:**  
Ulf W Eriksson

**Board Chairman:**  
Folke Andersson

Our success in the market continued in 2002. However, due to major losses from our asset management operations and in received reinsurance, Länsförsäkringar Värmland reported a loss for the first time in ten years.

Apart from our successful market performance, winning the “Bank of the Year” title was highly satisfying. It is the best assurance we could have that the Länsförsäkringar Alliance’s bank offensive was right. Now that we have the documentation that we had the most satisfied customers in 2002 as well, in both the insurance and bank sectors, it is easier to accept a year that produced a loss.

*Ulf W Eriksson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-36	4
Total assets, SEK M	840	848
Solvency margin, %	119	163
Number of employees	86	85
<b>Banking</b>		
Deposits, SEK M	212	183
Lending, SEK M	244	131
Lending on commission basis, SEK M	82	101
Number of customers	5,200	4,700
<b>Mutual funds</b>		
Market value, SEK M	35	42
Gross sales, SEK M	9	6
Number of customers	1,300	1,200
<b>Life insurance</b>		
Premium income, SEK M	151	155
Underwriting result, SEK M	-207	-146
Total insurance capital, SEK M	1,906	2,055
Number of customers	18,200	18,000
<b>Non-life operations</b>		
Premium income, SEK M	294	237
Underwriting result, SEK M	-3	-3
Combined ratio for own account, %	106	107
Total yield on asset management, %	-2	3
Number of customers	74,300	70,000



**Managing Director:**  
Ann-Christin Norrström

**Board Chairman:**  
Björn Sundell

The ongoing market growth in the insurance and bank operations were sources of considerable satisfaction during the year, and once again we report strong growth in the market. The most encouraging trend was that many current customers chose to entrust us with additional business, so that the year became something of a breakthrough for our bank operations. Business volume grew by 25% to SEK 1,500 M. Increased claims costs and ongoing stock-market decline combined to produce a very negative financial outcome. The

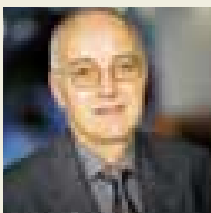
increase in claims costs was primarily due to a number of large claims and to an increased frequency of claims in motor insurance.

During the year, we undertook various measures to enhance efficiency and eventually reduce costs and improve customer relations quality – for example, ISO 9001:2000 quality certification, a new customer management system and stepped-up claims prevention efforts.

*Ann-Christin Norrström*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-211	-92
Total assets, SEK M	1,138	1,270
Solvency margin, %	174	266
Number of employees	146	136
<b>Banking</b>		
Deposits, SEK M	585	484
Lending, SEK M	523	136
Lending on commission basis, SEK M	511	555
Number of customers	10,800	9,400
<b>Mutual funds</b>		
Market value, SEK M	78	105
Gross sales, SEK M	22	19
Number of customers	4,300	4,000
<b>Life insurance</b>		
Premium income, SEK M	362	364
Underwriting result, SEK M	-349	-361
Total insurance capital, SEK M	3,780	4,071
Number of customers	31,600	31,400
<b>Non-life operations</b>		
Premium income, SEK M	410	367
Underwriting result, SEK M	-66	-25
Combined ratio for own account, %	125	113
Total yield on asset management, %	-11	-3
Number of customers	93,600	89,600



**Managing Director:**  
Jan Karlsson

**Board Chairman:**  
Frans-Henrik Schartau

In 2002, the trend of volume in non-life and motor insurance was favorable. The number of non-life insurance policies rose 4.2% and motor insurance policies rose 8.2%. A sharp upward trend was also noted in the bank operations, with deposits increasing by 24% and lending by 49%. A new bank branch office was opened in Sala. We were faced with several large claims during the year – the fire in the Adolfsberg School in Örebro was the largest in the company's history, with an estimated cost of SEK 70 M. The ongoing sharp decline in the value of the equities portfolio and the high claims cost had a highly adverse effect on the company's financial performance. The loss before appropriations and tax amounted to SEK 199 M. Nonetheless, we had a solvency margin of 184%.

To promote a favorable trend in the company's operations, we will focus on profitability by raising premiums and continuing to enhance efficiency in our organization.

*Jan Karlsson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-199	-155
Total assets, SEK M	1,465	1,544
Solvency margin, %	184	269
Number of employees	204	188
<b>Banking</b>		
Deposits, SEK M	579	468
Lending, SEK M	618	242
Lending on commission basis, SEK M	382	440
Number of customers	12,300	10,500
<b>Mutual funds</b>		
Market value, SEK M	97	91
Gross sales, SEK M	41	18
Number of customers	3,000	2,800
<b>Life insurance</b>		
Premium income, SEK M	438	440
Underwriting result, SEK M	-450	-541
Total insurance capital, SEK M	4,577	5,057
Number of customers	34,600	33,600
<b>Non-life operations</b>		
Premium income, SEK M	477	407
Underwriting result, SEK M	-51	-60
Combined ratio for own account, %	116	121
Total yield on asset management, %	-9	-4
Number of customers	114,700	108,900



**Managing Director:**  
Carl Dahlberg

**Board Chairman:**  
Bengt Ljungqvist

The year 2002 was yet another year of weak earnings. The sharp decline in the stock market had a powerful impact through the resulting negative yields. An improvement in the earnings of our direct insurance business was canceled by closure losses and a decline in the earnings of our ceded reinsurance.

Sales, however, continue to be strong, particularly in the business market. During the year, as part of our efforts to attract customers' entire business in insurance, pension provisions and, for retail customers, banking, we focused on having local full-range branch offices. This focus will be ongoing in 2003.

*Carl Dahlberg*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-314	-154
Total assets, SEK M	2,204	2,327
Solvency margin, %	51	92
Number of employees	495	475
<b>Banking</b>		
Deposits, SEK M	3,469	3,194
Lending, SEK M	1,677	979
Lending on commission basis, SEK M	1,260	1,308
Number of customers	59,100	57,100
<b>Mutual funds</b>		
Market value, SEK M	509	729
Gross sales, SEK M	162	113
Number of customers	11,900	12,200
<b>Life insurance</b>		
Premium income, SEK M	1,971	2,266
Underwriting result, SEK M	-3,790	-3,464
Total insurance capital, SEK M	28,943	32,597
Number of customers	132,700	130,500
<b>Non-life operations</b>		
Premium income, SEK M	1,316	1,053
Underwriting result, SEK M	-97	-99
Combined ratio for own account, %	112	115
Total yield on asset management, %	-9	2
Number of customers	245,000	226,300



**Managing Director:**  
Anna-Greta Lundh

**Board Chairman:**  
Axel von Stockenström

The year 2002 was a successful one for Länsförsäkringar Södermanland in terms of sales. Over 6,200 new customers chose us during the year, and we sold over 12,000 more products. We increased our premium income in non-life insurance by 26% – however, claims costs rose even more, by 27%. Volume in the bank business grew by a full 40%.

Profitability continued to be weak in all product areas, and increased productivity is our overriding goal for 2003. With the right pricing, correct risk assessment and enhanced efficiency, we are certain that we will be able to achieve a profit in 2003.

*Anna-Greta Lundh*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-93	-42
Total assets, SEK M	853	889
Solvency margin, %	155	228
Number of employees	106	98
<b>Banking</b>		
Deposits, SEK M	342	292
Lending, SEK M	538	294
Lending on commission basis, SEK M	160	193
Number of customers	7,500	6,800
<b>Mutual funds</b>		
Market value, SEK M	43	56
Gross sales, SEK M	11	7
Number of customers	1,900	1,900
<b>Life insurance</b>		
Premium income, SEK M	167	200
Underwriting result, SEK M	-249	-231
Total insurance capital, SEK M	2,060	2,247
Number of customers	19,200	19,000
<b>Non-life operations</b>		
Premium income, SEK M	356	305
Underwriting result, SEK M	-20	-10
Combined ratio for own account, %	113	114
Total yield on asset management, %	-7	-1
Number of customers	74,100	71,500



**Managing Director:**  
Ingemar Larsson

**Board Chairman:**  
Bengt Wolfram

In 2002, sales continued to be favorable in all three areas – bank, life insurance and non-life insurance. The year was less favorable, however, in terms of claims, with extensive summer precipitation in central Bohuslän and many large claims. The “Bank of the Year” title was particularly encouraging, considering that our local banks also performed very well. Earnings from the insurance business fell somewhat short of the target. The outcome of our

asset management operations was disappointing, due to the dismal stock-market trend.

In view of the premium adjustments we have made, we are expecting the insurance business in 2003 to be profitable. We are also carefully reviewing our cost scenario and strengthening risk selection and claims prevention. Work procedures in life insurance have been modified to lower costs and improve customer service. During the spring, we will open another bank branch office in Strömstad.

*Ingemar Larsson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-208	-84
Total assets, SEK M	1,617	1,711
Solvency margin, %	118	194
Number of employees	243	230
<b>Banking</b>		
Deposits, SEK M	853	935
Lending, SEK M	636	181
Lending on commission basis, SEK M	377	438
Number of customers	18,000	16,100
<b>Mutual funds</b>		
Market value, SEK M	264	246
Gross sales, SEK M	76	83
Number of customers	6,900	6,700
<b>Life insurance</b>		
Premium income, SEK M	798	918
Underwriting result, SEK M	-1,223	-1,388
Total insurance capital, SEK M	10,157	10,714
Number of customers	55,000	53,700
<b>Non-life operations</b>		
Premium income, SEK M	733	594
Underwriting result, SEK M	2	0
Combined ratio for own account, %	103	103
Total yield on asset management, %	-12	-3
Number of customers	163,900	151,300





**Managing Director:**  
Carl Henrik Ohlsson

**Board Chairman:**  
Hans Jonsson

In 2002, the company celebrated its 160th year. Volume growth increased sharply in all three core areas of business: non-life insurance (12%), life insurance (30%) and bank (50%). In the direct non-life insurance business, the combined ratio was reduced from 109 to 97. In addition to the total cost percentage, there was a reinsurance expense of SEK 45 M. The bank and life-insurance operations achieved their long-term strategic goals. Nevertheless, the company's financial performance was the worst in its history, due primarily to the financial yield, which despite

a low risk profile, was negative in an amount of 13%.

During the year, strategic efforts focused on local interaction with customers, offering banking and insurance at new branch offices in Falköping and Lidköping as well as at new local service offices in Habo and Vara. The company came third in the customer satisfaction survey carried out by the Länsförsäkringar Alliance, and second in the employee satisfaction survey – a status that should be carefully maintained in the future.

*Carl Henrik Ohlsson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-155	-74
Total assets, SEK M	867	976
Solvency margin, %	139	221
Number of employees	110	102
<b>Banking</b>		
Deposits, SEK M	372	317
Lending, SEK M	315	126
Lending on commission basis, SEK M	130	168
Number of customers	8,500	7,400
<b>Mutual funds</b>		
Market value, SEK M	110	122
Gross sales, SEK M	43	27
Number of customers	21,800	22,400
<b>Life insurance</b>		
Premium income, SEK M	172	203
Underwriting result, SEK M	-335	-298
Total insurance capital, SEK M	2,946	3,167
Number of customers	22,300	22,200
<b>Non-life operations</b>		
Premium income, SEK M	356	316
Underwriting result, SEK M	-37	-34
Combined ratio for own account, %	117	117
Total yield on asset management, %	-13	-3
Number of customers	78,500	74,900



**Managing Director:**  
Anders Östryd

**Board Chairman:**  
Sten Eklöf

The year 2002 was a strong year for the company in terms of market performance. The stock of policies in all lines of non-life insurance grew. Premium income from direct insurance rose 19% to SEK 566 M. Due to sharply declining stock-market prices, the financial outcome was negative, leading to an after-tax loss of SEK 325 M. In terms of claims, 2002 was the year of water-related damage, for which costs rose 10% to SEK 86 M. The life-insurance market continued to be slow for endowment insurance. On the other hand, we are

pleased to have entered the market for occupational pensions, which resulted in a 30% increase in our sales of life insurance. The bank operations now have one more year of experience. Total deposits and lending amounted to SEK 2,137 M at year-end. In 2003, we will focus on expanding our local presence in banking and life insurance. The Mjölby office will be relocated to new, more central, premises, and be expanded to form a complete sales office.

*Anders Östryd*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK	-513	-139
Total assets, SEK M	2,321	2,784
Solvency margin, %	266	398
Number of employees	259	240
<b>Banking</b>		
Deposits, SEK M	1,203	945
Lending, SEK M	565	244
Lending on commission basis, SEK M	370	413
Number of customers	28,400	25,700
<b>Mutual funds</b>		
Market value, SEK M	73	103
Gross sales, SEK M	15	22
Number of customers	4,300	4,100
<b>Life insurance</b>		
Premium income, SEK M	487	523
Underwriting result, SEK M	-377	-411
Total insurance capital, SEK M	4,069	4,344
Number of customers	41,500	39,900
<b>Non-life operations</b>		
Premium income, SEK M	652	596
Underwriting result, SEK M	-18	-30
Bonuses and discounts, SEK M	52	43
Combined ratio for own account, %	108	110
Total yield on asset management, %	-16	-1
Number of customers	156,800	149,600



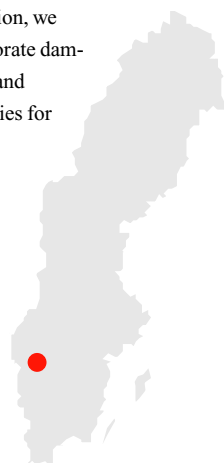
**Managing Director:**  
Jan Fager

**Board Chairman:**  
Fredrik Waern

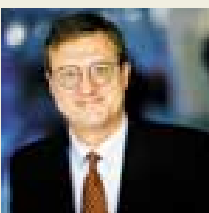
The year 2002 was a record year in many respects. Never before have we dealt with so many claims relating to storms, lightning and fire damage. Moreover, we also faced the largest barn fire in the company's history, resulting in a claim costing SEK 25 M. The insurance operations reported a deficit of SEK 28 M. The negative trend of the stock market also helped create the net loss of SEK 248 M before tax and appropriations.

On the bright side, we achieved market success in all product areas. The bank attracted a large inflow of new customers and reported a profit for the first time. As a result of our focus on claim prevention, we achieved a sharp reduction in certain types of corporate damage. Proactive sales, damage-prevention activities and stricter risk evaluation are high on our list of priorities for the current year.

*Jan Fager*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-248	-143
Total assets, SEK M	1,850	2,130
Solvency margin, %	227	276
Number of employees	214	209
<b>Banking</b>		
Deposits, SEK M	897	648
Lending, SEK M	890	343
Lending on commission basis, SEK M	604	715
Number of customers	17,900	15,600
<b>Mutual funds</b>		
Market value, SEK M	115	150
Gross sales, SEK M	25	27
Number of customers	50,300	47,700
<b>Life insurance</b>		
Premium income, SEK M	320	374
Underwriting result, SEK M	-461	-452
Total insurance capital, SEK M	4,329	4,655
Number of customers	35,800	35,400
<b>Non-life operations</b>		
Premium income, SEK M	607	591
Underwriting result, SEK M	-28	-7
Combined ratio for own account, %	110	105
Total yield on asset management, %	-10	-5
Number of customers	139,300	135,100



**Managing Director:**  
Leif Ellström

**Board Chairman:**  
Gösta af Petersens

Growth in the company's stock of insurance policies was strong, particularly in the retail market. In motor insurance, for example, the company's market share is well over 50%. The insurance business produced a loss, due to abnormally high claims costs caused by two large barn fires. Moreover, the computed interest contribution was low for the second year in a row, due to the sharp decline in stock-market prices. In the bank operations, Länsförsäkringar Gotland's performance was exemplary both in terms of volumes and financial outcome. A key factor here was the company's excellent cooperation with Landshypotek.

The focus for the future is on profitability. Operations need to be consolidated, using the aids that have been developed. Moreover, we must prioritize the areas in which we offer the greatest customer value.

*Leif Ellström*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-76	-17
Total assets, SEK M	422	465
Solvency margin, %	340	489
Number of employees	31	29
<b>Banking</b>		
Deposits, SEK M	174	145
Lending, SEK M	307	143
Lending on commission basis, SEK M	166	180
Number of customers	3,500	2,900
<b>Mutual funds</b>		
Market value, SEK M	9	13
Gross sales, SEK M	2	3
Number of customers	900	800
<b>Life insurance</b>		
Premium income, SEK M	37	38
Underwriting result, SEK M	-26	-25
Total insurance capital, SEK M	367	385
Number of customers	5,300	5,100
<b>Non-life operations</b>		
Premium income, SEK M	101	89
Underwriting result, SEK M	-11	-1
Combined ratio for own account, %	118	107
Total yield on asset management, %	-15	-2
Number of customers	24,600	23,500



**Managing Director:**  
Johan Svedberg

**Board Chairman:**  
Evert Svensson

A sharp increase in the volume of our business in non-life insurance further strengthened the company's dominance in the commercial and private markets. Despite this growth, 2002 was a dismal year in terms of financial performance, due to increased claims costs and a sharp downward trend in the stockmarket. As a result, premium increases will be implemented in 2003.

The collective consolidation ratio is reassuringly high.

The property portfolio of ELL-EFF Fastigheter AB has had strong value growth and efforts to bring added value to the portfolio have continued according to plan. During the first quarter of 2003, Länsförsäkringar Jönköping's property portfolio will be transferred to this company.

In the market for pension insurance, growth was lower than expected. In bank operations, on the other hand, we were pleased to note that the favorable trend was ongoing. During the year, the company was certified in accordance with the ISO 14001 environmental standard.

*Johan Svedberg*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-179	-102
Total assets, SEK M	1,277	1,363
Solvency margin, %	151	222
Number of employees	157	142
<b>Banking</b>		
Deposits, SEK M	535	436
Lending, SEK M	366	115
Lending on commission basis, SEK M	250	288
Number of customers	10,100	8,600
<b>Mutual funds</b>		
Market value, SEK M	51	69
Gross sales, SEK M	12	9
Number of customers	2,500	2,200
<b>Life insurance</b>		
Premium income, SEK M	302	308
Underwriting result, SEK M	-446	-424
Total insurance capital, SEK M	3,853	4,137
Number of customers	29,000	28,000
<b>Non-life operations</b>		
Premium income, SEK M	489	405
Underwriting result, SEK M	-41	9
Combined ratio for own account, %	113	105
Total yield on asset management, %	-10	-6
Number of customers	112,200	108,700



**Managing Director:**  
Mats Ericsson

**Board Chairman:**  
Erling Johansson

Due to extremely strong volume growth during the year, the market position of Länsförsäkringar Halland has become stronger in all of the company's areas of operation.

The combined effect of many large claims, due mainly to fires and water damage, and a falling stock market led to a net loss in 2002. Liquidity was strong and the company's solvency continued to be solid. We continue to cultivate our role as the complete banking and insurance provider in the province of Halland by offering high-value products and local service.

*Mats Ericsson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-232	-102
Total assets, SEK M	1,052	1,214
Solvency margin, %	225	372
Number of employees	126	120
<b>Banking</b>		
Deposits, SEK M	617	501
Lending, SEK M	892	309
Lending on commission basis, SEK M	338	434
Number of customers	12,600	10,500
<b>Mutual funds</b>		
Market value, SEK M	77	107
Gross sales, SEK M	37	21
Number of customers	35,500	36,100
<b>Life insurance</b>		
Premium income, SEK M	300	280
Underwriting result, SEK M	-351	-410
Total insurance capital, SEK M	3,638	3,914
Number of customers	24,400	23,800
<b>Non-life operations</b>		
Premium income, SEK M	313	261
Underwriting result, SEK M	-30	-7
Combined ratio for own account, %	116	107
Total yield on asset management, %	-18	-6
Number of customers	82,500	77,800



**Managing Director:**  
Fredrik Daveby

**Board Chairman:**  
Per-Åke Holgersson

The number of claims processed during the past year was among the highest in the company's 201-year history. This was due primarily to a number of major fires, combined with other natural disasters such as storms and flooding. Gross claims payments exceeded premiums earned during the year by SEK 7 M. Despite premium increases, the overall number of non-life insurance policies increased, particularly for home and motor vehicle insurance. The number of home insurance policies rose 10%, bring the market share to 40%. The number of motor insurance policies increased 8%, bringing the company's share of the market for motor vehicle insurance to 35%. During the year, banking operations achieved volume increases of 13% for deposits and 43% for lending.

The decline in the financial area resulted in an 11% negative investment income. It is expected that market share will increase and sales volume will improve in 2003. It is also expected that the planned overhaul of the company's cost structure will help improve its financial performance during the year.

*Fredrik Daveby*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-74	-41
Total assets, SEK M	554	551
Solvency margin, %	126	196
Number of employees	74	69
<b>Banking</b>		
Deposits, SEK M	264	234
Lending, SEK M	172	53
Lending on commission basis, SEK M	149	171
Number of customers	5,100	4,500
<b>Mutual funds</b>		
Market value, SEK M	30	43
Gross sales, SEK M	4	6
Number of customers	2,500	2,500
<b>Life insurance</b>		
Premium income, SEK M	193	198
Underwriting result, SEK M	-344	-295
Total insurance capital, SEK M	2,792	3,073
Number of customers	16,400	16,200
<b>Non-life operations</b>		
Premium income, SEK M	224	184
Underwriting result, SEK M	-15	-15
Combined ratio for own account, %	111	109
Total yield on asset management, %	-11	-2
Number of customers	53,600	50,800



**Managing Director:**  
Lars B Danielsson

**Board Chairman:**  
Jan Peter Pontén

Market growth in non-life insurance was one of the major reasons for satisfaction during 2002, and we achieved record levels for the fourth consecutive year. Moreover, our efforts to expand the brand were successful: during the year, the banking operations achieved a true breakthrough. During the autumn, we also implemented an organizational change, whereby we abandoned the previous organization based on business areas and instituted a sales division for life and non-life insurance and a division for claims adjustment for all types of claims. We have already noted an improvement in coordination and efficiency. As part of our work in preventive health care, the company obtained a diploma attesting to its expertise in this area.

Due to the dramatic downward trend of the world's stock markets, the company's earnings were unfortunately quite weak. However, our position continues to be strong, and we have an optimistic outlook regarding the company's future development.

*Lars B Danielsson*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-184	-81
Total assets, SEK M	1,110	1,260
Solvency margin, %	242	323
Number of employees	128	123
<b>Banking</b>		
Deposits, SEK M	283	226
Lending, SEK M	224	65
Lending on commission basis, SEK M	134	168
Number of customers	5,900	5,100
<b>Mutual funds</b>		
Market value, SEK M	33	46
Gross sales, SEK M	6	8
Number of customers	1,800	1,600
<b>Life insurance</b>		
Premium income, SEK M	253	283
Underwriting result, SEK M	-299	-310
Total insurance capital, SEK M	2,776	3,069
Number of customers	20,600	19,800
<b>Non-life operations</b>		
Premium income, SEK M	359	333
Underwriting result, SEK M	-5	0
Bonuses and discounts, SEK M	29	18
Combined ratio for own account, %	105	104
Total yield on asset management, %	-12	-3
Number of customers	87,700	82,600



**Managing Director:**  
Jan Otterheim

**Board Chairman:**  
Anders Åkesson

The year 2002 will go down in history as the worst stock-market year to date. Only in 1931, the year of the Great Depression, was stock-market performance worse. Moreover, the unfortunate claims trend of the past few years was ongoing, in sharply increased claims costs. This resulted in a dismal financial outcome.

However, the year also held reasons to be pleased. The company's market growth was strong – 20% in non-life insurance and over 40% in banking and life insurance. According to the annual Swedish Quality Index survey, the company has the most satisfied bank and insurance customers. Banking operations received the distinction of "Bank of the Year" from the magazine Privata Affärer. We now proceed, focusing on profitability and efficiency in all aspects of our operations – all to enhance customer value.

*Jan Otterheim*

KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-115	-59
Total assets, SEK M	482	556
Solvency margin, %	219	362
Number of employees	60	56
<b>Banking</b>		
Deposits, SEK M	209	161
Lending, SEK M	197	65
Lending on commission basis, SEK M	147	150
Number of customers	4,600	3,600
<b>Mutual funds</b>		
Market value, SEK M	17	24
Gross sales, SEK M	4	5
Number of customers	1,200	1,100
<b>Life insurance</b>		
Premium income, SEK M	102	105
Underwriting result, SEK M	-128	-131
Total insurance capital, SEK M	1,397	1,503
Number of customers	10,300	10,000
<b>Non-life operations</b>		
Premium income, SEK M	148	124
Underwriting result, SEK M	-23	-7
Combined ratio for own account, %	123	111
Total yield on asset management, %	-17	-7
Number of customers	47,400	45,400



**Managing Director:**  
Lars-Åke Hörlén

**Board Chairman:**  
Ingmar Kristiansson

The year 2002 – the company's 160th year of operations – began with storms and flooding around the Finja Lake, causing extensive damage to the buildings in the area. There was a great deal of discussion concerning preventive measures for the future, and investigations showed that the only sure way to guard against such disasters is to raise the lowest building level.

In 2002, the company strengthened its market share further, resulting in its becoming the "Insurance Company in Göinge." A sales increase in the life insurance market well at a pace with increased resources, while an intensified focus on local banking operations is planned. The employees' dedication and expertise is appreciated by customers, as is reflected in strong customer loyalty and satisfaction. The turbulence in the capital markets left its mark, so that operations generated a net loss for the year. However, a strategic allocation strategy helped to keep investment losses to a minimum.

*Lars-Åke Hörlén*

KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-40	5
Total assets, SEK M	466	487
Solvency margin, %	257	337
Number of employees	44	42
<b>Banking</b>		
Deposits, SEK M	137	115
Lending, SEK M	55	16
Lending on commission basis, SEK M	75	80
Number of customers	2,600	2,200
<b>Mutual funds</b>		
Market value, SEK M	17	24
Gross sales, SEK M	3	4
Number of customers	1,000	1,000
<b>Life insurance</b>		
Premium income, SEK M	64	72
Underwriting result, SEK M	-114	-87
Total insurance capital, SEK M	1,102	1,183
Number of customers	7,800	7,900
<b>Non-life operations</b>		
Premium income, SEK M	130	117
Underwriting result, SEK M	-11	1
Combined ratio for own account, %	117	111
Total yield on asset management, %	-5	4
Number of customers	31,300	30,500





**Managing Director:**  
Conny Famm

**Board Chairman:**  
Göran Trobro

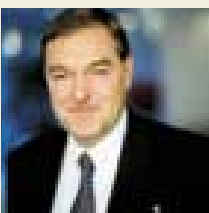
In terms of net results, 2002 was a decidedly dismal year. This was mainly due to the ongoing malaise of the financial markets, as well as to an increase in claims costs, particularly for large fires. The gross claims expense rose 30% compared with 2001. The company's market performance, on the other hand, was highly successful – in life and non-life insurance as well as in banking. In non-life insurance, business volume increased by nearly 19%. Growth in the life insurance area of occupational pension plans, as well as in banking, was also strong.

We now proceed from an even stronger position in the market, focusing on loss-prevention in non-life insurance and occupational pension plans in life insurance. In banking, the "Bank of the Year in 2002" distinction provides an excellent springboard to further success in 2003.

*Conny Famm*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-58	-19
Total assets, SEK M	427	459
Solvency margin, %	241	351
Number of employees	48	47
<b>Banking</b>		
Deposits, SEK M	214	165
Lending, SEK M	171	47
Lending on commission basis, SEK M	125	154
Number of customers	3,900	3,200
<b>Mutual funds</b>		
Market value, SEK M	26	37
Gross sales, SEK M	5	6
Number of customers	1,000	1,000
<b>Life insurance</b>		
Premium income, SEK M	108	96
Underwriting result, SEK M	-111	-114
Total insurance capital, SEK M	1,089	1,159
Number of customers	8,400	8,400
<b>Non-life operations</b>		
Premium income, SEK M	133	115
Underwriting result, SEK M	-16	-2
Combined ratio for own account, %	119	111
Total yield on asset management, %	-10	-5
Number of customers	36,300	34,900



**Managing Director:**  
Jan Fock

**Board Chairman:**  
Gunnar Kinch

The year 2002 was characterized by ongoing success in sales in non-life insurance, bank services and mutual funds, as well as satisfactory sales in life insurance. For example, 30,000 new policies were added to the company's total stock of non-life insurance policies. Overall, the company's performance was the weakest in 166 years, due to higher claims costs, a loss from reinsurance and unrealized losses on the financial side.

The company is currently undergoing a total reorganization. This is partly a consequence of the "Implementing Life Insurance in 2003" campaign and partly an effort to increase customer orientation in accordance with the common market strategies. We expect the company's strong market potential to continue in 2003.

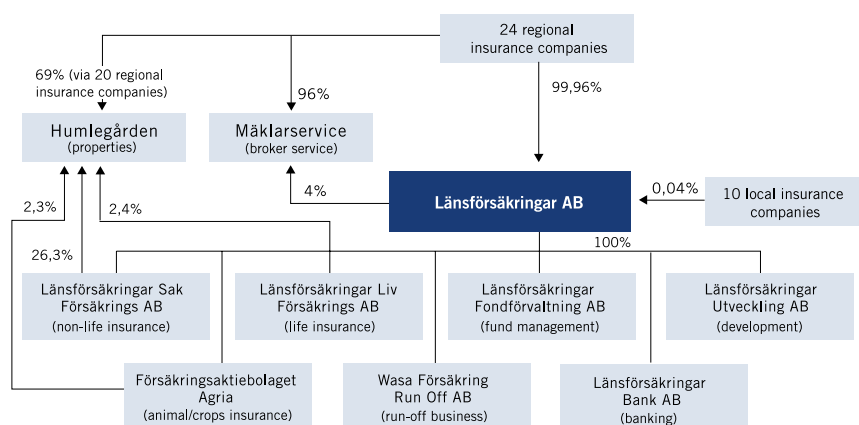
*Jan Fock*



KEY FIGURES	2002	2001
Result before appropriations and tax, SEK M	-335	-142
Total assets, SEK M	2,100	2,246
Solvency margin, %	109	189
Number of employees	398	366
<b>Banking</b>		
Deposits, SEK M	695	589
Lending, SEK M	1,377	650
Lending on commission basis, SEK M	482	600
Number of customers	19,600	17,700
<b>Mutual funds</b>		
Market value, SEK M	198	230
Gross sales, SEK M	83	62
Number of customers	6,000	5,900
<b>Life insurance</b>		
Premium income, SEK M	711	785
Underwriting result, SEK M	-1,500	-1,413
Total insurance capital, SEK M	12,180	13,278
Number of customers	75,500	73,800
<b>Non-life operations</b>		
Premium income, SEK M	933	743
Underwriting result, SEK M	-48	-66
Combined ratio for own account, %	110	115
Total yield on asset management, %	-11	0
Number of customers	229,700	213,800

# More distinct focus on development and service

The cooperation within the Alliance takes place through Länsförsäkringar AB and its subsidiaries, which are jointly owned by the regional companies. The restructuring of the Länsförsäkringar AB Group continued during the year, with a more distinct profiling as the service and development company of the regional companies.



Länsförsäkringar AB consists of six operating divisions with clear profit centers. In addition, there are supporting units and staffs. The operating divisions contain the Länsförsäkringar Alliance's concessions and permits for third-party liability insurance (being transferred to the respective regional insurance companies on January 1, 2004), animal insurance, life insurance and fund insurance, fund management and the charter for banking. The liquidation of reinsurance and international direct-writing insurance are handled in the run-off division.

Länsförsäkringar AB's basic task is to direct and coordinate the common strategic work and development program in the regional insurance companies and to provide service to them. What once began as cooperation to provide regional insurance companies with a common reinsurance facility has today developed into a comprehensive opera-

tion to take advantage of the benefits of scale in banking and insurance. The assignment has been broadened and Länsförsäkringar AB today is a large development center and a financial group with operations in life insurance, accident insurance, automobile insurance, animal insurance and reinsurance, banking and funds. Länsförsäkringar's comprehensive IT development work, as well as operations-development that is required to develop the new ways of working that are to be supported by the new systems are also coordinated from Länsförsäkringar AB. In addition to being responsible for service and development work, Länsförsäkringar also conducts certain business for its own account. However, the key element in Länsförsäkringar's business model is that responsibility for business should be exercised locally when a transaction is considered to be mature enough.

## Restructuring of the Group

The restructuring of the Länsförsäkringar AB Group toward a more distinct role as the service and development company for the regional insurance companies continued in 2002. It was decided during the year that, effective January 1, 2004, third-party liability insurance would be written by the regional insurance companies and that underwriting by Länsförsäkringar Sak would cease at the same time. This will further strengthen the local concept and is in line with the regional idea that operations that can be handled locally should be assigned there. For Länsförsäkringar AB, the decision means that commercial operations will be reduced and that a sharper focus is being placed on service and development. The agreement on asset management that was concluded with ABN AMRO in 2002 (see also on page 17)

## Good rating for Länsförsäkringar

In July 2002 Länsförsäkringar AB was rated A1 for the second year in a row by Moody's credit-rating institution. Länsförsäkringar received the rating for its strong and stable presence in Sweden, the high degree of consolidation of the regional insurance companies, the low risk profile in non-life insurance and Länsförsäkringar AB's strategic role in Länsförsäkringar. Länsförsäkringar Sak received an A rating and the designation "stable" from Standard & Poor's, the highest rating given any insurance company in Sweden (November 2002). Standard & Poor's rated Länsförsäkringar Bank K1 for short-term borrowing and BBB+ for long-term borrowing (July 2002).

Company	Institution	Rating
Länsförsäkringar AB	Moody's	A1
Länsförsäkringar Sak	Standard & Poor's	A
Länsförsäkringar Bank	Standard & Poor's	K1/BBB+
Humlegården	Standard & Poor's	A
Länsförsäkringar Liv	Standard & Poor's	Api
Agria	Standard & Poor's	A-pi

means that the Finance department in Länsförsäkringar AB is able to focus more clearly on the strategic program involving ownership responsibility and the direction of investments, for example.

### Forms of ownership

Länsförsäkringar AB is owned 100% by the regional insurance companies and 10 local companies. The shareholding is included in net asset value of the regional companies and companies impose the same market demands for a return on these shares, as on the return on listed shares and other investment assets. The growth in value since 1998 has amounted to 37%. The ownership of Länsförsäkringar AB by the regional insurance companies, as well as the internal obligations as owners, is handled within the framework of a consortium, which is regulated by a consortium agreement.

### Results

The Länsförsäkringar AB Group's income before taxes amounted to SEK 34 M (loss: 395). The results for the year were due primarily to the negative trend of financial markets combined with the capital gain of SEK 1,036 M in connection with the sale to ABN AMRO of rights to manage the investment assets.

The technical result in the non-life insurance business amounted to SEK 111 M (loss: 23). The largest operating segment, third-party liability insurance, reported a loss of SEK 37 M (loss: 8). The total return on capital in 2002 amounted to SEK 801 M (347). The sum of SEK 755 M (757) was transferred to insurance operations.

The income for the year in Länsförsäkringar Bank amounted to SEK 20 M (1). Larger volumes of business contributed to the higher profitability. The profit in fund management operations was SEK 16 M (45). Despite a bleak stock exchange year and declining volumes of business on

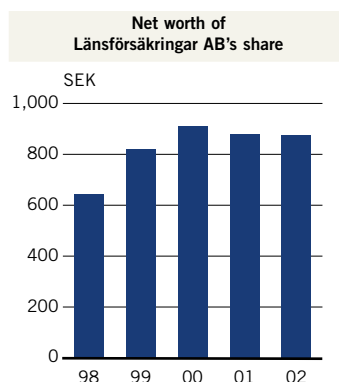
exchanges, the results were positive, due primarily to lower management and commission costs. Länsförsäkringar Liv is not consolidated since the business is conducted in accordance with mutual principles.

### Solvency

The net asset value in the Länsförsäkringar AB Group declined by SEK 165 M. to SEK 6,092 M, in 2002. The solvency margin at the end of 2002 amounted to 157% (191).

### Key figures

SEK M	2002	2001
Premiums earned for own account	3,716	3,039
Investment income transferred from financial operations	755	757
Insurance claims for own account	-3,500	-3,032
Operating expenses	-885	-816
Other income/expenses	24	29
Underwriting result in non-life operations	111	-23
Gross investment income	801	347
Income/loss before appropriations and taxes	34	-395
Länsförsäkringar AB Group, excluding life insurance operations		



The regional insurance companies own shares in the Länsförsäkringar AB common company. The regional companies impose the same demands for a return as they do on listed companies and other investment assets. The value has increased by 37% since 1998.

See pages 88–89 for results in Länsförsäkringar AB's subsidiaries that conduct traditional life insurance, unit-linked insurance, banking and mutual fund operations.

## Board of Directors of Länsförsäkringar AB



*Hans Jonsson*



*Gunnar Kinch*



*Jan Fager*



*John Helgesson*



*Anna-Greta Lundh*



*Anders Nilsson*



*Tommy Persson*



*Karin Starrin*



*Anders Stigers*

### **Hans Jonsson**, born 1949

Farmer, Director Board Chairman

Other board memberships: Chairman Länsförsäkringar Skaraborg, Chairman of Government Ocean Environment Commission

### **Gunnar Kinch**, born 1936

Farm Manager, Belteberga Lantbruks AB

Deputy Chairman of the Board

Other board memberships: Chairman Länsförsäkringar Skåne; board member Länsförsäkringar Miljö AB

### **Jan Fager**, born 1940

Managing Director, Länsförsäkringar Älvsborg

Other board memberships: NyföretagarCentrum Tvåstad

### **John Helgesson**, born 1945

Managing director, Stena Fastigheter AB

Other board memberships: Stena Fastigheter AB, Örgryte Bostads AB, Länsförsäkringar Skåne, Wasa Stiftelse, Sveriges Fastighetsägareförbund

### **Anna-Greta Lundh**, born 1955

Managing director, Länsförsäkringar Södermanland

Other board memberships: Strandfastigheter AB

### **Anders Nilsson**, born 1945

Managing Director, Sveriges Fastighetsägare Umeå Service AB

Other board memberships: Chairman Länsförsäkringar Västerbotten

### **Tommy Persson**, born 1948

Managing Director and CEO, Länsförsäkringar AB

Other board memberships: board member Lindex AB, Gjensidige NOR ASA, Kaupthing Bank, EurAPCo, Försäkringsförbundet and FAO

### **Karin Starrin**, born 1947

Governor of the County of Halland

Other board memberships: Chairman Skogsvårdsstyrelsen Södra Götaland, Halland Akademi; board member Royal Swedish Opera

### **Anders Stigers**, born 1947

Managing Director, Dalarnas Försäkringsbolag

Other board memberships: Member of Board of Länsförsäkringar Fondförvaltning AB

## Group Management Länsförsäkringar AB



### **Tommy Persson**

Born 1948

Managing Director and CEO. Employed since 1996



### **Christer Baldhagen**

Born 1957

Director of Corporate Communications. Employed since 1994



### **Hans Benndorf**

Born 1954

Deputy Managing Director, Managing Director, Länsförsäkringar Liv. Employed since 2001



*Maths O Sundqvist*



*Lars Brolin*



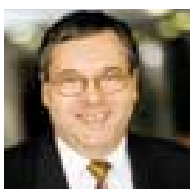
*Carl Johan Gezelius*



*Tomas Jönsson*



*Karl-Axel Karlsson*



*Sven-Erik Martinell*

**Maths O Sundqvist**, born 1950  
Managing Director, AB Skandinaviska  
Other board memberships: Hexagon, Wihlborgs, Investment AB Öresund,  
Wasa Stiftelse, Jämtlamell

**Lars Brolin**, born 1944  
Board Secretary  
Head of Legal Affairs, Länsförsäkringar AB  
Other board memberships: Board member of Swedish department of AIDA

**Carl Johan Gezelius**, born 1948  
Union of Insurance Employees (FTF) branch at Länsförsäkringar AB  
Other board memberships: FTF, FPK and Länsförsäkringar AB subsidiaries

**Tomas Jönsson**, born 1951, deputy member  
Swedish Confederation of Professional Associations branch at Länsförsäkringar AB  
Other board memberships: Länsförsäkringar Sak Försäkrings AB,  
banking and insurance section of Jusek

**Karl-Axel Karlsson**, born 1949  
Union of Insurance Employees (FTF) branch at Länsförsäkringar AB

**Sven-Erik Martinell**, born 1943  
Regional insurance companies' staff association  
District manager  
Other board memberships: Vice Chairman Union of Insurance Employees (FTF);  
Board member Länsförsäkringar Bank, Länsförsäkringar Utveckling AB

### Board of Directors of Länsförsäkringar AB

Representatives of all Länsförsäkringar regional insurance companies are convened once a year to a General Meeting to elect the Board of the jointly owned company, Länsförsäkringar AB, which, in turn, appoints the boards of subsidiary companies. In accordance with the Articles of Incorporation, the Board shall consist of not less than nine members and not more than 12.



**Sten Dunér**  
Born 1951  
Group Controller.  
Employed since 1982



**Gunnel Edenius**  
Born 1945  
Managing Director,  
Länsförsäkringar  
Utveckling.  
Employed since 2000



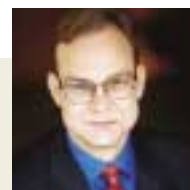
**Tomas Johansson**  
Born 1950  
Managing Director,  
Länsförsäkringar Bank.  
Employed since 2000



**Jan Lundmark**  
Born 1955  
Personnel Director.  
Employed since 2002



**Ann Sommer**  
Born 1959  
Deputy Managing  
Director,  
Managing Director,  
Länsförsäkringar Sak.  
Employed since 1988



**Hans Sterte**  
Born 1961  
Financial Director.  
Employed since 1998



## Länsförsäkringar

	Norrbotten	Västerbotten	Jämtland	Västernorrland	Gävleborg	Dalarna	Värmland	Uppsala	Bergslagen	Stockholm	Södermanland	Göteborg och Bohuslän	Skaraborg
<b>NON-LIFE INSURANCE, SEK M (Incl. Bank and Mutual Funds)</b>													
<b>INCOME (after ceded reinsurance) 2002</b>													
Premiums earned	94	271	182	219	202	508	250	322	424	1,171	268	591	276
Investment income in underwriting business	6	11	8	8	9	27	11	15	18	45	14	18	9
Claims payments	-81	-204	-149	-188	-188	-433	-212	-328	-408	-1,021	-246	-460	-256
Operating expenses	-17	-59	-46	-52	-52	-101	-52	-74	-85	-286	-56	-149	-67
Other income/expenses		,	1							-6		2	1
<b>Technical results of non-life underwriting prior to bonuses and discounts</b>	<b>2</b>	<b>19</b>	<b>-4</b>	<b>-13</b>	<b>-29</b>	<b>0</b>	<b>-3</b>	<b>-66</b>	<b>-51</b>	<b>-97</b>	<b>-20</b>	<b>2</b>	<b>-37</b>
Bonuses and discounts		-21				-78							
<b>Technical results of non-life underwriting</b>	<b>2</b>	<b>-2</b>	<b>-4</b>	<b>-13</b>	<b>-29</b>	<b>-78</b>	<b>-3</b>	<b>-66</b>	<b>-51</b>	<b>-97</b>	<b>-20</b>	<b>2</b>	<b>-37</b>
Total investment income	-29	-85	-45	-43	-49	-583	-16	-123	-123	-155	-54	-169	-97
Investment income transferred to underwriting business	-6	-11	-8	-8	-9	-27	-11	-15	-18	-45	-14	-18	-9
Results mutual funds													
Results banking													
Other revenue/expenses	-5	-9	-7	-13	-6	-15	-5	-7	-7	-17	-4	-23	-12
<b>Operating income</b>	<b>-38</b>	<b>-107</b>	<b>-64</b>	<b>-77</b>	<b>-93</b>	<b>-703</b>	<b>-35</b>	<b>-211</b>	<b>-199</b>	<b>-314</b>	<b>-93</b>	<b>-208</b>	<b>-155</b>
<b>Balance sheet, 31 december 2002</b>													
<b>ASSETS</b>													
<b>Investment assets</b>													
Shares and participations	112	397	268	273	273	1,424	169	539	690	841	496	659	457
Bonds and other interest-bearing securities	77	90	104	95	106	473	194	304	338	836	168	359	168
Other investment assets	81	592	98	74	69	116	257	65	201	1	32	174	62
<b>Total investment assets</b>	<b>270</b>	<b>1,079</b>	<b>470</b>	<b>442</b>	<b>448</b>	<b>2,013</b>	<b>620</b>	<b>908</b>	<b>1,229</b>	<b>1,678</b>	<b>696</b>	<b>1,192</b>	<b>687</b>
Assets in banking Group													
Other assets	127	154	189	211	140	488	220	229	236	526	157	425	180
<b>Total assets</b>	<b>397</b>	<b>1,233</b>	<b>659</b>	<b>653</b>	<b>588</b>	<b>2,501</b>	<b>840</b>	<b>1,138</b>	<b>1,465</b>	<b>2,204</b>	<b>853</b>	<b>1,617</b>	<b>867</b>
<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>													
Shareholders' equity	18	310	155	95	178	774	238	228	407	244	158	154	150
Untaxed reserves	60	322	179	193		636		311	295	308	246	540	210
Liabilities in banking Group													
Other liabilities	319	601	325	365	410	1,091	602	598	763	1,652	448	923	507
<b>Total shareholders' equity, reserves and liabilities</b>	<b>397</b>	<b>1,233</b>	<b>659</b>	<b>653</b>	<b>588</b>	<b>2,501</b>	<b>840</b>	<b>1,138</b>	<b>1,465</b>	<b>2,204</b>	<b>853</b>	<b>1,617</b>	<b>867</b>
<b>Of which the value of shares in Länsförsäkringar AB</b>	<b>95</b>	<b>197</b>	<b>138</b>	<b>173</b>	<b>195</b>	<b>366</b>	<b>123</b>	<b>264</b>	<b>290</b>	<b>509</b>	<b>202</b>	<b>334</b>	<b>248</b>
<b>Of which deferred tax</b>	<b>9</b>	<b>104</b>	<b>39</b>	<b>22</b>	<b>59</b>	<b>105</b>	<b>79</b>	<b>58</b>	<b>122</b>	<b>78</b>	<b>46</b>	<b>51</b>	<b>42</b>
<b>Net asset value</b>	<b>87</b>	<b>730</b>	<b>389</b>	<b>346</b>	<b>271</b>	<b>1,516</b>	<b>316</b>	<b>595</b>	<b>829</b>	<b>630</b>	<b>450</b>	<b>745</b>	<b>401</b>
<b>Solvency margin, %</b>	<b>85</b>	<b>252</b>	<b>199</b>	<b>150</b>	<b>126</b>	<b>282</b>	<b>119</b>	<b>174</b>	<b>184</b>	<b>51</b>	<b>155</b>	<b>118</b>	<b>139</b>

Länsförsäkringar is neither in legal nor practical meaning a group, but a cooperative arrangement between 24 independent regional insurance companies which jointly own Länsförsäkringar AB.

Östgöta	Älvsborg	Gotland	Jönköping	Halland	Kronoberg	Kalmar	Blekinge	Göinge	Kristianstad	Skåne	Länsförsäkringar AB Group*	Total Länsförsäkringar
536	472	79	431	262	194	287	126	101	102	775	3,716	11,859
25	21	3	15	11	7	10	6	6	3	31	755	1,092
-462	-414	-72	-410	-244	-170	-249	-122	-93	-102	-695	-3,500	-10,707
-118	-106	-21	-77	-59	-46	-54	-33	-25	-20	-159	-885	-2,699
-1						1	1		1		24	24
<b>-18</b>	<b>-28</b>	<b>-11</b>	<b>-41</b>	<b>-30</b>	<b>-15</b>	<b>-5</b>	<b>-23</b>	<b>-11</b>	<b>-16</b>	<b>-48</b>	<b>111</b>	<b>-432</b>
-52						-29						-180
<b>-71</b>	<b>-28</b>	<b>-11</b>	<b>-41</b>	<b>-30</b>	<b>-15</b>	<b>-34</b>	<b>-23</b>	<b>-11</b>	<b>-16</b>	<b>-48</b>	<b>111</b>	<b>-612</b>
-397	-198	-65	-104	-181	-52	-134	-82	-20	-37	-220	801	-1,968
-25	-21	-3	-15	-11	-7	-10	-6	-6	-3	-31	-755	-1,092
											16	16
											20	20
-21	-1	3	-19	-9	0	-6	-5	-3	-2	-36	-159	-388
<b>-513</b>	<b>-248</b>	<b>-76</b>	<b>-179</b>	<b>-231</b>	<b>-74</b>	<b>-184</b>	<b>-115</b>	<b>-40</b>	<b>-58</b>	<b>-335</b>	<b>34</b>	<b>-4,025</b>
1,172	986	183	613	531	217	446	230	177	185	966	4,293	11,078
419	399	60	133	149	86	183	183	121	124	436	11,020	16,486
406	52	75	236	193	82	264	13	88	42	253	2,332	5,858
<b>1,997</b>	<b>1,437</b>	<b>318</b>	<b>982</b>	<b>873</b>	<b>385</b>	<b>893</b>	<b>426</b>	<b>386</b>	<b>351</b>	<b>1,655</b>	<b>17,646</b>	<b>33,422</b>
											22,293	22,293
324	413	103	295	179	169	217	56	81	76	445	7,760	13,336
<b>2,321</b>	<b>1,850</b>	<b>422</b>	<b>1,277</b>	<b>1,052</b>	<b>554</b>	<b>1,110</b>	<b>482</b>	<b>466</b>	<b>427</b>	<b>2,100</b>	<b>47,699</b>	<b>69,053</b>
758	444	251	526	312	84	389	155	133	128	699	5,518	6,986
603	626			251	148	295	112	115	110			5,560
											19,203	19,203
960	780	171	751	489	322	426	215	218	189	1,401	22,978	37,302
<b>2,321</b>	<b>1,850</b>	<b>422</b>	<b>1,277</b>	<b>1,052</b>	<b>554</b>	<b>1,110</b>	<b>482</b>	<b>466</b>	<b>427</b>	<b>2,100</b>	<b>47,699</b>	<b>69,053</b>
<b>368</b>	<b>361</b>	<b>48</b>	<b>295</b>	<b>191</b>	<b>127</b>	<b>188</b>	<b>76</b>	<b>95</b>	<b>102</b>	<b>535</b>		<b>5,520</b>
<b>158</b>	<b>67</b>	<b>30</b>	<b>134</b>	<b>85</b>	<b>18</b>	<b>22</b>	<b>30</b>	<b>27</b>	<b>21</b>	<b>88</b>	<b>435</b>	<b>1,929</b>
<b>1,497</b>	<b>1,136</b>	<b>281</b>	<b>653</b>	<b>649</b>	<b>262</b>	<b>706</b>	<b>297</b>	<b>271</b>	<b>259</b>	<b>908</b>	<b>6,092</b>	<b>14,657</b>
<b>266</b>	<b>227</b>	<b>340</b>	<b>151</b>	<b>225</b>	<b>126</b>	<b>242</b>	<b>219</b>	<b>257</b>	<b>241</b>	<b>109</b>	<b>157</b>	<b>117</b>

Transactions between the Länsförsäkringar AB Group and the regional insurance companies have been eliminated in order to achieve accurate total values for Länsförsäkringar. The value of and changes in the value of Länsförsäkringar AB shares and debentures and the Länsförsäkringar AB group's liabilities to, and receivables from, the regional insurance companies have been eliminated.

\*The Länsförsäkringar Liv Försäkrings AB Group is not consolidated since this company is conducted in accordance with mutual principles.

## Income statement and balance sheets

### Länsförsäkringar Liv Försäkrings AB (publ)

SEK M	2002	2001
<b>Income statement</b>		
Premium income, gross	5,120	5,510
Premium income, net	4,996	5,404
Investment income, net	-9,791	-4,457
Claims payments	-3,190	-2,687
Change in other technical reserves	-2,669	-8,954
Operating expenses	-1,101	-999
<b>Underwriting technical result</b>	<b>-11,755</b>	<b>-11,694</b>
<b>Result before appropriations and tax</b>	<b>-11,755</b>	<b>-11,694</b>
Tax	-791	-873
<b>INCOME FOR THE YEAR</b>	<b>-12,546</b>	<b>-12,567</b>

#### Balance sheet, December 31

##### ASSETS

##### Investment assets

Buildings and land	3,961	4,840
Investments in group and associated companies	8,347	8,728

##### Other financial investment assets

– shares and participations	21,703	42,251
– bonds and other interest-bearing securities	46,007	37,256
– other financial investment assets	1,571	956
Deposits with companies which have ceded insurance	0	1

Reinsurers' proportion of technical reserves	462	354
Other assets	2,174	3,427
Prepaid expenses and accrued revenue	4,978	2,525
<b>TOTAL ASSETS</b>	<b>89,203</b>	<b>100,338</b>

##### OWNERS' EQUITY, PROVISIONS AND LIABILITIES

Owners' equity	13,667	28,386
Technical reserves (before ceded insurance)	72,802	69,629
Other provisions and liabilities	2,254	1,927
Accrued expenses and prepaid revenues	480	396
<b>TOTAL OWNERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>89,203</b>	<b>100,338</b>

### Länsförsäkringar Fondliv Försäkrings AB (publ)

SEK M	2002	2001
<b>Income statement</b>		
Premium income, gross	3,137	3,459
Premium income, net	3,131	3,453
Investment income, net	388	273
Claims payments	-548	-490
Change in other technical reserves	3,319	-192
Operating expenses	-788	-310
Decrease in value of investment assets for which the life-insurance policyholder bears the risk	-5,943	-2,659
<b>Underwriting technical result</b>	<b>-441</b>	<b>75</b>
Non-technical result	-15	-66
<b>Result before appropriations and tax</b>	<b>-456</b>	<b>9</b>
Tax	-176	-169
<b>INCOME FOR THE YEAR</b>	<b>-632</b>	<b>-160</b>

#### Balance sheet, December 31

##### ASSETS

Investment assets	68	144
Investment assets for which the life-insurance bears the risk	13,762	17,081
Other assets	209	162
Prepaid expenses and accrued revenue	1,011	1,144
<b>TOTAL ASSETS</b>	<b>15,050</b>	<b>18,531</b>

##### SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES

Shareholders' equity and untaxed reserves	562	684
Reserves for life insurance for which life-insurance policyholders bear the risk	13,763	17,082
Other provisions and liabilities	725	765
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>15,050</b>	<b>18,531</b>

## Länsförsäkringar Bank AB (publ)

SEK M	2002	2001
<b>Consolidated income statement</b>		
Interest revenue	1,143	848
Interest expense	-605	-424
<b>Net interest</b>	<b>538</b>	<b>424</b>
Commission revenue	85	71
Commission expense	-58	-23
Net income from financial transactions	0	6
Other operating revenue	84	58
<b>TOTAL OPERATING REVENUE</b>	<b>649</b>	<b>536</b>
General administration expenses	-564	-497
Depreciation	-46	-38
Other expenses	-31	-46
<b>Total costs before credit losses</b>	<b>-641</b>	<b>-581</b>
<b>Income before credit losses</b>	<b>8</b>	<b>-45</b>
Credit losses, net	-13	25
<b>Income from banking operations</b>	<b>-5</b>	<b>-20</b>
<b>Income from insurance operations</b>	<b>25</b>	<b>21</b>
<b>INCOME FOR THE YEAR</b>	<b>20</b>	<b>1</b>

### Consolidated balance sheet, December 31

Cash and balances with central banks	69	25
Lending to credit institutions	1,408	1,153
Lending to the public	19,861	12,453
Shares and participations	1	1
Bonds and other interest-bearing securities	499	1,414
Assets in insurance operations	12	36
Intangible assets	109	91
Tangible assets	30	13
Other assets	235	243
Prepaid expenses and accrued income	78	94
<b>TOTAL ASSETS</b>	<b>22,302</b>	<b>15,523</b>
Liabilities to credit institutions	267	217
Lending to and deposits from the public	16,378	13,292
Securities issued	3,706	417
Liabilities in insurance operations	5	15
Other liabilities	234	228
Accrued expenses and prepaid revenue	308	250
Deferred tax	18	18
Subordinated debt	180	80
Shareholders' equity	1,206	1,006
<b>TOTAL LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>	<b>22,302</b>	<b>15,523</b>

## Länsförsäkringar Fondförvaltning AB (publ)

SEK M	2002	2001
<b>Income statement</b>		
Revenue	304	314
Operating expenses	-290	-270
Operating income	14	44
Income from financial investments	2	1
Income after financial items	16	45
Tax on income for the year	-5	-13
<b>Income for the year</b>	<b>11</b>	<b>32</b>

### Balance sheet, December 31

<b>ASSETS</b>		
Fixed assets	16	18
Current receivables	68	75
<b>TOTAL ASSETS</b>	<b>84</b>	<b>93</b>
<b>Shareholders' equity and liabilities</b>		
Shareholders' equity	25	27
Current liabilities	59	66
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>84</b>	<b>93</b>

## Glossary

### Absolute Return fund

An Absolute Return fund is a hedge fund with a lower correlation to the market than an average hedge fund, and normally a lower downside risk.

### Alternative investments

Assets that are not currently regarded as traditional. Currently consists of Alternative Investments of Private Equity and Absolute Return funds.

### Asset allocation

Allocation between various types of assets in a portfolio, for example the desired proportion of shares, interest-bearing investments and property.

### Business volume, Bank

The sum of deposits and lending.

### Capital adequacy, Bank

The capital base in relation to risk-weighted amount. The capital base consists of equity plus subordinated loans less goodwill and book value of WASA Garanti shares. The risk-weighted amount is defined as the sum of assets in the balance sheet and off-balance sheet undertakings valued according to legal requirements concerning capital cover and major exposures of credit institutions and securities companies. Pursuant to the Swedish Act, capital adequacy must be at least 8%.

### Capital assured (Life)

Value of the policy as presented to the customer.

### Claims payments (claims costs)

The cost during the fiscal year of claims incurred whether reported to the company or not.

### Claims ratio

Relationship between cost of claims during the fiscal year and premiums earned, expressed as a percentage.

### Collective consolidation ratio (Life)

The collective consolidation ratio refers to the collective solvency margin, and is defined as the market value of the company's assets in relation to the company's total commitments, that is technical reserves and bonuses allocated.

### Combined ratio

Operating expenses plus claims costs in relation to premiums earned, expressed as a percentage.

### Computed interest (Non-life)

Premiums are paid in advance, while operating expenses and claims are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest on these investments – the computed interest – is transferred from asset-management to insurance operations.

### Credit losses

Anticipated credit losses are the difference between the amount of credit granted and the amount expected to be recovered, taking into account the borrower's ability to pay and the value of collateral. Actual losses are ascertained, for example, in bankruptcy proceedings or a settlement.

### Direct insurance

Insurance contract concluded directly between the insurer and the policyholder. In contrast to indirect insurance (reinsurance accepted), the insurance company is directly responsible to the policyholder.

### Direct yield

The net of interest income, the dividend on shares and participations, and the surplus (deficit) on the company's own real estate.

### For own account

The proportion of an insurance transaction for which the insurance company takes the risk, and which, as result, is not reinsured with another company.

### Hedge fund

Fund that, via investments in traditional markets, seeks positive yield regardless of the general trends in these markets.

### Interest-bearing (securities)

Loans issued in the market by a borrower (for example the government). Long-term securities are normally termed "bonds," while short-term lending is in the form of what are commonly called "bills."

### Interest margin, Bank

Difference between average interest on all assets and average interest on all losses.

### Investment assets

Investment assets are current or long-term assets which take the form of an investment, including real estate and securities in the case of an insurance company.

### Investment income

The net return on the following income and expenses: interest income, interest expense, dividends on shares and participations, surplus (deficit) on the company's real estate, shares, interest-bearing securities and derivatives, gains (losses) on the sale of investment assets and exchange-rate gains (losses).

### Net asset value

The sum of equity capital, deferred tax liability/claims in untaxed reserves and surplus values (under values) in total assets.

### Net investment

The difference between total purchases and sales of assets during the fiscal year.

### Operating expenses

Costs of marketing, sales and administration.

### Operating income

Income before appropriations and taxes.

### Premium income

Premiums received during the year. Premium income is a common measure of the volume of insurance business.

### Premiums earned

The proportion of premium income attributable to the fiscal year.

### Private Equity fund

Fund that buys, develops and sells unlisted companies. The bulk of investment is made in mature, profitable companies.

### Reinsurance

If an insurance company cannot, or does not wish to, assume the entire liability to policyholders, it reinsures part of its policies with other companies. In this connection, the reinsurance is said to be "ceded" by the first company and "accepted" (indirect insurance) by the second company.

### Solvency margin (Non-life)

Net asset value in relation to premium income on own account, expressed as a percentage.

### Surplus value

The positive difference between the market value of an asset and its book value as stated on the asset side of the balance sheet.

### Tactical allocation

Selection of the allocation between different types of assets in a portfolio, for example the desired proportion of shares and interest-bearing investments. The allocation depends on assessment of the market.

### Total yield

The sum of direct yield, realized gains and losses, and unrealized changes in the value of assets in relation to the average value of investment assets, defined and classified in accordance with the investment income table.

### Transfer option

Possibility of transferring pension capital from a policy with one insurer to another.

### Underwriting result (Non-life)

Premiums earned less operating expenses and the cost of claims plus income from reinsurance ceded and investment income from insurance business.



# Addresses

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## Definitions

### **Länsförsäkringar**

A partnership between the 24 regional insurance companies and Länsförsäkringar AB in coordination.

### **Regional insurance companies**

24 independent, regional mutual insurance companies, each conducting insurance operations in a specific geographical region, and responsible for virtually all customer contacts in all areas of the Alliance's operations.

### **Länsförsäkringsbolagens förening**

A non-profit-making association comprising the 24 regional insurance companies and 10 local companies. The association's aims are to further the interests of its members and promote the concept of insurance at the local level. The association is responsible for the Alliance's joint strategic development and market targets.

### **Länsförsäkringar AB**

The Parent Company of a financial Group mainly owned by the 24 regional insurance companies and 10 local insurance companies. The Group provides services to the regional insurance companies in the following areas: non-life insurance and – via subsidiaries – life insurance, banking, mutual funds, asset management and animal insurance. The Group is also responsible for the Alliance's development operations.

### **Länsförsäkringar Sak**

Conducts non-life insurance operations for the Länsförsäkringar AB Group.

### **Länsförsäkringar Liv**

Conducts traditional life insurance business and, via its Länsförsäkringar AB Fondliv subsidiary, unit-linked life insurance. Operations are managed in accordance with mutual principles, and hence all profits accrue to customers.

### **Länsförsäkringar Fonder**

Conducts mutual fund management operations.

### **Länsförsäkringar Bank**

Conducts banking operations with a focus on private individuals and the agricultural sector.

### **Länsförsäkringar Mäklarservice (broker service)**

The company is owned jointly by the regional insurance companies and Länsförsäkringar AB and offers brokers, through regional broker desks, unified action and strengthened service.

### **Agria**

Insures animals and crops.

### **EurAPCo**

European insurance alliance, in which Länsförsäkringar is one of seven partners. The EurAPCo partnership is designed to establish the prerequisites for an exchange of experience at the international level. The various partner companies operate completely independently and have total control in their national markets.

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### **Ordering annual reports**

Additional copies of this annual report can be ordered from  
Communications & Market Development, Länsförsäkringar AB  
Tel: +46-8-588 415 38, Fax: +46-8-588 433 65  
or [www.lansforsakringar.se](http://www.lansforsakringar.se)

The annual reports of the regional Länsförsäkringar insurance companies, Länsförsäkringar Liv and Länsförsäkringar Bank may be ordered from the addresses listed on page 91.

### **Production:**

n3prenör

Länsförsäkringar AB, Communications & Market Development

**Photo:** Mats Lundqvist, Andreas Johansson, Magnus Pehrsson

**Printing:** ATT Grafiska

**Translation:** The Bugli Company AB



