

Länsförsäkringar Sak Försäkringsaktiebolag
2012 Annual Report



This is Länsförsäkringar Sak

LÄNSFÖRSÄKRINGAR SAK IN BRIEF



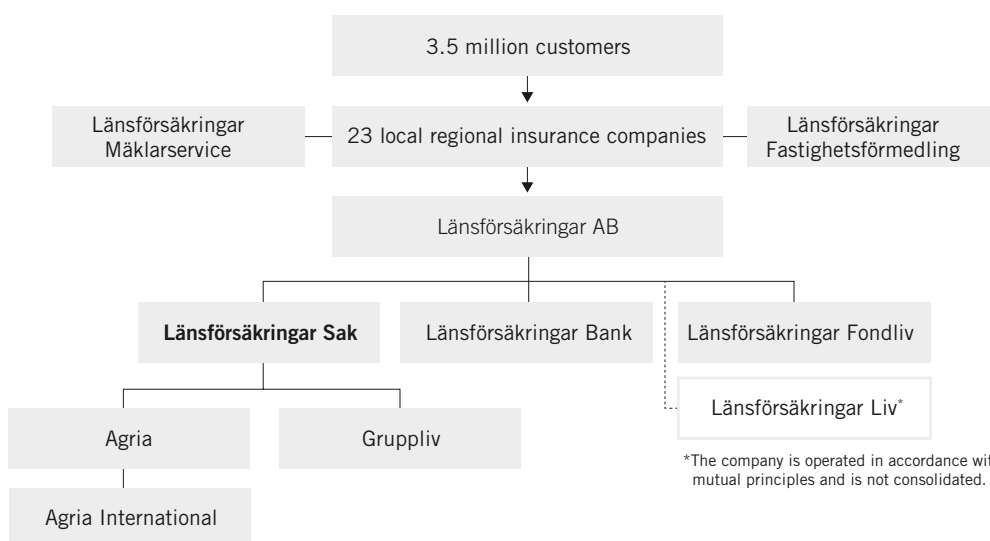
Länsförsäkringar Sak is responsible for the non-life insurance operations, including animal and crop insurance, which are conducted by Länsförsäkringar AB on the basis of the assignment from the regional insurance companies. This task involves supplementing the companies' offering with specialist products to meet customer needs and to start new business that can be channelled through the regional insurance companies. Business is conducted so that the regional insurance companies can offer customers a broad range of insurance for people, animals and property and obtain sound reinsurance coverage. Animal insurance is conducted in the Agria Djurförsäkring subsidiary and the Länsförsäkringar Alliance's reinsurance solutions are managed jointly by Länsförsäkringar Sak, which is also where internationally assumed reinsurance is underwritten. In the Länsförsäkringar Gruppliv subsidiary, group insurance is underwritten as an important part of the customer offering in the expanding Business Area Health.

LÄNSFÖRSÄKRINGAR IN BRIEF



Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. Customers are provided with a complete offering of banking, insurance and real-estate brokerage services through the regional insurance companies. Animal and crop insurance is offered through Agria Djurförsäkring and total solutions for reliable mortgage transactions are offered through Länsförsäkringar Fastighetsförmedling. The basis is local presence and decision-making; experience has proven that local decision-making authority combined with joint strength create substantial added value for customers. Long-term respect for customers' money is also fundamental to Länsförsäkringar: There are no external shareholders and customers' security being our sole task is an approach that characterises the entire business. The Länsförsäkringar Alliance has almost 3.5 million customers and approximately 5,800 employees.

Länsförsäkringar organisation 2012



*The company is operated in accordance with mutual principles and is not consolidated.



2012 IN BRIEF



- » Net profit for the year before appropriations and tax amounted to SEK 341 M (56).
- » The technical result amounted to SEK 219 M (64).
- » The total return on investment assets amounted to 3.7% (6.4).

CONTENTS

2	President's comments
3	Board of Directors' Report
8	Five-year summary
10	Income statement
10	Statement of comprehensive income
11	Performance analysis
12	Balance sheet
14	Statement of changes in shareholders' equity
14	Cash-flow statement
15	Notes
41	Auditor's report
42	Board of Directors and auditors
43	Management
44	Definitions
45	Addresses



PRESIDENT'S COMMENTS



Involvement and expertise create profitable growth

Länsförsäkringar Sak's main task vis-à-vis the regional insurance companies is to start and develop new business that can be channelled through the regional insurance companies and to supplement the companies' offerings with specialist products to meet customer requirements.

2012 was an excellent year for both insurance operations and asset management. The year was quiet, with no major disasters or storms or unexpected financial surprises. Low interest rates continued and sales of our products progressed at the pace we expected. Agria International was an exception. The past caught up with us and we incurred major losses due to previously charging premiums that were set too low. Operating profit for the Non-Life Insurance Company and its subsidiary amounted to SEK 486 M (88), a net profit for the year comprising a strong technical result for insurance operations and high investment income.

Employees have done a fantastic job. Despite intensifying competition in the market, many risks were renewed and new cover taken out in most areas. We speak about conducting profitable business and making business profitable. This means that everyone in the organisation must be involved and really make a difference to the results we deliver. Conducting profitable business, where our customer service, un-

derwriters and assistants apply the right pricing and terms. Making business profitable, by focusing on quality and efficiency in, for example, claims adjustment processes. We use Lean to support our efficiency-enhancement measures. This entails continuous refinement of our processes and a major focus on cost-efficiency. It encompasses processes in the insurance operations as well as joint processes in the Länsförsäkringar AB Group. Everyone must understand how they contribute to the whole solution, which really does work in reality.

A non-life insurance strategy provides the basis and defines the areas to be addressed and what we want to achieve. Then, in the joint business planning process for the Länsförsäkringar AB Group, we define the vision and procedure for achieving the targets defined by the Board of Directors and our owners.

We also work on performance management and leadership together with Länsförsäkringar AB to further identify the best methods for helping the organisation and our employees to reach the targets.

One of the mottoes in our business plan is "We must attract new customers every year." It is true. With very few exceptions, our business is based on one-year agreements with customers. Every year, they have to make a decision to retain us as their insurer. And if we want them to choose us, we must have the most satisfied customers and provide the best customer value. Otherwise they will choose one of our competitors. We have succeeded so far.

Business Area Health was highly successful, and we can proudly present a renewed version of the previously popular health care insurance. Preventive health services were added, including a health profile, a self-help programme and personal counselling for managers and employees.

In commercial and special insurance, marine cargo insurance in particular performed exceedingly well and business volumes are rising due to a successful renewal process and new customers. Intense competition is continuing in casualty insurance and companies that previously focused on industries alone are now also cultivating the same market as Länsförsäkringar Sak.

2012 was also a strong year for Agria Djurförsäkring. More and more customers are entrusting us to insure their animals. Growth in dog and cat insurance has been fantastic, partly due to the launch of our new dog and cat insurance on 1 April and the highly positive market response.

The year was relatively calm for assumed international reinsurance. Hurricane Sandy and crop damage in the US had a marginal impact on expected earnings.

Preparations for Solvency II have kept us all busy, but working with the internal models has proved both exciting and educational. The regulations have demonstrated much of the dependency between insurance operations and asset management.

Working continuously toward a sustainable society and the development of new areas are essential for success. Working constantly to develop the business, our working practices and employees will equip us to meet the future. Involved and skilled managers and employees are vital for success and a continued favourable result.

A handwritten signature in blue ink that reads "Ann Sommer".

Ann Sommer

President of Länsförsäkringar Sak

BOARD OF DIRECTORS' REPORT



The Board of Directors and the President of Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corporate Registration Number 502010-9681, hereby submit the Annual Report for the 2012 fiscal year. The registered office of the company is in Stockholm.

Consolidated financial statements were not prepared with reference to Chapter 7, Section 2 of the Swedish Annual Accounts Act, since the company and its subsidiaries are included in the consolidated financial statements for Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020. Figures in parentheses pertain to the preceding year.

Ownership

Länsförsäkringar Sak Försäkringsaktiebolag (publ) (referred to below as Länsförsäkringar Sak) is wholly owned by Länsförsäkringar AB (publ), which in turn is owned by 23 regional insurance companies and 14 local insurance companies.

Organisation

Länsförsäkringar Sak is the Parent Company of Försäkringsaktiebolaget Agria, Länsförsäkringar Grupplivförsäkringsaktiebolag, Länsförsäkringar Sak Fastighets AB, the partnership Utile Dulci 2 HB.

Focus of operations

Länsförsäkringar Sak conducts non-life insurance operations. The majority of non-life insurance in the Länsförsäkringar Alliance is underwritten in the local regional insurance companies with local licenses. Länsförsäkringar Sak's task is to conduct business activities in the development areas in non-life insurance and to supplement the Länsförsäkringar Alliance's offering by conducting business activities where there

is a need for specialist expertise or where economies of scale can be gained from underwriting business in Länsförsäkringar Sak. In 2012, business was underwritten in the areas of health, health care, accident, property, marine and cargo and casualty insurance. In addition, insurance cover is provided for nationwide customers in the motor fleet insurance area (motor third-party liability insurance and motor-hull insurance), run-off motor third-party liability insurance and annuities operations. The company also handles the Länsförsäkringar Alliance's internal and external reinsurance and underwrites assumed international reinsurance.

Länsförsäkringar Sak's subsidiary Försäkringsaktiebolaget Agria is a specialist company for animal and crop insurance. The subsidiary Länsförsäkringar Grupplivförsäkringsaktiebolag underwrites group life assurance and employment group life assurance. The operations in Länsförsäkringar Sak with subsidiaries are conducted jointly in Länsförsäkringar AB's Non-life insurance business unit.

Market

The non-life insurance market is mature but, measured in premiums paid, rose 1.4% during the year. Growth was primarily seen in animal insurance, accident and health insurance and motor hull insurance.

The Swedish non-life insurance market is characterised by partnerships between banks, and other organisations and companies, as well as group solutions and invest-

ments in online and mobile solutions. The main purpose of these activities is to strengthen distribution volumes and better reach customers in the situations in which needs for insurance solutions arise. The role of insurance brokers has also been strengthened, as both distributors and developers of the customer offering. Market competition is intense and cost reductions are a focus area for maintaining competitiveness. Meanwhile, the need and competition for employees with specialist expertise is increasing. Claims adjustment and claims services have become a prioritised area partly to enhance efficiency, which reduces costs, but also to enhance quality and the customer experience, by providing customers with values other than the lowest price amid intense price pressure.

In the long term, the issues of the future structure of social insurance and the potential privatisation of parts of the system will be central to the non-life insurance industry. Growing concern that social insurance in Sweden is insufficient has led to more people taking out private insurance in all areas that provide compensation in the event of illness, unemployment, accidents, death and retirement. The rising indebtedness of households also increases the need for these types of insurance. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security. Accordingly, the accident and health insurance market is expanding, increasing about 7% during the year. The market share for Länsförsäkringar Sak in accident and health insurance is stable with about 20% of the market. In the health care insurance market, competition is intense. Länsförsäkringar Sak remains a market-

leader in health care insurance, and with the market's most satisfied customers, the company is well-positioned for growth. Länsförsäkringar Sak's previously introduced deductible condition has set a new standard in the health care insurance market. All competing insurers have introduced deductibles and made changes to their insurance conditions to varying extents that are similar to Länsförsäkringar's product.

Significant events during the year

Business Area Reinsurance

2012 was a relatively calm year for the global reinsurance market and the reinsurance market showed favourable profitability. The high number of natural-disaster claims in 2011 led to price increases and stricter conditions for primarily disaster insurance. Länsförsäkringar Sak's internationally assumed business posted a positive result for the year. The largest single claims for the company were Hurricane Sandy which hit the East Coast of the US in October and claims resulting from drought-devastated maize and soya crops in the US during the summer.

Business Area Health

The personal-risk insurance market is continuing to develop and Länsförsäkringar is increasing both its premium volumes and number of policies in this area. In Business Area Health, the introduction of a new generation of group insurance policies was the first step towards modernising the market. In 2012, efforts to consolidate and convert the old products into new progressed to a third stage. The aim is to create insurance policies that are better tailored to current society. The new group insurance policies were converted according to plan and as a result, Business Area Health now has about five different standard products. This enables Länsförsäkringar to be clear in its customer communication and enhance the efficiency of its claims adjustment and customer service.

Business Area Commercial Special Insurance

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers with specialised marine and cargo, motor and property insurance solutions. The commercial-insurance market is sensitive to the economic slow-

down with premiums that, in many cases, are based on a company's sales and that are currently at relatively low levels. Although volumes in the marine and cargo insurance market remained unchanged, the marine and cargo portfolio in Länsförsäkringar Sak rose more than 10% in 2012. The establishment of new marine and cargo market players has temporarily stalled and pressure on prices has eased slightly. In casualty insurance, the fierce competition continues and companies that previously focused on industries alone are now cultivating the same market as Länsförsäkringar Sak.

Solvency II – risk-based regulatory requirements from 2015

In 2009, the EU reached an agreement on the modernisation of regulatory requirements for insurance companies, known as Solvency II. The new rules entail more rigorous demands on companies' risk management and that the demand for the minimum amount of buffer capital held by insurance companies is more closely aligned with the size of the company's risks. In 2012, efforts to introduce these rules intensified throughout the entire insurance industry. The timeframe for Solvency II has been successively postponed by the EU body. In 2012, EU negotiations concerning the Omnibus II Directive, containing proposed amendments to the Solvency II Directive, broke down. To provide better supporting data for discussions regarding "Long Term Guarantee" (LTG), an impact study will be implemented in early 2013. Pending completion of the negotiations on the final Solvency II rules, the European Insurance and Occupational Pensions Authority (EIOPA) has decided to issue guidelines on interim measures for Solvency II. EIOPA will draft the details at the start of 2013 and the measures will then be applied from January 1, 2014. It is proposed that the following areas be encompassed by the measures: 1) System of governance, including risk management system, 2) a forward-looking assessment of the undertaking's own risks (ORSA), 3) pre-application of internal models and 4) reporting to supervisors.

New standard for recognition of insurance contracts

In early 2013, the IASB is expected to present a revised draft of IFRS 4, a standard for

recognising insurance contracts. The final recommendation will be published at the end of 2014. The earliest application should thus be 2018. The aim is to produce an effective standard for recognising insurance companies' technical liabilities fairly and transparently, also during periods with low interest rates. Over the past two years, the IASB has reviewed the comments and proposals that were submitted to the proposal in 2010. The IASB has thoroughly redrafted the standard and gradually introduced changes. The new draft will once again follow the "due process" established by the IASB for the development of IFRS standards, this time with the limitation that only certain questions may be commented on.

Key events after the end of the fiscal year

No significant events were reported after the balance-sheet date.

Expectations regarding future development

The health care insurance market is constantly growing, although the pace of growth has levelled off and was about 8% according to the most recent study. A clear trend is that privately paid insurance policies are steadily reducing and company-paid policies increasing. Many small businesses view hospital waiting lists and long sick-leave periods as strong motivators for taking out health care insurance for their employees. Growth mainly takes place among the target groups of small and large businesses, with Länsförsäkringar's package solutions for greater simplicity. The market for personal-risk insurance is expected to continue growing.

The financial situation with low growth has left its mark, particularly in the export sector, which could lead to lower volumes primarily in cargo insurance and other volume-based areas. The interests of the Länsförsäkringar Alliance's corporate customers in Sweden are increasingly international and demand for commercial insurance solutions is increasing among both new and existing customers. Through the International Network of Insurance (INI), Länsförsäkringar is one of the few companies in the Swedish market that can offer customised and local insurance solutions in more than 100 countries at competitive prices.

Financial turmoil and associated higher volatility and low interest rates are expected to have a negative impact on the company's investment income in the next few years.

Risks and risk management

Länsförsäkringar Sak's largest risk exposures are considered to be its investment assets and its insurance commitments in motor third-party liability insurance, assumed reinsurance and personal risk insurance. Refer also to note 2 Risks and risk management.

Employees

Employees who feel satisfied and perform well are the key to success over time. Länsförsäkringar AB works pro-actively with a clear business focus, combined with the will to constantly improve and simplify daily procedures. Through regular monitoring, reflection and feedback on performance, the goal is to work together to achieve a culture based on our core values – Trust – Commitment – Openness – Professionalism.

Leadership and performance

Länsförsäkringar AB and the Non-life Insurance business unit have worked with performance management and a clear focus on the business and the company's core values for many years. The aim is to capitalise on each employee's potential, and drive and develop employee performance in both the long and the short term. The business unit's managers have produced a working model based on some ten different activities that have proved successful when coaching performance. Employees receive regular feedback on their performance to help them achieve the personal goals in their goal contract. Employees' personal goals are linked to the operation's business plan.

The working model for performance coaching was introduced into the Non-life Insurance business unit in 2011 and monitored during 2012.

Information regarding the average number of employees, salaries and remuneration, as well as details of salary and other remuneration to senior executives and auditors' fees, is provided in note 8.

Health and working environment

Maintaining a positive health and working environment is essential for improving performance. Employees can take part in keep-

fit activities during working hours. A major project, involving extensive reconstruction of the fitness facility where employees can participate in a range of activities, was implemented in the spring of 2012. In addition to a completely new gym with modern equipment, exercise sessions are also offered. A personal trainer is available at a subsidised price. The company's basic view is that physical activity at work increases efficiency and improves social cohesion, and that investing in health makes us even more attractive as an employer. It also helps to reduce sick leave.

All employees have health care insurance that provides rapid access to specialised care. Medical advice and follow-ups are provided through the sickness reporting service and managers can receive professional advice regarding rehabilitation for employees, if required.

Equality

Länsförsäkringar AB promotes equality in the workplace. The initial goal is to create a more even gender distribution among managers at all levels. The current distribution at Länsförsäkringar Sak, including Grupp-liv and Agria, is 47% men and 53% women. Various activities for securing a better balance have been identified, and this focus will intensify in coming years. Target figures for 2015 are 50% men and 50% women in corporate management as well as at department and Group management level. A quality-assured salary level for men and women in executive positions at all levels is another goal, as well as increasing the number of temporary project manager assignments/team leader roles specifically aimed at women who want to test managerial roles.

Länsförsäkringar AB has been nominating candidates to Ruter Dam, an executive development and mentor programme for women in management, for several years. The programme contributes to Länsförsäkringar AB's goal of increasing the number of women in management who accept executive positions in the company. Länsförsäkringar nominated women for the programme in 2013.

Focus on internal mobility and skills

Länsförsäkringar AB and the 23 regional insurance companies offer a major internal labour market and provide career develop-

ment opportunities for employees. About 500 vacant positions were advertised internally in the Länsförsäkringar Alliance. Länsförsäkringar AB's focus was to increase internal mobility. Based on the company's perspective, the aim is to create a corporate culture that stimulates internal mobility, which develops both individuals and the organisation. In order to meet future changes, the increasing demands of the economic environment and to support the regional insurance companies' development and service operations, the issue of skills is constantly relevant.

Strong employer brand

Länsförsäkringar was awarded "The Insurance Industry's Most Attractive Employer" title for the tenth consecutive year with flying colours. The award was based on the 2012 Företagsbarometer survey of views held by economics students conducted by Universum. No other insurance company was among the top 100 contenders. Among banks, Länsförsäkringar is ranked number seven, and broker students rank Länsförsäkringar Fastighetsförmedling as number three.

This is proof of a strong employer brand. Länsförsäkringar offers banking, insurance and real-estate brokerage services, and for current and potential employees, this presents major opportunities for development in a diversity of professions.

Marketing Länsförsäkringar as an attractive employer includes a social media presence, where students are active in both their free time and when seeking employment. The communication channel for this target group is a career page on Facebook and Carebook. The 23 regional insurance companies have many local partnerships with universities and colleges, which also strengthens the employer brand in the recruitment market.

Environment

For Länsförsäkringar Sak and its subsidiaries, environmental considerations are a key issue in sustainable development. Länsförsäkringar Sak's environmental management system has ISO 14001 certification. In 2012, this certification was confirmed with a new certification partner, SFK Certifiering. A new three-year period commenced, with annual follow-up audits that provide

opportunities to improve the environmental adaptation of the operations. In addition to SFK's audits of our environmental practices, our in-house trained internal environmental auditors conduct annual reviews. The Parent Company, Länsförsäkringar AB, and all regional insurance companies also hold ISO 14001 certification.

The company works continuously to reduce its environmental impact in line with its environmental policy. The company has identified areas with a negative impact on the environment. Business travel contributes to emissions of the greenhouse gas, carbon dioxide. To reduce our environmental impact, train travel is increasingly used for business trips according to the travel guidelines that apply for the entire company. To reduce the amount of business travel, meetings are conducted by telephone, video and online.

Company cars are also 100% green, according to the company's definition of green cars. The company has also installed charging stations for electric cars in its own car parks to stimulate the use of cars that do not operate on fossil fuels. Opportunities to borrow bikes and public transport travel cards for journeys throughout the day also provide an incentive for environmentally friendly travel.

Another priority is our paper-based communication with every customer. The Parent Company Länsförsäkringar AB has set a target of reducing the volume of paper-based communication to customers by 80%, by changing its dialogue with customers. Far-reaching efforts were conducted to analyse all paper-based communication and how it can be changed, resulting in activities that will be implemented in forthcoming years. Digital solutions are being developed to reduce paper consumption and the development of the Internet channel provides major opportunities for reducing paper-based communication while also improving the quality of information so as to achieve more unified and clearer customer documents. The decrease in paper consumption corresponds to the same amount of carbon dioxide emitted by 1,650 flights

between Stockholm and Gothenburg. The use of printing chemicals was also reduced by 15 tonnes when we increased the proportion of digital documents (and thus reduced the amount of paper-based documentation).

A key function with a major environmental impact is the purchasing of products and services that are used by the operations. According to the company's purchasing policy, the environmental impact of purchasing processes will be reduced to a minimum. Continuous efforts are taking place to develop environmental standards for all categories of purchasing and procurement.

The company's office properties are environmentally classified as energy-efficient and designed to promote health and sustainability, in line with the Sweden Green Building Council's certification scheme and the GreenBuilding system.

Länsförsäkringar Sak has developed and provided recycling insurance for the agriculture sector for several years. This insurance reduces the amount of environmentally harmful waste and scrap generated by agriculture. In 2012, about 24.1 tonnes of pesticide, 306.7 tonnes of waste oil, 24.5 tonnes of oil filter, 3.7 tonnes of fluorescent tubes, 29.5 tonnes of paint waste and 3,837 tonnes of scrap were collected from agricultural and rural properties. Scrap is recycled as new products and the risk of accidents for both humans and animals declines when hazardous waste is taken care of in an environmentally sound manner.

Information about our work with environmental issues is available on the intranet and our external website for all of our employees, customers and other stakeholders. To support our daily efforts, all employees undergo training in general environmental knowledge and events in the business world.

Earnings and financial position

In 2012, earnings before appropriations and tax amounted to SEK 341 M (56). Profit from insurance operations amounted to SEK 219 M (64) and the remaining invest-

ment income and other non-technical expense to SEK 122 (neg: 8).

Profit from insurance operations

Premiums earned after ceded reinsurance declined 2% compared with the preceding year and amounted to SEK 1,796 M (1,839). The decline is primarily due to lower business volumes in motor insurance and casualty insurance, which was partly offset by increased premiums earned from assumed reinsurance and accident and health insurance.

Claims payments after ceded reinsurance amounted to SEK 1,268 M (1,513), resulting in a claims ratio of 71% (82). The improvement in the claims ratio was mainly attributable to 2011 being charged with large claims in internationally assumed reinsurance and run-off gains in accident insurance.

All insurance classes posted positive results. Motor third-party liability insurance contains active insurance for corporate customers, run-off motor third-party liability insurance and annuities operations. Assumed reinsurance comprises active reinsurance and run-off business.

Technical provisions, before ceded reinsurance (gross), declined SEK 75 M and technical provisions for own account declined SEK 421 M.

The reserve run-off result, which can be described as a short-term measurement of the quality of the provision for claims incurred, amounted to SEK 82 M (196), gross, or 0.4% of the provision for claims incurred at the beginning of the year. This run-off profit was primarily attributable to accident and health insurance and commercial insurance.

Investment income transferred from financial operations amounted to SEK 144 M (169). Investment income transferred to insurance operations was a higher amount since investment income of SEK 35 M (108) corresponding to the value-preserving interest rate of discounted reserves in the claims annuities operations was entered directly in the line of change in claims outstanding. The combined ratio showed a

positive trend and continued to improve throughout the year to 96%. The percentage of business in the company with long benefit periods is high, for example, for motor third-party liability insurance, meaning that both claims costs and the investment income transferred to the insurance operations are relatively high compared with premiums earned after ceded reinsurance.

Operating expenses increased compared with the preceding year and amounted to SEK 453 M (431). The expense ratio was 25% (23). The increase in operating expenses was mainly due to expenses related to preparation for the introduction of the Solvency II regulations.

Profit from financial operations

The market value of investment assets (excluding shares and participations in Group companies) amounted to SEK 14,782 M (14,637) at year-end and the distribution among various classes of assets is shown in the table on page 8. In 2012, the total return on all investment assets, including assets for liability hedges, was 3.7% (6.4). The return for interest-bearing assets excluding liability hedges for the year was 4.8% (1.4), for equities was positive 13.0% (neg: 6.4) and for properties 6.3% (6.0), and the return for liability hedges was 0.4% (4.8). The total return, excluding liability hedges, amounted to 5.2% (2.2).

The total return includes a change in the surplus values of property in Group companies. These surplus values are not included in investment income in the income statement.

Asset management

Asset management is handled within Länsförsäkringar AB on assignment from Länsförsäkringar Sak. Using an efficient and competitive management model that takes risk levels into consideration, Länsförsäkringar Sak aims to create a stable return on the investment assets in the company in order to achieve favourable profitability over time.

During the year, risk in the portfolio remained low. With most of the total market

risk in interest-bearing assets, it has become increasingly important to supplement the governance and monitoring of asset management with a more risk-based approach whereby the interest-rate risk must always be analysed from several dimensions.

Management model

Länsförsäkringar Sak's portfolio structure for market exposure focuses on selecting the desired distribution of assets in the portfolios. Management is controlled by limiting Länsförsäkringar Sak's contribution to risk in the Non-life Group at both overall level and for individual risk categories. In addition, major importance is attached to how the desired market exposure is to be achieved. Asset management is able to employ other effective solutions to maintain passive market exposure rather than traditional management mandates. This can take place, for example, via different types of derivative instruments, which generates added value through reduced management costs and simplified business administration. The combination of these factors results in a portfolio structure that creates scope for action to capture the market exposure deemed suitable. This means that Länsförsäkringar Sak conducts portfolio management that creates scope for rapid action following changed market conditions at a lower management cost.

Organisation and control

Asset Management defines the assignments for the asset managers, specifying clear risk levels and yield requirements. The task of the managers is to create the best possible return given the framework and guidelines they have received. This may mean that the managers choose a composition of securities that deviate from that of the portfolio's benchmark index.

The outsourced management assignments are evaluated by Asset Management, which regularly analyses the asset managers and management results.

Solvency

Solvency capital declined during the year and amounted to SEK 3,539 M (3,608). The solvency margin declined to 198% (202).

Proposed appropriation of profit

According to the balance sheet of Länsförsäkringar Sak Försäkringsaktiebolag (publ), the following non-restricted equity is at the disposal of the Annual General Meeting.

Retained earnings	900,227,286 SEK
Group contribution paid	-98,500,000 SEK
Tax on Group contributions	25,905,500 SEK
Net profit/loss for the year	230,276,541 SEK
Total	1,057,909,327 SEK

The Board of Directors and President propose that SEK 1,057,909,327 of this profit be carried forward.

The Board of Directors believes that the Group contribution paid is justified taking into consideration the nature, scope and risks of the operations as well as the company's liquidity and general financial position.

The result of the year's operations and the company's financial position at December 31, 2012 are presented in the following financial statements and the accompanying notes.

Five-year summary

SEK M	2012	2011	2010	2009	2008
RESULTS					
Premiums earned (after ceded reinsurance)	1,796	1,839	1,754	1,539	1,473
Investment income transferred from financial operations	144	169	184	388	464
Claims payments (after ceded reinsurance)	-1,268	-1,513	-1,324	-1,236	-1,156
Operating expenses	-453	-431	-379	-321	-478
Other income and expenses	-	-	-	5	6
Technical result for insurance operations	219	64	235	375	309
Remaining investment income	122	-8	379	135	-3,116
Profit/loss before appropriations and tax	341	56	614	511	-2,807
Net profit/loss for the year	230	41	537	364	-1,800
Premium income (after ceded reinsurance)					
Non-life insurance	1,786	1,787	1,714	1,638	1,601
FINANCIAL POSITION					
Investment assets	14,321	14,167	13,100	13,444	13,326
Technical provisions (after ceded reinsurance)	12,059	12,480	12,216	12,234	12,539
Solvency capital					
Equity	1,262	1,451	1,201	932	406
Deferred tax	17	-39	-186	-332	-533
Untaxed reserves	1,155	1,139	1,139	1,139	1,139
Surplus values	1,104	1,056	1,000	1,098	1,049
Solvency capital	3,538	3,608	3,154	2,838	2,061
Solvency margin, %	198	202	184	173	129
Capital base	3,385	3,092	2,902	2,917	2,513
Required solvency margin	325	336	325	355	438
Capital base for the insurance group	3,281	2,846	2,742	2,417	1,970
Required solvency margin for the insurance group	826	781	802	793	833
KEY FIGURES					
Insurance operations					
Claims ratio	71	82	75	80	78
Expense ratio	25	23	22	21	32
Combined ratio	96	106	97	101	111
Asset management, %					
Direct yield	3.4	4.1	3.6	2.6	3.3
Total return, including properties in Group companies	3.7	6.4	4.3	6.4	-13.3

Direct yield

Direct yield refers to the balance of interest income, interest expense, dividends on shares and participations, and the surplus/deficit on property for the assets encompassed by the investment principles in relation to the average value of these assets during the year.

Total return ratio

Total return ratio refers to the sum of the direct yield and changes in the value of the investment portfolio for the assets encompassed by the investment principles, including direct transaction costs but excluding management costs, in relation to the average value of these assets during the year. The changes in the value of the discounted technical provisions are not included in the total return.

Investment income transferred from financial operations

With the amendment of the accounting policies for indexed annuities, this is recognised as an increased capital cost for Investment income transferred from the financial operations, to the change in provision for claims outstanding reducing the total claims payments. 2011 and 2010 have been recalculated according to the new policy, but prior years are recognised according to the previous policies.

Surplus values

Items included in Surplus values, see note 18 Shares and participations in Group companies, with information about the valuation of shares in property companies. Surplus values are calculated as the difference between the Market Value and Carrying Amount of properties in subsidiaries, adjusted by the difference between the Carrying Amount of these shares/participations in subsidiaries and Equity in the subsidiaries.

Distribution of investment assets, Länsförsäkringar Sak (including properties in Group companies)

Amounts in SEK M	Market value, Dec 31, 2012		Market value, Dec 31, 2011	
Investments		%		%
Interest-bearing	6,067	41.0	4,969	33.9
Shares and change in strategic holdings	728	5.0	1,712	11.7
Property	2,643	17.9	2,617	17.9
Liability hedge (interest-bearing)	5,344	36.1	5,339	36.5
Total	14,782	100	14,637	100

FINANCIAL STATEMENTS

Income statement	10	Note 19 Loans to Group companies	31
Performance analysis	11	Note 20 Shares and participations in associated companies	31
Balance sheet	12	Note 21 Shares and participations	31
Statement of changes in shareholders' equity	14	Note 22 Bonds and other interest-bearing securities	31
Cash-flow statement	14	Note 23 Derivatives	32
Note 1 Accounting policies	15	Note 24 Receivables, direct insurance	32
Note 2 Risks and risk management	20	Note 25 Other receivables	32
Note 3 Premium income	27	Note 26 Accrued interest income	32
Note 4 Investment income transferred from financial operations	27	Note 27 Prepaid acquisition costs	32
Note 5 Claims payments	27	Note 28 Other prepaid expenses and accrued income	32
Note 6 Operating expenses	27	Note 29 Unearned premiums and unexpired risks	33
Note 7 Fees and remuneration to auditors	27	Note 30 Claims outstanding	33
Note 8 Employees, staff costs and remuneration of senior executives	27	Note 31 Pensions and similar commitments	33
Note 9 Investment income, revenue	29	Note 32 Other provisions	33
Note 10 Investment income, expenses	29	Note 33 Liabilities, direct insurance	33
Note 11 Net investment income, per measurement category	29	Note 34 Other liabilities	33
Note 12 Unrealised gains and losses on investment assets	29	Note 35 Pensions	34
Note 13 Other non-technical expenses	29	Note 36 Other accrued expenses and deferred income	34
Note 14 Taxes	29	Note 37 Assets and liabilities per measurement category	35
Note 15 Property and equipment	29	Note 38 Anticipated recovery and settlement periods, amounts expected to be recovered	38
Note 16 Goodwill	30	Note 39 Memorandum items	38
Note 17 Other intangible assets	30	Note 40 Disclosures on related parties	39
Note 18 Shares and participations in Group companies	30	Note 41 Supplementary disclosures on income-statement items by insurance class	39

Income statement

Technical recognition of non-life insurance operations, SEK M	Note	2012	2011
Premiums earned (after ceded reinsurance)			
Premium income	3	3,709.8	3,779.4
Premiums for ceded reinsurance		-1,923.4	-1,992.0
Change in Provision for unearned premiums and unexpired risks		36.7	198.4
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks		-26.9	-146.4
Total		1,796.2	1,839.4
Investment income transferred from financial operations	4	144.3	168.9
Claims payments (after ceded reinsurance)			
Claims paid			
Before ceded reinsurance		-2,610.8	-2,832.9
Reinsurers' portion		898.0	935.2
Total	5	-1,712.8	-1,897.7
Change in Provision for claims outstanding			
Before ceded reinsurance		62.8	196.1
Reinsurers' portion		381.8	188.5
Total		444.6	384.6
Claims payments (after ceded reinsurance)		-1,268.2	-1,513.1
Operating expenses	6, 7, 8	-452.8	-430.8
TECHNICAL RESULT, NON-LIFE INSURANCE OPERATIONS		219.5	64.4
NON-TECHNICAL RECOGNITION			
Technical result, non-life insurance operations		219.5	64.4
Investment income, revenue	9	741.4	758.1
Unrealised gains on investment assets	12	20.1	451.3
Investment income, expenses	10	-204.2	-806.2
Unrealised losses on investment assets	12	-227.2	-105.6
Other non-technical expenses	13	-29.0	-28.9
Investment income transferred to non-life insurance operations		-179.1	-276.7
Profit/loss before appropriations and tax		341.5	56.4
Appropriations		-16.7	-
Profit before tax		324.8	56.4
Tax on net profit for the year	14	-94.5	-15.0
Net profit for the year		230.3	41.4

Statement of comprehensive income

SEK M	2012	2011
Net profit/loss for the year	230.3	41.4
Other comprehensive income	-	-
Total comprehensive income	230.3	41.4

Performance analysis 2012

SEK M	Total	Accident and health	Household and home-owner	Property and casualty	Motor hull	Motor third-party liability	Marine, air and cargo	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
Technical result, non-life insurance operations										
Premiums earned (after ceded reinsurance)	1,796.2	856.5	–	183.1	128.8	36.6	95.4	1,300.4	3.0	492.8
Investment income transferred from financial operations	144.3	35.8	0.1	14.3	1.8	69.4	3.2	124.6	–	19.7
Claims payments (after ceded reinsurance)	–1,268.1	–540.7	1.7	–141.9	–107.5	–54.0	–54.4	–896.8	0.2	–371.5
Operating expenses	–452.8	–230.8	–	–54.2	–20.9	–22.6	–28.0	–356.5	0.2	–96.5
Technical result, non-life insurance operations, 2012	219.6	120.8	1.8	1.3	2.2	29.4	16.2	171.7	3.4	44.5
Technical result, non-life insurance operations, 2011	64.4	11.9	29.9	20.3	–18.0	17.8	21.2	83.1	–3.5	–15.2
Gross run-off profit/loss	82.1	58.7	0.4	68.0	6.0	–9.6	0.6	124.1	0.3	–42.3
Technical provisions, before ceded reinsurance										
Provision for unearned premiums and unexpired risks	455.8	202.2	1.1	98.8	87.1	8.9	25.9	424.0	1.5	30.3
Provision for claims outstanding	18,325.4	1,585.5	2.7	930.3	28.5	8,511.7	131.0	11,189.7	0.4	7,135.3
Total technical provisions, before ceded reinsurance	18,781.2	1,787.7	3.8	1,029.1	115.6	8,520.6	156.9	11,613.7	1.9	7,165.6
Reinsurers' portion of technical provisions										
Provision for unearned premiums and unexpired risks	14.2	–	–	5.0	–	–	1.2	6.2	0.8	7.2
Provision for claims outstanding	6,707.8	12.2	0.1	24.7	1.2	371.7	3.3	413.2	0.4	6,294.2
Total reinsurers' portion of technical provisions	6,722.0	12.2	0.1	29.7	1.2	371.7	4.5	419.4	1.2	6,301.3

Notes to Performance analysis

SEK M	Total	Accident and health	Household and home-owner	Property and casualty	Motor hull	Motor third-party liability	Marine, air and cargo	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
Note A Premiums earned (after ceded reinsurance)										
Premium income	3,709.7	931.0	–	220.4	98.1	35.4	103.9	1,388.8	5.0	2,315.9
Premiums for ceded reinsurance	–1,923.4	–52.4	–	–27.0	–6.8	–7.2	–7.1	–100.5	–2.0	–1,820.9
Change in Provision for unearned premiums and unexpired risks	36.8	–22.1	–	–11.1	55.9	8.4	–1.5	29.6	–0.1	7.3
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks	–26.9	–	–	0.8	–18.4	–	0.1	–17.5	0.1	–9.5
	1,796.2	856.5	–	183.1	128.8	36.6	95.4	1,300.4	3.0	492.8
Note B Claims payments (after ceded reinsurance)										
Claims paid										
Before ceded reinsurance	–2,610.9	–578.3	0.3	–135.8	–149.3	–526.9	–57.4	–1,447.4	–0.3	–1,163.2
Reinsurers' portion	898.0	33.2	–	–33.8	31.8	74.0	1.0	106.2	0.1	791.7
Change in provision for claims outstanding										
Before ceded reinsurance	62.8	4.8	1.4	38.0	15.2	441.0	–1.3	499.1	0.3	–436.6
Reinsurers' portion	382.0	–0.4	–	–10.3	–5.2	–42.1	3.3	–54.7	0.1	436.6
	–1,268.1	–540.7	1.7	–141.9	–107.5	–54.0	–54.4	–896.8	0.2	–371.5

Balance sheet

SEK M	Note	Dec 31, 2012	Dec 31, 2011
ASSETS			
Intangible assets			
Goodwill	16	69.7	98.7
Other intangible assets	17	66.3	108.6
Total		136.0	207.3
Investment assets			
Investments in Group companies and associated companies			
Shares and participations in Group companies	18	1,845.0	1,708.1
Loans to Group companies	19	2,090.7	2,086.4
Shares and participations in associated companies	20	17.5	17.5
Other financial investment assets			
Shares and participations	21	294.0	335.8
Bonds and other interest-bearing securities	22	9,938.0	9,672.4
Derivatives	23	20.0	66.9
Other financial investment assets		52.7	238.1
Deposits with companies that have ceded reinsurance		62.7	42.1
Total		14,320.6	14,167.3
Reinsurers' portion of Technical provisions			
Unearned premiums and unexpired risks	29	14.1	41.4
Claims outstanding	30	6,707.9	6,335.0
Total		6,722.0	6,376.4
Receivables			
Receivables, direct insurance	24	326.4	243.0
Receivables, reinsurance		155.3	256.3
Other receivables	25	549.1	1,212.9
Total		1,030.8	1,712.2
Other assets			
Cash and bank balances		140.1	253.4
Property and equipment	15	2.3	–
Deferred tax	14	8.1	38.7
Total		150.5	292.1
Prepaid expenses and accrued income			
Accrued interest income	26	90.8	38.8
Prepaid acquisition costs	27	22.0	19.7
Other prepaid expenses and accrued income	28	20.3	5.5
Total		133.1	64.0
TOTAL ASSETS		22,493.0	22,819.3

Balance sheet, cont.

SEK M	Note	Dec 31, 2012	Dec 31, 2011
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital (2,000,000)		200.0	200.0
Statutory reserve		4.0	4.0
Retained earnings		827.6	1,205.8
Net profit/loss for the year		230.3	41.4
		1,261.9	1,451.2
Untaxed reserves			
Contingency reserve		1138.9	1,138.9
Tax allocation reserve		16.7	–
		1,155.6	1,138.9
Technical provisions (before ceded reinsurance)			
Unearned premiums and unexpired risks	29	455.9	504.2
Claims outstanding	30	18,325.3	18,351.9
		18,781.2	18,856.1
Other provisions			
Pensions and similar commitments	31	26.7	17.3
Deferred tax liabilities	14	24.8	–
Current tax liabilities		0.9	–
Other provisions	32	34.7	97.9
		87.1	115.2
Deposits from reinsurers			
		26.9	25.0
Liabilities			
Liabilities, direct insurance	33	575.4	569.5
Liabilities, reinsurance		311.2	257.7
Derivatives	23	4.7	207.6
Other liabilities	34	134.6	76.9
		1,025.9	1,111.7
Accrued expenses and deferred income			
Other accrued expenses and deferred income	36	154.4	121.2
TOTAL EQUITY, PROVISIONS AND LIABILITIES			
		22,493.0	22,819.3
Memorandum items			
Pledged assets	39	14,077.7	14,043.5
Contingent liabilities		52.8	46.7

Statement of changes in shareholders' equity

SEK M	Share capital	Statutory reserve	Retained earnings	Net profit for the year	Total equity
Opening equity, January 1, 2011	200.0	4.0	459.5	537.3	1,200.8
Appropriation of profit	–	–	537.3	–537.3	–
Dividends to Parent Company	–	–	–138.0	–	–138.0
Group contributions paid/received	–	–	347.0	–	347.0
Net profit for the year/Comprehensive income	–	–	–	41.4	41.4
Closing equity, December 31, 2011	200.0	4.0	1,205.8	41.4	1,451.2
Opening equity, January 1, 2012	200.0	4.0	1,205.8	41.4	1,451.2
Appropriation of profit	–	–	41.4	–41.4	–
Dividends to Parent Company	–	–	–347.0	–	–347.0
Group contributions paid/received	–	–	–72.6	–	–72.6
Net profit for the year/Comprehensive income	–	–	–	230.3	230.3
Closing equity, December 31, 2012	200.0	4.0	827.6	230.3	1,261.9

Share capital and the statutory reserve are classified as restricted equity.

Cash-flow statement

SEK M	Note	2012	2011
Operating activities			
Profit before tax		324.8	56.4
Adjustment for non-cash items		–184.2	–25.9
Tax paid		–12.3	–
Cash flow from operating activities before changes in working capital		128.3	30.5
Cash flow from changes in working capital			
Investments in investment assets, net		–516.8	151.5
Increase(–)/Decrease(+) in operating receivables		174.8	–598.4
Increase(+)/Decrease(–) in operating liabilities		53.7	57.0
Cash flow from operating activities		–160.0	–359.4
Investing activities			
Dividend from subsidiaries and associated companies		–	70.0
Loans granted	19	–46.2	–1,111.4
Repayment of loans granted		60.0	110.0
Shareholders' contribution paid to subsidiaries		–45.8	–
Investments in property and equipment		–2.3	–
Investments in intangible assets		–11.8	–15.0
Cash flow from investing activities		–46.1	–946.4
Financing activities			
Dividends to Parent Company		–347.0	–138.0
Group contributions paid/received		471.0	706.5
Cash flow from financing activities		124.0	568.5
Net cash flow for the year		–82.1	–737.3
Cash and cash equivalents, January 1		655.4	1,392.7
Cash and cash equivalents, December 31		573.3	655.4

Supplementary information to cash-flow statement

SEK M	2012	2011
Interest paid and received and dividends received		
Dividends received	14.8	10.0
Interest received	345.2	525.5
Interest paid	–29.7	–52.5
Adjustment for non-cash items		
Depreciation/amortisation and impairment of assets	83.1	105.2
Unrealised changes in currency	43.9	–
Unrealised changes in value of investment assets	207.0	–345.7
Capital gains/losses from partnerships	–91.1	–
Technical provisions after ceded reinsurance	–387.7	263.5
Change in prepaid acquisition costs	–2.3	0.0
Pension provisions	9.4	13.0
Provision for tax allocation reserve	16.7	–
Other provisions	–63.2	–61.9
	–184.2	–25.9
Cash and cash equivalents		
Cash and bank balances	140.1	253.4
Receivables from Group companies		
Länsförsäkringar Bank	315.3	182.2
Länsförsäkringar AB, Group bank account	117.9	219.8
	573.3	655.4

Notes to the financial statements

Amounts are stated in SEK M unless specified otherwise.

NOTE 1 ACCOUNTING POLICIES

Company information

The Annual Report for Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corporate Registration Number 502010-9681, domiciled in Stockholm, pertains to the fiscal year January 1 – December 31, 2012. The company's address is Tegeluddsvägen 21, SE-106 50 Stockholm, Sweden. Länsförsäkringar Sak is a wholly owned subsidiary of Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020, in which the consolidated financial statements are prepared.

The income statement and balance sheet will be adopted at the General Meeting in May 2013.

Compliance with standards and legislation

The Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (ÅRFL), the regulations of the Swedish Financial Supervisory Authority concerning annual reports in insurance companies (FFFS 2008:26, FFFS 2009:12 and FFFS 2011:28) and reporting recommendation RFR 2 issued by the Swedish Financial Reporting Board. Länsförsäkringar Sak applies legally restricted IFRS, meaning the international financial reporting standards adopted for application with the restrictions stipulated by RFR 2, FFFS 2008:26, FFFS 2009:12 and FFFS 2011:28. This means that all IFRS and interpretations approved by the EU are applied as far as possible within the framework of Swedish legislation and taking into consideration the connection between accounting and taxation.

Conditions relating to the preparation of the financial statements

The accounting policies applied below have been applied consistently for all periods presented in this Annual Report. The company's functional currency is Swedish kronor (SEK) and the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest thousand. Assets and liabilities are recognised at cost, except for certain financial assets and liabilities that are measured at fair value. Financial assets and liabilities measured at fair value comprise derivative instruments, financial assets classified as financial assets measured at fair value in profit and loss or property.

Corporate management's judgements and estimates in the financial statements

The preparation of the financial statements in accordance with legally restricted IFRS requires that management make a number of judgements and estimates, and make assumptions that affect the application of the accounting policies and the recognised amounts of assets, liabilities, income and expenses. These estimates and judgements are based on historical experience and a range of other factors considered reasonable given the prevailing circumstances. The assumptions and judgements that form the basis of the esti-

mates and judgements are reviewed regularly. The valuation of the company's provisions is described in the section below concerning the recognition of insurance contracts and in note 2, which provides information on risks in the operations.

Significant assessments utilised in the application of the company's accounting policies

Significant estimates in the application of accounting policies were made in conjunction with the decision to change the reporting of indexation of annuities from 2011. The purpose of the change is to provide a truer and fairer view of the company's claims costs and key figures for the insurance operations. The accounting policies under Investment income below provide a more detailed definition of the assessments made.

New IFRS and interpretations that have not yet been applied

New international accounting standards, amendments to standards or interpretations of these standards that take effect from 2013 will not be applied in advance. They will be applied once they are applicable. The assessment is that none of these changes will have any significant impact on Länsförsäkringar Sak's earnings or position when the new regulations are applied.

Group contributions and shareholders' contributions

Group contributions received from subsidiaries are recognised as dividends in accordance with the main rule in RFR 2, and Group contributions paid to subsidiaries are recognised as investment in shares in subsidiaries. Received and paid Group contributions from and to subsidiaries are recognised directly against retained earnings after deductions for their actual tax effect.

Shareholders' contributions are recognised directly against the recipient and capitalised in the donor's shares in the subsidiary.

Translation of foreign currencies

Transactions in foreign currency are translated to SEK when they are recognised in the accounts at the exchange rate on the date of the transaction. Assets and liabilities in foreign currency are translated to SEK by applying the exchange rate on the balance-sheet date. Unrealised exchange-rate differences that arise as a result are recognised in profit and loss as exchange-rate gains/losses under earnings for asset management. The currency futures utilised to financially hedge currency exposure in the balance sheet are measured at fair value and effects on earnings are recognised under both interest income and exchange rate gains/losses.

Related parties

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Försäkrings AB Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB and the 23 regional insurance companies.

Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the budget process. Overall, pricing is intended to distribute costs fairly within the Länsförsäkringar Alliance based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key. See note 40 Disclosures on related parties.

Insurance contracts

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

In accordance with IFRS 4 Insurance Contracts, insurance contracts are divided into either insurance contracts or non-insurance contracts based on insurance risk. Insurance products that do not involve a sufficiently significant level of insurance risk are to be classified as non-insurance contracts. An analysis of these was performed within Länsförsäkringar Sak and resulted in most insurance contracts being classified with insurance risk. Some insurance contracts of minor value were identified for which the risk is not transferred to another party. Since these are of marginal value, all contracts have been classified according to the concept of materiality as insurance contracts.

Länsförsäkringar Sak performs a loss survey of connections in its insurance provisions to ensure that the carrying amounts of the provisions are sufficiently high for the expected future cash flow.

Premium income

Premium income is recognised as the total gross premium for direct insurance and assumed reinsurance deposited or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year. Premiums for insurance periods commencing after the end of the fiscal year are also recognised as premium income, if according to contract they fall due for payment during the fiscal year.

Gross premium is the contractual premium for the entire insurance period after deductions for standard customer discounts. Renewal premiums that are not confirmed by the policyholder and premiums for recently signed insurance contracts are included at the amounts at which they are expected to be received. Cancellations reduce the premium income as soon as the amount is known. Additional premiums are included at the amounts at which they are expected to be received. Premium income is recognised excluding tax and other public fees charged to the insurance premium.

Premiums earned correspond to the portion of the premium income that is earned. Unearned premiums are recognised under Provision for unearned premiums.

Operating expenses

All operating expenses are classified in profit and loss according to the following functions: acquisition, claims adjustment, administration, commission and profit shares in ceded reinsurance, investment income expenses and, in certain cases, other technical expenses. Operating expenses for claims adjustment are recognised under Claims payments paid. Operating expenses for financial management are recognised under Investment income, expenses.

Investment income

Investment income transferred from financial operations The insurance operations have been assigned an interest totalling half the premiums earned after ceded reinsurance and the average of opening and closing provisions for claims outstanding after ceded reinsurance during the year. The interest rate is risk-free interest, which for 2012 was set at 1.8% for both short-term and long-term transactions.

The accounting policy has been changed from 2011 so that the amount of transferred investment income that corresponds to the indexation of annuities is transferred to claims payments and included in the change in the provision for claims outstanding item.

Subsequently, the net investment income that is transferred from the financial operation/to the insurance operations is an increased capital cost corresponding to the effect of the indexed annuities.

Investment income, revenue

The item Investment income, revenue refers to the return on investment assets and encompasses dividends on shares and participations, interest income, exchange-rate gains and capital gains.

Investment income, expenses

Costs for investment assets are recognised under Investment income, expenses. This item comprises operating expenses for land and buildings, asset management expenses, interest expense, exchange-rate losses, capital losses and interest-rate translation effect of the annuities.

Realised and unrealised changes in value

For investment assets measured at fair value, the capital gain is the positive difference between sales price and cost. For interest-bearing securities, cost comprises amortised cost.

Tax

Tax is recognised in accordance with IAS 12. Tax on net profit for the year comprises current tax and deferred tax. Tax is recognised in profit and loss, except when a transaction with a tax effect is recognised directly against equity.

Current tax is tax that shall be paid or received in the current year. This also includes adjustments of current tax attributable to prior periods.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities. The amounts are calculated on the basis of how the temporary differences are expected to be settled and applying the tax rates and tax rules established or announced on the balance-sheet date.

Deferred tax assets on deductible temporary differences and tax-loss carryforwards are only recognised to the extent that it is likely that they will result in lower tax payments in the future.

Intangible assets

Goodwill

Goodwill represents the difference between the cost of the acquisition of operations and the fair value of acquired identifiable assets, assumed liabilities and contingent liabilities. Goodwill is measured at cost less any accumulated impairment. Goodwill is

distributed to cash-generating units and is tested for impairment at least once annually.

The useful life has been set at five years.

Other intangible assets

Other intangible assets are recognised at cost with deductions for accumulated amortisation according to plan.

Acquired intangible fixed assets are amortised from the acquisition date. The asset comprises a customer register for the following products: accident and health insurance for adults, group accident insurance and group health insurance, and acquisitions of IT systems.

For proprietary software, amortisation commences when the system or part of the system is put into use. The assets comprise proprietary software that is deemed to be of material value for the operations in the coming year. Only expenses related to new development and major system changes are capitalised.

Capitalised development expenditures are amortised from the date on which the asset was utilised in production and over its estimated useful life.

Useful life is set at five years, except for the customer register for group accident and group health insurance, which has a useful life of eight years.

Property and equipment

Property and equipment are recognised as an asset in the balance sheet if it is probable that Länsförsäkringar Sak will receive future financial benefits and the cost of the asset can be calculated reliably.

Property and equipment are recognised at cost after deductions for accumulated depreciation and any impairment loss, plus any revaluations.

The carrying amount of a tangible asset is derecognised from the balance sheet in conjunction with disposal or divestment, or when no future financial benefits are expected from the use or disposal/divestment of the asset. Gains or losses arising on the divestment or disposal of an asset comprise the difference between the sales price and the carrying amount of the asset, less direct selling expenses.

Depreciation takes place on a straight-line basis over the asset's estimated useful life. IT equipment is depreciated over three years according to plan. Other machinery and equipment is depreciated over five years according to plan.

Subsidiaries and associated companies

Participations in subsidiaries and associated companies are recognised at cost.

Impairment of property and equipment and intangible assets and participations in subsidiaries and associated companies

The carrying amounts of assets are tested on every balance-sheet date. If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated in accordance with IAS 36. An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment losses are charged against profit and loss. The impairment of assets attributable to a cash-generating unit is initially distributed to goodwill. Proportional impairment losses on the other assets included in the unit are subsequently recognised.

The recoverable amount is the higher of fair value less selling

expenses and value in use. In the calculation of the value in use, the future cash flow is discounted with a discount factor that takes into consideration risk-free interest and the risk associated with the specific asset. An impairment loss is reversed if there is an indication that the impairment requirement no longer exists and a change has occurred in the assumptions that formed the basis of the calculation of the recoverable amount. However, impairment losses on goodwill are never reversed. A reversal is made only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, less depreciation and amortisation where applicable, if no impairment had been applied.

Investment assets

Purchases and sales of investment assets are recognised in the balance sheet on the trade date. Non-cash-settled transactions on the balance-sheet date are recognised as receivables and liabilities to counterparties under Other receivables and liabilities. Realised gains and losses comprise the difference between cost and the sales price. Realised gains and losses are recognised in Investment income, revenue and expenses. Unrealised gains and losses are the difference between cost and fair value. Previously unrealised changes in value are reversed in conjunction with sales. Unrealised gains and losses are recognised as unrealised gains and losses in profit and loss.

Financial instruments

Financial instruments recognised in the balance sheet include, on the asset side, accounts receivable, shares and other equity instruments, loan receivables, interest-bearing securities and derivatives. Accounts payable, loan liabilities and derivatives are found on the liabilities side.

Classification and valuation

The cost of a financial instrument classified as a financial asset recognised at fair value in profit and loss comprises the purchase price, excluding transaction costs. Accordingly, transaction costs for these instruments are expensed directly as asset management expenses. For other financial instruments, cost corresponds to the instrument's purchase price, including transaction costs. After the instrument has been acquired, the recognition and valuation of financial instruments depends on how the instrument is classified according to the following.

Financial assets measured at fair value in profit and loss

Financial instruments in this category are continuously measured at fair value, with changes in value recognised in profit and loss. This category has two sub-categories:

a) financial assets and liabilities that the company has initially chosen to include in this category according to the Fair Value Option. Länsförsäkringar Sak has decided to classify all of the company's asset management that is not already measured at fair value in this category. This includes derivatives with positive fair values. The company selected this classification since the financial instruments are measured based on their fair value and since the company continuously evaluates the operations of asset management based on fair values.

b) assets and liabilities that are held for trading, which are derivatives among both assets and liabilities.

Financial instruments listed on an active market

For financial instruments listed on an active market, fair value is determined based on the listed buying-rate of the asset on the balance-sheet date with no additions for transaction costs on the acquisition date. A financial instrument is considered to be listed on an active market if listed prices are readily available on an exchange, from a trader, broker or industry organisation and these prices represent actual and regularly occurring market transactions based on commercial terms.

Financial instruments not listed on an active market

If the market for a financial instrument is not active, the company determines the fair value by using a valuation technique. The valuation techniques applied are based on market data as far as possible. Valuation techniques are used for derivative instruments (OTC derivatives). The valuation techniques used for OTC derivatives comprise analyses of discounted cash flows. The valuation techniques applied are calibrated such that on initial recognition the fair value amounts to the transaction price and changes in fair value are subsequently recognised continuously based on changes that occur in the underlying market-risk parameters. Unlisted shares are recognised at fair value according to the valuation principles applied by industry organisations in Europe and the US. The item Shares and participations also includes the asset class Alternative investments, which comprise units in funds that buy, develop and sell unlisted companies (private equity) and hedge funds. Valuation data is obtained from the various funds and valuation complies with the guidelines of the European Private Equity and Venture Capital Association.

Derivatives

Derivative instruments are recognised at fair value based on externally obtained price information.

Shares and interest-bearing securities

Shares are measured at fair value. Fair value pertains to the sales value on the balance-sheet date. For shares listed on an authorised exchange or marketplace, the sales value normally pertains to the most recent buying-rate on the balance-sheet date or, if this is not available, the most recently listed price paid. Bonds and other interest-bearing securities are also measured at fair value according to the most recently listed buying-rate. Capital gains/losses on bonds and other interest-bearing securities are calculated as the difference between sales value and amortised cost. In the calculation of amortised cost, the difference between cost and exercise price are allocated in profit and loss over the remaining term. The change in amortised cost is recognised net under Interest income. Unrealised changes comprise the difference between fair value and amortised cost.

Other interest-bearing assets and liabilities

Other receivables are measured at fair value. Foreign receivables are valued in their original currency and subsequently translated at the closing day rate. Exchange-rate differences that arise are recognised net in profit and loss as exchange-rate gains/losses.

Reinsurance

Contracts signed between Länsförsäkringar Sak and reinsurers through which the company is compensated for losses on contracts

issued by the company and that meet the classification requirements for insurance contracts as stated above are classified as ceded reinsurance. Assumed reinsurance is classified in the same manner.

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical provisions and deposits with companies that have ceded reinsurance. Receivables from and liabilities to reinsurers are valued in the same manner as the amounts linked to the reinsurance contract and in accordance with the conditions of each reinsurance contract. Liabilities in reinsurance primarily comprise settlements against regional insurance companies and premiums to be paid for reinsurance contracts.

The reinsurers' portion of technical provisions corresponds to the reinsurers' responsibility for technical provisions in accordance with signed contracts. Länsförsäkringar Sak assesses the impairment requirements of assets for reinsurance contracts twice a year. If the recoverable amount is lower than the carrying amount of the asset, the asset is impaired to the recoverable amount and the impairment loss is expensed in profit and loss.

Loan receivables and accounts receivable

Loans receivable and accounts receivable are financial assets that are not derivatives, that have fixed or fixable payments and that are not listed on an active market. These assets are measured at amortised cost. Accounts receivable and loan receivables are recognised in the amount at which they are expected to be received, meaning after deductions for impaired loans.

Cash and bank balances

Cash and cash equivalents comprise cash funds and immediately available balances at banks and similar institutions. The Group account was classified as a receivable from the Parent Company and is included in the line Other receivables.

Prepaid acquisition costs for insurance contracts

Selling expenses that have a distinct link to signed insurance contracts are recognised as assets, prepaid acquisition costs, and are depreciated over their useful lives. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous groups of contracts that can be followed up, and are deemed to generate a margin that covers at least the acquisition costs intended to be capitalised. The selling expenses that are to be capitalised are commission expenses. In the non-life insurance operations, the capitalised cost is allocated in a manner corresponding to the allocation of unearned premiums. The depreciation period does not exceed 12 months.

Untaxed reserves

Changes in untaxed reserves are recognised, according to Swedish practice, in the profit and loss of each company under appropriations.

The accumulated value of the provisions is recognised under the heading Untaxed reserves in the balance sheet, of which 22% can be considered to be deferred tax liabilities and 78% as restricted equity. The deferred tax liabilities can be described as interest-free liabilities with an undetermined duration.

Untaxed reserves are offset, where appropriate, against loss carryforwards or are subject to taxation when they are dissolved.

Contingency reserve

The contingency reserve is a collective contingency-related strengthening of technical provisions. Access is limited and requires official permission in certain cases. Reversal can only take place against losses in the insurance operations or for lower volumes in the insurance operations.

Technical provisions

Technical provisions comprise Provision for unearned premiums and unexpired risk and Provision for claims outstanding.

Provision for unearned premiums and unexpired risks

Provision for unearned premiums is designed to cover the expected claims and operating expenses during the remaining time to maturity of insurance contracts already in force. The calculation includes an estimate of the expected costs for claims that may occur during the remaining term of the insurance policies and the management costs during the period.

Normally, the provision is strictly proportional to time, referred to as a pro rata temporis calculation. For certain products with small volumes, unearned premiums are not calculated as a share of the premium income. The cost estimate is based on Länsförsäkringar Sak's experience, but consideration is also given to both the observed and forecast trend in relevant costs.

Unexpired risks refers to the risk that the payment requirements of the insurance contracts and the costs will not be covered by unearned premiums and expected premiums after the end of the fiscal year.

If the premium level of insurance contracts already entered into is deemed to be insufficient, a provision is made for unexpired risks.

The change for the period in Provision for unearned premiums and unexpired risks is recognised in profit and loss. Changes attributable to the translation of the provision items to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses under the item Investment income.

Provision for claims outstanding

The provision for claims outstanding should cover anticipated costs for claims for which final settlement has not been completed, including claims that have been incurred but have not yet been reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions.

With the exception of claims annuities, the provision for claims outstanding is not discounted.

The provision for claims annuities is estimated in line with customary life-assurance methods and discounted to market interest rates under FFS 2011:22. The effect of interest-rate revaluations is recognised as a financial expense or income.

For motor third-party liability insurance, provisions are made for claims adjustment costs according to the unit cost principle. Provisions for claims adjustment costs for other types of insurance are made proportionally against the provision for claims incurred.

The provision for claims incurred but not reported (IBNR) encompasses costs for claims that have been incurred but are unknown to the company. The amount is an estimate based on historical experience and claims outcomes.

The change in claims outstanding for the period is recognised in profit and loss. Changes attributable to the translation of the provision items to the exchange rate on the balance-sheet date are recognised as exchange-rate gains or exchange-rate losses under the item Investment income.

Pensions

Pensions through insurance

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK), is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. According to IAS 19 Employee Benefits, this pension plan entails that a company shall, as a rule, recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment.

Disclosure shall also be presented in the accounts according to the requirements for defined-benefit pension plans.

FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 30 of IAS 19. Also, no information is available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

Financial liabilities measured at fair value in profit and loss

This category of instrument comprises derivatives with negative market values. All derivatives are classified as held for trading. Financial liabilities held for trading are included in the category of financial liabilities measured at fair value, with changes in value recognised in profit and loss.

Other financial liabilities

Other financial liabilities (funding and other financial liabilities, such as accounts payable) are measured at amortised cost.

Contingent liabilities

A contingent liability is recognised when there is a possible commitment originating from past events and whose occurrence is confirmed only by one or more uncertain future events or when there is a commitment that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required.

Cash-flow statement

Cash-flow statements are prepared in accordance with the indirect method. The recognised cash flow includes only transactions that involve receipts or payments.

Focus and aims of risk management

Risks constitute a significant aspect of Länsförsäkringar Sak's operational environment and business activities. An increasingly volatile financial market, and more detailed regulations, impose more and more rigorous demands on financial companies and their risk management, in particular. To manage the risks, Länsförsäkringar Sak has clearly defined strategies and areas of responsibility, together with a strong commitment to the risk-management process. Risk-management activities are implemented as part of the daily work of all units at Länsförsäkringar Sak. The Länsförsäkringar Sak Group's risk-taking is to be limited so that it is compatible with the company's A level credit rating. A compatible capital adequacy target is to be presented to the Board for a decision every year. The capital target is to be presented in the form of a target for the capital ratio between available capital and risk-based capital requirements measured according to the capital-requirement rules under Solvency II. The capital base is the amount of capital that is available for covering unexpected losses in the insurance operations or in asset management. The main purpose of risk management is to ensure that risks are identified, that risk assessment is impartial, and that the capital base is adequate in relation to the risks in the operations. This is important for being able to guarantee, with a high degree of reliability, the commitments made to customers.

Risk exposure

Länsförsäkringar Sak is exposed to a variety of risks that impact the company's financial position, earnings and target fulfilment. The following points describe Länsförsäkringar Sak's operations and risk-taking:

- Conducts operations in non-life insurance and annuities operations with discounted technical provisions.
- The operations primarily focus on small and medium-sized businesses and private individuals.
- The operations are primarily conducted in Sweden.
- The risks taken in non-life insurance are reinsured to a relatively high extent; retention is low.
- Extensive reinsurance operations are conducted on behalf of the Länsförsäkringar Alliance. The operations involve a significantly high gross level of counterparty exposure but are not deemed to entail any major net risks.
- The risks in the investment assets managed by Länsförsäkringar Sak for own account are held at a relatively low level.
- Länsförsäkringar Sak is indirectly exposed to insurance risk, market risks and property risk that arises in its holdings in subsidiaries. The Non-life Group includes the Agria Group, Länsförsäkringar Gruppliv and the property companies Utile Dulci and Länsförsäkringar Sak Fastighets AB.

Risk management organisation

The Board of Directors of Länsförsäkringar Sak is responsible for ensuring appropriate risk management and follow-up of the company's risks. Risk management contains strategies, processes and reporting procedures necessary for continuously identifying, mea-

suring, monitoring, managing and reporting the risks associated with the business activities. The risk-management process comprises continuous work and annual activities, and can differ between the various types of risk. Continuous risk-management work includes handling risk and also identifying new risks. An in-house risk and solvency analysis is performed every year and in conjunction with major changes in the operations or external business environment. Following applicable regulations, the Board establishes the frameworks for the company's risk management and risk control based on internal rules in various governance documents. The President is responsible for incorporating these governance documents into the operations. Examples of Group-wide governance documents for Länsförsäkringar Sak are the Group manual, reporting manual, guidelines for handling ethical issues, authorisation manual and security policy. In addition to the Group-wide governance documents, Länsförsäkringar Sak has its own company-specific governance documents, such as the corporate instructions, risk policy, authorisation manual, investment guidelines, insurance guidelines and guidelines for underwriting business. The governance documents are updated and then approved by the Board once each year. The Board of Länsförsäkringar Sak decides on the framework for risk-taking, for example, by adopting investment guidelines and determining the different classes of assets that are to make up the investment portfolios, as well as deciding on maximum market risk levels. Furthermore, the Board decides on the extent of reinsurance cover.

The Länsförsäkringar AB Group has a joint Finance Committee at Board level in which representatives from Länsförsäkringar Sak participate. The Finance Committee is a forum for financial analyses of the business environment and macroeconomic analyses. This Committee prepares and coordinates matters in the area of asset management. Decisions are subsequently made by the Länsförsäkringar Sak Board. The Committee also ensures compliance with investment orientations decided by the Boards and established targets.

There is an Investment Committee at management level in Länsförsäkringar Sak which is a preparatory body for the Finance Committee. The Investment Committee examines and prepares the Asset Management Unit's proposed investment orientations based on established targets, financial environment analyses, macroeconomic analyses and specified frameworks. Representatives for Länsförsäkringar Sak's corporate management, the Asset Management Unit and the Risk Control function participate in the Committee.

Ongoing management and follow-ups of different risks are performed in the business operations. Each business area at Länsförsäkringar Sak is responsible for identifying, measuring, monitoring, handling and reporting risks in their own specific areas. Risks inherent in Länsförsäkringar Sak's investment assets (market risks) are managed by the Group-wide Asset Management Unit. Insurance risks, operational risks and counterparty risks are managed in each business area.

The Risk Control function is responsible for the independent risk control, which is separate from the business operations and reports to the President and Board. The Risk Control function is also respons-

ible for keeping the President and Board continuously informed of the company's overall risk situation by submitting risk reports at least four times a year. Furthermore, the function conducts annual risk analyses for business risks and operational risks in all business areas and at management level in Länsförsäkringar Sak.

The compliance function provides support for ensuring that the operations are in compliance with regulatory requirements. The function identifies and reports on risks that may arise as a result of non-compliance with regulatory requirements.

Internal audit, which reports directly to the Boards of the Parent Company and subsidiaries, is an independent review function that comprises the Board's support in quality assurance of the organisation's risk management, governance and controls.

Risk modelling

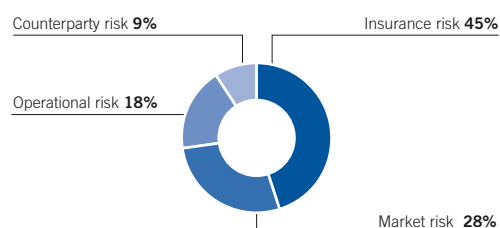
Länsförsäkringar Sak utilises a variety of analysis tools and simulation models in its risk management activities.

The aggregated risk profile for Länsförsäkringar Sak reported to the company's Board every quarter is prepared using a risk model for the Non-life Group with insurance and market risks in the company based on the standard formula of the Solvency II draft capital requirement regulations for insurance companies. The risk model is calibrated to show the risk of insolvency occurring within 12 months with a maximum probability of 0.5%.

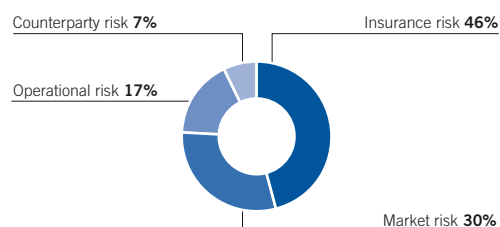
The diagram below shows the allocation of risk in Länsförsäkringar Sak on December 31, 2012 classified by primary types of risk according to the model used in 2012.

Figure 1.

Risk allocation in Länsförsäkringar Sak 2012



Risk allocation in Länsförsäkringar Sak 2011



The interaction between the different types of risk must be taken into account to evaluate the total risk level. Diversification effects in the non-life insurance operations between insurance risk, counterparty risk and market risk have been distributed proportionally. Market risk declined as a result of lower risk in investment assets and the lower counterparty risk was due to lower risk in the company's reinsurance. Otherwise, the total risk distribution between the

primary types of risk was relatively stable during the year. Länsförsäkringar Sak has had a simulation model for simultaneous analysis of non-life insurance risks and market risks for many years. Models of this nature may under the future Solvency II rules, following approval by the Swedish Financial Supervisory Authority, be approved for the calculation of legal capital requirements. Work is currently underway on the Swedish Financial Supervisory Authority's preliminary review of the internal model that is to meet the requirements imposed by Solvency II to be approved as a partial internal model.

Monitoring and governance of risk-taking and solvency

The impact of risk on the available capital is continuously monitored and capital management is closely related to the control of risk-taking. A plan for the financing of the Group's operations is prepared in conjunction with the annual business planning, and in the interim wherever necessary. The aim of this plan, which sets out the planned structure of equity and liabilities in Länsförsäkringar Sak, is to ensure that Länsförsäkringar Sak has a sufficient buffer of capital and sufficient liquidity at any time.

Risk exposure, capital requirements and available capital are continuously monitored and reported to the Board every quarter or more often if dictated by the circumstances. The connection between the level of risk and the capital requirement is becoming increasingly clear in the statutory solvency rules. Länsförsäkringar Sak has a capital base that exceeds the statutorily required solvency margin by a healthy margin. Länsförsäkringar Sak, which is obliged to submit reports under the Financial Supervisory Authority's traffic-light model in accordance with the indebtedness rules, reported significant capital surpluses in relation to the requirements imposed by the test.

Solvency II – future risk-based regulatory requirements

In 2009, the EU reached an agreement on the modernisation of regulatory requirements for insurance companies, known as Solvency II. These new rules place more rigorous demands on companies' risk management. Also, the rules stipulate that the requirements for minimum buffer capital placed on insurance companies will be more clearly linked to the size of the company's risks. The regulatory changes are extensive, affect a number of areas and, in many respects, are substantially more detailed rules than the currently applicable provisions. The timeframe for Solvency II has been successively postponed by the EU body. Pending the completion of the negotiations on the final Solvency II rules, the European Insurance and Occupational Pensions Authority (EIOPA) has decided to issue guidelines on interim measures for Solvency II. EIOPA will draft the details at the start of 2013 and the measures will then be applied from January 1, 2014. It is proposed that the following areas be encompassed by the measures: 1) System of governance, including risk management system, 2) a forward-looking assessment of the undertaking's own risks (ORSA), 3) pre-application of internal models and 4) reporting to supervisors.

A standard formula or an internal model can be used to calculate capital requirements under Solvency II. The latter is to be based on the company's own risks and is to be approved by the Financial Supervisory Authority prior to application. In January 2011, Länsförsäkringar Sak, Länsförsäkringar Fondliv and Länsförsäkringar

Liv applied to the Financial Supervisory Authority for a preparatory review of the partial internal model for calculating the Solvency Capital Requirement. The Group's insurance companies will thus be able to work with measures of capital requirement that are better aligned with the company's risks than those in the standard formula.

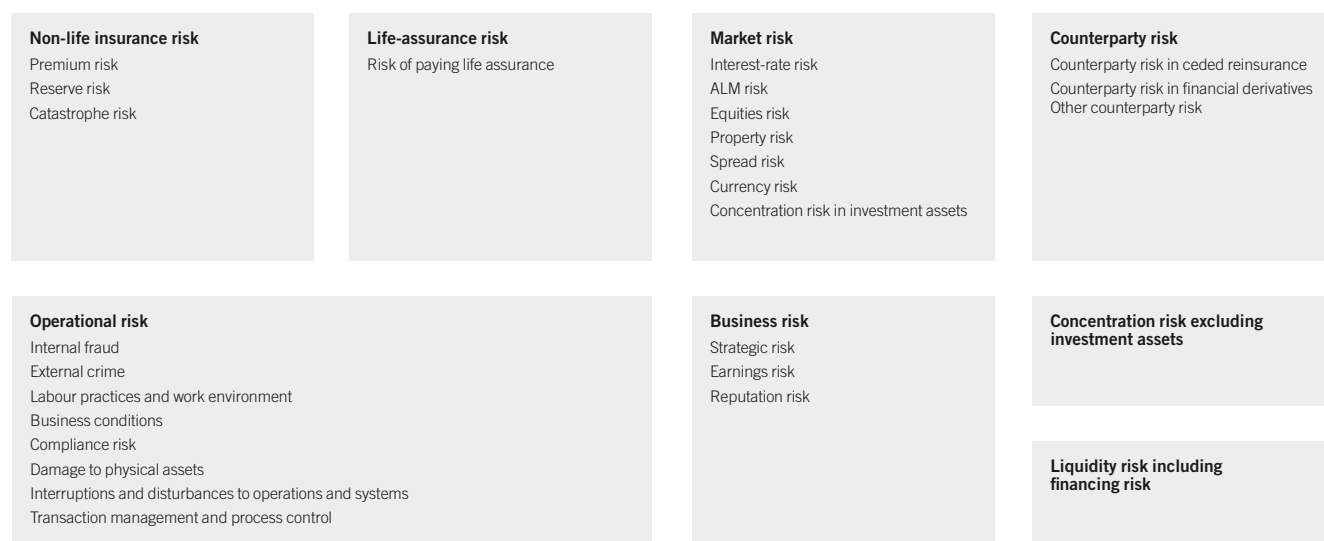
In 2012, work intensified to adapt the regulatory framework of the partial internal model and its connection to operational planning, governance and control, and in the spring of 2012 the Financial Supervisory Authority began its preliminary review which will continue according to plan in 2013. In 2012, a Own Risk and Solvency Assessment (ORSA) was performed at the Non-life Group level. The purpose of the ORSA is to ensure that the company's capital is, and remains, adequate for bearing the risks attributable to implementation of the company's strategic, business plan for the coming 3–5 years.

Länsförsäkringar has a positive view regarding the modernisation of the rules for the insurance sector under Solvency II. Länsförsäkringar AB and its subsidiaries have participated in the Solvency II preparations for several years, which has led to high volume of work and costs for the companies. The preparatory work for Solvency II is initially focusing on ensuring compliance with the regulations. A parallel endeavour is that the preparatory work will create the most possible business and customer value. This can be achieved by utilising the opportunity to improve the forms for governance, management and control of risks and allocation of capital. The purpose is to both ensure the efficiency of the work processes and to generate improved calculation tools for balancing risk limitation with opportunities for yielding returns.

Classification of risks

The following sections describe Länsförsäkringar Sak's overall risks and their governance and management. A brief description is provided for each specific risk and information about the level of exposure to the risk if it is possible to quantify. The following diagram shows the classification of risk at Länsförsäkringar Sak.

Figure 2. Classification of risk at Länsförsäkringar Sak



Non-life insurance risk

The purpose of non-life insurance operations is to transfer risk from the policyholder to the insurer. The insurer collects premiums from a large number of policyholders and undertakes to compensate them if an insured loss occurs. Correct pricing of insurance contracts is crucial for earnings in insurance operations. However, there is an inherent uncertainty in insurance operations such that unfavourable results may occur. Reinsurance is a strong instrument for reducing the fluctuation in the earnings of insurance operations.

The insurance operations in Länsförsäkringar Sak comprise the insurance classes Accident and Health, Property and Casualty, Motor Hull, Motor Third-Party Liability, Marine, Air and Cargo, and Assumed Reinsurance. Where appropriate, the Board limits insurance risks through decisions on the highest permissible retention for different types of insurance risks and on the categories of reinsurer that may be used for ceded reinsurance.

Non-life insurance risks can be divided into premium risks, reserve risks and catastrophe risks. The implications of these terms and Länsförsäkringar Sak's general methods for handling these types of risk are described below. Table 1 shows a sensitivity analysis of changed premiums earned, increased claims costs and higher claims inflation.

Table 1. Sensitivity analysis, non-life insurance risks, SEK M

	Impact on profit before tax		Impact on equity	
	2012	2011	2012	2011
10% lower premium level	-180	-184	-132	-136
10% increased claims frequency or higher average claim	-127	-151	-93	-112
1% higher annual claims inflation	-598	-586	-441	-432

Premium risk

Premium risk is the risk of losses occurring as a result of the coming year's claims being greater than expected.

In the business segments of motor third-party liability and accident insurance, a large number of independent risks are added,

resulting in a favourable balancing of risk, provided that the premium tariffs reflect the actual risk differences between the various groups in the insurance collective. Tariffs and insurance conditions are monitored regularly and adjusted when required. In other lines of business, risk selection rules and risk inspection are the key instruments for controlling premium risk, alongside premium calculation. The company also follows detailed internal underwriting guidelines (risk selection rules) to ensure correct assessment and quantification of the risk that is being underwritten.

An important element in this regard is the inspection of new and existing risks. In conjunction with inspection, claims-prevention measures are also implemented in the form of advisory services and the installation of preventive products, thereby further improving the company's risk.

In an effort to limit the risk in insurance operations, the company has insured itself against the risk of very large claims through ceded reinsurance. The company's own costs per claim incident, retention, and the limit up to which the reinsurance covers the costs per claim incident – or cover – vary from product to product. The "Guidelines for ceded reinsurance document" states the limits per counterparty and limits for retention and also limits the use of reinsurers to companies with high credit ratings. A maximum permitted liability per industry is assigned to individual reinsurers and to the reinsurer's total exposure. Maximum liability is expressed in a monetary amount and depends on the reinsurer's most recent rating based on the assessment of rating agencies, available market information and Länsförsäkringar's own information and experience regarding cash flows from the reinsurers. For more information, see under Counterparty risk below. Reinsurance for motor third-party liability insurance is managed on the basis of a pool solution in the Länsförsäkringar Alliance. This entails a certain level of exposure towards this type of business through assumed reinsurance, which leads to a slightly higher retention than the amount stated in the table below. The table below presents the reinsurance per claim incident.

Table 2. Reinsurance per claim incident, SEK M

	Dec 31, 2012		Dec 31, 2011	
	Retention	Cover	Retention	Cover
Motor third-party liability insurance	2	300	2	300
Casualty insurance	20	300	20	300
Marine and cargo insurance	5	1,000	5	1,000
Accident insurance	20	600	20	600

In addition to the information stated in the table, reinsurance cover is also purchased for internationally assumed reinsurance. Furthermore, the Länsförsäkringar Alliance's ceded, combined XL cover for natural catastrophes is insured through external catastrophe insurance.

In the case of individual risks with a risk amount exceeding the reinsurance cover, reinsurance is purchased on an individual risk basis. Most reinsurance agreements extend for one calendar year. Cover for motor third-party liability insurance is adjusted to match the limits defined in the Swedish Traffic Damage Act. For claims insured abroad, there is supplementary insurance that provides unlimited cover.

Reserve risk

Reserve risk is the risk of losses occurring as a result of a negative outcome in the development of provisions for claims outstanding.

The total undertaking for current insurance policies and for claims outstanding amounts to approximately SEK 18.8 billion (18.9). An estimate of the cost of claims outstanding – about SEK 18.3 billion (18.4) – is associated with uncertainty as to how much claims, perhaps many years ahead, may cost. This is especially apparent in motor third-party liability insurance, which accounts for a large portion of the company's undertaking. In this case, there is considerable uncertainty concerning the future cost trend, due to the fact that legislation and official decisions can affect the distribution of costs for motor third-party liability claims between the insurance companies and society, and that the prospects for rehabilitation are difficult to assess in many cases.

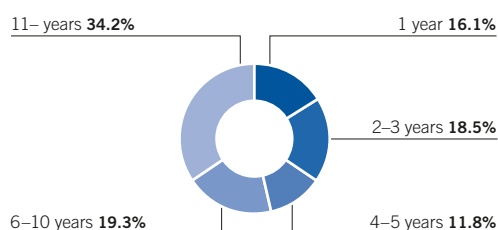
Table 3. Estimated claims costs before reinsurance

SEK M	2005	2006	2007	2008	2009	2010	2011	2012	Total
At end of claim year	858	923	1,009	966	1,115	1,084	1,024	913	
One year later	858	1,008	969	959	1,121	1,272	1,095		
Two years later	896	973	873	957	1,089	1,228			
Three years later	852	927	857	946	1,087				
Four years later	826	912	850	952					
Five years later	821	911	851						
Six years later	810	898							
Seven years later	804								
Estimated claims costs	804	898	851	952	1,087	1,228	1,095	913	
Accumulated claims payments	709	763	705	764	883	840	678	371	
Provision for claims payments	95	135	146	187	204	388	416	542	2,380
Provision for claims payments, older year classes									3,753
Provision for claims payments for assumed reinsurance									7,135
Total provision for claims payments, gross									13,268
Annuities reserve, gross									4,700
Claims adjustment reserve, gross									277
Provision for claims outstanding, gross									18,325
Provision for claims payments, reinsurers' portion									-6,703
Claims adjustment reserve, reinsurers' portion									-5
Provision for claims outstanding, reinsurers' portion									-6,708
Provision for claims outstanding, for own account									11,617

The trend in reserves is tracked continuously by means of various key figures and using comparisons with other insurance companies. The actuarial reserve calculation is developed continuously so that the methods applied are well adapted to the conditions for each line of business or part thereof. A significant element in the follow-up work is also the regular reviews of individual claims outstanding that are performed.

The average duration of Länsförsäkringar Sak's insurance portfolio is 9.3 years, in other words, relatively high due to the large portion of motor third-party liability insurance transactions. Accordingly, the changes in claims inflation have a significant impact on provision requirements. The following diagram shows how the expected payments of claims outstanding, calculated at present value, are distributed according to tenure. Table 3 shows the trend in estimated claims costs before reinsurance.

Figure 3. Estimated distribution of tenure of expected payments, calculated at present value, of claims outstanding, net



Catastrophe risk

Catastrophe risk refers to the risk of losses occurring as a result of natural catastrophes, epidemics or disasters caused by human activities leading to very large claims payments.

Länsförsäkringar Sak has low exposure to catastrophe risks for own account. Länsförsäkringar Sak administers common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural catastrophes where Länsförsäkringar Sak assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to certain catastrophe risk is in the internationally assumed reinsurance.

Life-assurance risk

Life-assurance risk at Länsförsäkringar Sak derives from the annuities operations which are subject to the risk of paying life assurance. The risk of paying life assurance is the risk of losses occurring as a result of the insured living longer than assumed and is minor in relation to the company's non-life insurance risks. However, the annuities operations are growing so risks may increase in the future.

Market risk

Market risk is the risk that the fair value of, or future cash flows from, a financial instrument or a property will vary due to changes in market prices. In the management of Länsförsäkringar Sak's assets, assessments are made of the potential for favourable returns and the risk level involved for investment strategies and operational investment decisions. The classes of assets in portfolio management are equities, interest-bearing securities and property. The aim of portfolio management is to generate the highest possible returns given the selected level of risk within the framework of legal re-

strictions and applicable investment guidelines. The Board assumes the overall responsibility by making decisions on the maximal market risk for the company that may not be exceeded.

A normal portfolio is defined to serve as the starting point for distributing investments among asset classes and regions. Analyses of the expected future returns and the risk level for the asset classes that may be included in the investment portfolios are performed continuously. Guidelines for decisions regarding the normal portfolio and short-term investment decisions are produced by asset management through the Investment Committee.

Länsförsäkringar Sak's Board then decides on the normal portfolio and the extent to which the actual portfolio may deviate from the normal portfolio. In this way, the Board takes a position on the level of risk applying to investment operations and the degree of freedom allowed to the operational management organisation in its efforts to raise the return by deviating from the normal portfolio.

Asset management is responsible for daily risk monitoring in accordance with the investment guidelines to ensure that the portfolio is within the desired and approved market risk levels. Changes in interest rates, exchange rates, share prices and prices of commodities, as well as changes in their individual volatilities, influence the market values of financial assets and liabilities. Derivative instruments are increasingly utilised in the management of investment assets in order to achieve the desired risk profile. The sensitivity analysis in the table below shows the effect on profit before tax and the impact on equity of several different negative outcomes for Länsförsäkringar Sak.

Table 4. Sensitivity analysis, market risks

	Impact on profit before tax		Impact on equity	
	2012	2011	2012	2011
Interest-rate risk, 1% higher interest rate	-65.4	-65.8	-48.2	-48.5
Equities risk, 10% lower share prices ¹⁾	-75.0	-173.2	-55.3	-141.6
Currency risk, 10% weaker SEK	-14.2	-34.2	-10.5	-25.2
Credit spread risk, 1% increase in credit spread	-140.3	-646.9	-103.4	-476.8
1% higher real interest rate (including impact on annuities)	-55.2	-81.9	-40.1	-60.3

¹⁾ Includes 10% lower prices on hedge funds.

Interest-rate risk

Interest-rate risk is the risk of losses occurring as a result of changes in the level or volatility of market interest rates. The desired risk level is described and a desired target decided for the duration with a permitted deviation interval. For the majority of Länsförsäkringar Sak's insurance undertakings, the value is not determined based on the market-interest rate, according to applicable accounting rules, meaning that technical provisions are not discounted in accordance with the present-value principle as of today. One exception is insurance undertakings for annuities, which have been discounted since 2008 since this liability is sensitive to interest rates. The interest-rate risk in annuities operations is managed with real return bonds, although these do not provide full hedging.

Exposure to interest rate changes is presented in the following table as fixed-interest periods for fixed-interest assets and liabilities, net.

Fixed-interest periods for Länsförsäkringar Sak's assets and liabilities, net (incl. derivatives), SEK M

	Less than 1 year	1–5 years	5–10 years	More than 10 years
Total Dec 31, 2012				
Fixed-interest assets				
less fixed-interest liabilities	999.8	2,222.6	634.8	4,290.0
Total Dec 31, 2011				
Fixed-interest assets				
less fixed-interest liabilities	101.8	1,407.2	1,413.9	2,079.3

The table shows the net nominal interest maturity structure.

ALM risk

ALM (asset liability management) risk pertains to the risk of losses occurring as a result of changes in one or more market-risk-related variables (such as interest rates, share prices, exchange rates, inflation) resulting in a change in the value of the assets that is not offset by a corresponding change in the value of the liabilities. Länsförsäkringar Sak governs its own risk-taking by taking into account the sensitivity of the insurance undertakings to changes in interest rates, with conscious choices about the extent to which the undertakings are matched against assets with corresponding properties.

Equities risk

Equities risk is the risk of losses occurring as a result of changes in the level or volatility of share prices or prices of alternative assets. As stated in the balance sheet, equities exposure in Länsförsäkringar Sak is low. The exposure that does exist is attributable to strategic holdings and a limited amount to listed shares.

In addition, there are certain indirect holdings and fund holdings and hedge funds. See notes 20 and 21 for more information.

Property risk

Property risk is the risk of losses occurring as a result of changes in the level or volatility of property prices. The property prices are an effect of the assumptions made on applicable yield requirements and rental levels. The assumptions on yield requirements usually follow the applicable interest-rate assumptions.

The property risk in Länsförsäkringar Sak overwhelmingly derives from the ownership of the office property in Stockholm that the Länsförsäkringar AB Group utilises for its operations, and holdings in a property company wholly owned by the Länsförsäkringar Alliance.

Credit-spread risk

Credit-spread risk is the risk of losses occurring as a result of changes in the level or volatility of the difference between market interest rates on bonds with credit risks and government securities' rates. Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit risk are made in light of prevailing market conditions and the desired level of risk-taking in the investment portfolio.

As the table below shows, the predominant proportion of Länsförsäkringar Sak's bond investments are invested in AAA-rated, Swedish government securities.

Table 6. Bond investments classified by rating¹⁾

SEK M	2012	2011
AAA – Swedish Government	6,079.7	5,432.6
AAA – other	3,487.3	919.6
AA	103.4	206.6
A	499.7	723.4
BBB or lower	653.5	1,248.8

¹⁾ Figures for 2012 include accrued interest.

Currency risk

Currency risk is the risk of losses occurring as a result of changes in the level or volatility of exchange rates. The majority of Länsförsäkringar Sak's technical provisions are denominated in SEK. The low currency exposure is due to investment assets in other currencies and the risk is limited to the desired level by the use of currency derivatives.

Table 7. Länsförsäkringar Sak's net exposure in foreign currency

Currency Equivalent in SEK M	2012	2011
EUR	-4.7	-184.9
GBP	-10.5	6.4
USD	9.2	-48.6
PLN	-6.6	-6.0
JPY	-49.5	-47.6
NOK	-32.2	-31.9
CHF	-5.9	4.9
DKK	14.6	2.5
KRW	-7.3	-3.8
RUB	-5.3	-1.4
Other currencies	-43.8	-31.3
Total	-142.0	-341.7

Counterparty risk

Counterparty risk pertains to the risk of losses occurring as a result of counterparties being unable to fulfil their undertakings and that any collateral provided not covering the receivable. Länsförsäkringar Sak's exposure to counterparty risk primarily arises through ceded reinsurance and the use of financial derivatives.

Counterparty risks to reinsurers pertain to reinsurance receivables and reinsurers' portions of claims outstanding. Predetermined regulations on the choice of reinsurance company are in place to limit counterparty risks on reinsurers. For business with long settlement periods, reinsurers are to have a minimum A rating from the Standard & Poor's rating agency and a minimum BBB rating for other types of business. In addition, efforts are made to ensure a spread of ceded reinsurance between many reinsurers, which guarantees overall high quality loans. The largest total reinsurance to a single company in 2012 was Swiss Re (AA-) and comprised 7% of the total external reinsurance receivable. The 10 largest reinsurance receivables (comprising 35% of the total external reinsurance receivables) all had a rating of A or higher.

Länsförsäkringar Sak regularly assesses impairment requirements on assets related to reinsurance contracts. Loans past due are controlled continuously.

Counterparty risks in financial derivatives are managed through regulations for approved exposure to counterparties. The size of the permitted exposure depends on the rating of the counterparty.

Exposure is limited on the basis of ISDA agreements (netting agreements) and accompanying agreements on pledging collateral for certain attained counterparty exposure.

Table 8. Financial investment assets

Credit risk exposure	SEK M	
	2012	2011
Bonds and other interest-bearing securities	9,938.0	9,672.4
Other financial investment assets	52.7	238.1
Derivatives with positive market values	20.0	66.9
Cash	140.1	253.4
Total	10,150.8	10,230.8

Table 9. Counterparty risks in financial derivatives per counterparty rating (exposure according to market values, net)

Exposure to counterparty risks	SEK M	
	2012	2011
AAA	–	–
AA	8.8	–11.0
A	–0.6	4.0

Tabell 10. Distribution of exposure of externally purchased reinsurance cover 2012

Exposure for externally purchased cover for 2012 and 2013	Percentage distribution per rating category	
	2012	2011
AAA	–	0.9
AA	48.6	36
A	49.8	63
BBB	1.6	0.5

Operational risk

Operational risk is defined as the risk of losses occurring as a result of inappropriate or unsuccessful processes, human error, incorrect systems or external events. By conducting preventive measures and applying suitable risk management and control, Länsförsäkringar Sak can reduce the probability of operational risks materialising and thus reduce their consequences. The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting.

Operational risk analyses are performed annually both at company level and in the operating activities. A joint method and reporting format are used in these analyses. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter. The Risk Control function facilitates analyses and aggregates results to each company's management group and Board. Risk Control also monitors and reports the implementation of the action plans during the year.

To meet the increasing requirements in incident handling, common system support is used with the aim of standardising operating-risk measurement methods throughout the Group. Furthermore, a continuity plan is adopted annually by executive management.

Business-critical processes and their associated risks have been analysed and documented to strengthen the internal control. In conjunction with this, the most important controls, known as key controls, were also documented. Reporting on the outcome of implemented key controls is part of identifying improvements in the quality and efficiency of Länsförsäkringar Sak's processes and enhancing the management of critical risks. Reporting also creates an overview of the aggregated control environment.

Business risk

Business risk pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. Business risk is the risk of losses occurring as a result of business strategies and business decisions proving to be misdirected, actions by competitors, changes in the external environment, negative rumours about the company and an unexpected downturn in income, for example, from volume decreases. Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations, and in the annual business planning process and also when trends in the Group's markets so warrant risk management actions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

Concentration risk

Concentration risk pertains to the risk of the company's risk exposure not being sufficiently diversified, leading to a single exposure, homogeneous group of exposures or a specific market event threatening the solvency of the company or its financial position.

Concentration risk is primarily counterbalanced by decisions determining the maximum exposure per reinsurer, per counterparty in financial derivatives, discretionary reinsurance of the insured, very large individual risks and by the diversification of the Group's investment assets. Länsförsäkringar Sak's management and Board frequently study reports on the Group's major areas of exposure and risk concentrations. From 2004, most of Länsförsäkringar's motor third-party liability insurance has been underwritten by the local regional insurance companies. Claims incurred for insurance underwritten up to and including 2003 is run-off within Länsförsäkringar Sak. The reserve risk in the Group's non-life insurance operations remains relatively heavily concentrated to motor third-party liability insurance transactions. Of the total technical provisions before ceded reinsurance of SEK 12.1 billion (12.5), 68% refers to the Motor third-party liability insurance class of insurance.

Länsförsäkringar Sak's investment assets are very highly diversified. The greatest single investment asset on December 31, 2012 was the property in Stockholm that is owned indirectly through subsidiaries and that the Group utilises. The property's market value amounted to SEK 2,250 M at year-end, corresponding to 15% of the investment assets. The other major exposures pertain to the four largest Swedish bank groups and mainly derive from investments in housing bonds. The single largest share investment pertains to the Achmea insurance company, which represents approximately 2% of the investment assets.

Liquidity risk including financing risk

Liquidity risk is the risk of losses occurring as a result of the company's undertakings not being fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss. The non-life insurance companies' liquidity risks are low since premiums are received in advance and large claims payments are known well in advance of their maturity dates. In addition, most of the investment assets are available at short notice. The Länsförsäkringar Sak Group's liquidity was highly favourable at year-end with cash and cash equivalents amounting to SEK 140.1 M (253.4).

NOTE 3 PREMIUM INCOME

	2012	2011
Direct insurance, Sweden	1,388.8	1,430.5
Direct insurance, other EEA	5.0	4.8
Assumed reinsurance	2,316.0	2,344.1
Total	3,709.8	3,779.4

NOTE 4 INVESTMENT INCOME TRANSFERRED FROM FINANCIAL OPERATIONS

	2012	2011
Transferred investment income	144.3	168.9
Interest rates, %		
Provisions for long-term claims in run-off, SEK	1.8	2.1
Provisions for motor third-party liability, not in run-off, SEK	1.8	2.1
Provisions for other insurances with long-term claims not in run-off, SEK	1.8	2.1
Provisions for insurances with short-term claims, SEK	1.8	1.9
Provisions in USD	1.8	1.9
Provisions in GBP	1.8	1.9
Provisions in EUR	1.8	1.9
Provisions in other foreign currencies	1.8	1.9

The estimated return on the assets corresponding to the technical provisions is transferred from the financial operation to the technical result. The transferred investment income is calculated on the basis of half the premiums earned after ceded reinsurance and on the basis of the average of opening and closing provisions for claims outstanding after ceded reinsurance during the year. The investment income is divided into two parts. Part is added to the annuities result by reducing the cost for the upward adjustment of the provision for annuities, and part is recognised as transferred investment income (see also Accounting policies).

NOTE 5 CLAIMS PAYMENTS

	2012	2011
Claims paid	-1,552.5	-1,724.7
Operating expenses for claims adjustment	-160.3	-173.0
Total	-1,712.8	-1,897.7

NOTE 6 OPERATING EXPENSES

Total operating expenses by type of cost	2012	2011
Staff costs	-177.1	-153.2
Costs for premises	-33.8	-33.1
Depreciation/amortisation	-54.3	-97.8
Service income	38.9	37.4
Other expenses	-510.9	-399.1
Total	-737.2	-645.8

Total operating expenses by function	2012	2011
Operating expenses in asset management	-124.1	-42.0
Operating expenses for claims adjustment	-160.3	-173.0
Operating expenses for procurement and administration	-452.8	-430.8
Total	-737.2	-645.8

Operating expenses	2012	2011
Acquisition costs ¹⁾	-276.7	-265.8
Change in Prepaid acquisition costs	2.3	0.1
Administrative expenses	-294.1	-313.5
Commission and profit shares in ceded reinsurance	115.7	148.4
Total	-452.8	-430.8
¹⁾ Of which, commission for direct insurance	-96.2	-94.4
Of which, expenses for the leasing of premises, equipment and IT equipment	-72.1	-57.8

The company rents premises, equipment and IT equipment from the Parent Company, Länsförsäkringar AB.

NOTE 7 FEES AND REMUNERATION TO AUDITORS

The following fees have been paid to auditors	2012	2011
KPMG AB, audit assignments	1.3	1.3
KPMG AB, audit activities in addition to audit assignment	-	-
KPMG AB, tax consulting	-	-
KPMG AB, other services ¹⁾	3.2	6.4

¹⁾ Of fees and cost reimbursements to auditors, other services, SEK 3.2 M (6.4) has been capitalised as Other intangible assets in the balance sheet.

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

NOTE 8 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES

Average number of employees, Sweden	2012	2011
Men	55	55
Women	84	79
Total number of employees	139	134

Salaries and other remuneration, as well as social security expenses, other employees	2012	2011
Salaries and remuneration	77.2	74.0
of which variable remuneration	-	0.7
Social security expenses	67.2	47.4
of which pension costs	32.8	19.5
Total	144.4	121.4

Board of Directors and senior executives, 15 (14)	2012	2011
Salaries and remuneration	10.2	10.5
of which fixed salary to President	2.7	2.6
of which variable salary to President	-	-
of which fixed salary to other senior executives	6.2	6.6
of which variable salary to other senior executives	-	-
Social security expenses	8.0	7.8
of which pension costs	3.8	3.7
Total	18.2	18.3

Total salaries, other remuneration and social security expenses	2012	2011
Salaries and remuneration	87.4	84.5
of which variable remuneration	-	0.8
Social security expenses	75.2	55.3
of which pension costs	36.6	23.3
Total	162.6	139.8

Remuneration of the Board of Directors

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

Remuneration of senior executives

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

NOTE 8 EMPLOYEES, STAFF COSTS AND REMUNERATION TO SENIOR EXECUTIVES, cont.
Remuneration and other benefits for senior executives (Amount in SEK 000s)

						Pension costs as a percentage of pensionable salary, %
	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Defined- contribution
2012						
Ann Sommer, President	2,749	–	3	1,187	3,939	41
Kjell Lindfors, Deputy Chairman of the Board	227	–	–	–	227	–
Jan Fock, former Deputy Chairman of the Board	110	–	–	–	110	–
Mikael Sundquist, Board member	220	–	–	–	220	–
Axel von Stockenström, Board member	176	–	–	–	176	–
Göran Spetz, Board member	176	–	–	–	176	–
Mariette Nicander, Board member	103	–	–	–	103	–
Carl Henrik Ohlsson, Board member	103	–	–	–	103	–
Anders Stigers, former Board member	73	–	–	–	73	–
Lars-Göran Pettersson, former Board member	73	–	–	–	73	–
Other senior executives						
Parent Company (5 people)	6,161	–	44	2,649	8,854	41
Subsidiaries (2 individuals)	2,904	–	7	1,171	4,082	31
Total 2012	13,075	–	54	5,007	18,136	–
Total remuneration from Parent Company	10,171	–	47	3,836	14,054	–
Total remuneration from subsidiaries	2,904	–	7	1,171	4,082	–

						Pension costs as a percentage of pensionable salary, %
	Basic salary	Variable remuneration	Other remuneration	Pension costs	Total	Defined- contribution
2011						
Ann Sommer, President	2,602	–	2	998	3,602	35
Jan Fock, Deputy Chairman of the Board	239	–	–	–	239	–
Anders Stigers, Board member	171	–	–	–	171	–
Lars-Göran Pettersson, Board member	171	–	–	–	171	–
Kjell Lindfors, Board member	171	–	–	–	171	–
Mikael Sundquist, Board member	196	–	–	–	196	–
Axel von Stockenström, Board member	171	–	–	–	171	–
Göran Spetz, Board member	171	–	–	–	171	–
Other senior executives						34
Parent Company (7 people)	6,524	–	50	2,697	9,271	–
Subsidiaries (1 individual)	2,284	–	3	805	3,092	–
Total 2011	12,700	–	55	4,500	17,255	–
Total remuneration from Parent Company	10,416	–	52	3,695	14,163	–
Total remuneration from subsidiaries	2,284	–	3	805	3,092	–

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

Pensions

The retirement age for the President is 60. The pension between 60 and 65 is a defined-contribution plan and the pension premium is to amount to 18% of the pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 65. The pension is subject to the terms of the pension agreements between the Swedish Insurance Employers Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). An additional pension premium corresponding to one price base amount per year is also paid for each individual.

Severance pay

A mutual period of notice of three months applies to the President. If termination of employment is issued by the company, the President shall also be entitled to severance pay corresponding to 24 months' salaries. For other senior executives, the period of notice follows applicable agreements between the Swedish Insurance Employers Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

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

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration to corporate management. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for any of the company's control functions.

Composition of Remuneration Committee

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

Policies for remuneration of senior executives

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

Fixed remuneration

Fixed remuneration is paid according to the general policy above.

Pension

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

Other benefits

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

Number of women among senior executives, %	Dec 31, 2012	Dec 31, 2011
Board members	22	10
Other senior executives	40	40

NOTE 9 INVESTMENT INCOME, REVENUE

	2012	2011
Dividends on shares and participations	14.8	10.0
Group contribution received from subsidiaries	–	107.6
Dividend from associated companies	3.2	–
Interest income		
Bonds and other interest-bearing securities	328.7	402.4
Other interest income	16.5	123.1
Profit from partnership participation	91.1	70.0
Exchange-rate gains, net	12.1	–
Capital gains, net		
Shares and participations in Group companies	–	37.8
Interest-bearing securities, Group companies	275.0	7.2
Shares and participations ¹⁾	–	–
Total	741.4	758.1

¹⁾ Investment assets identified as items measured at fair value in profit and loss.

NOTE 10 INVESTMENT INCOME, EXPENSES

	2012	2011
Asset management expenses	–124.1	–42.0
Interest expense		
Bonds and other interest-bearing securities	–26.1	–21.5
Other interest expense	–3.6	–31.0
Translation, annuity reserve	–31.2	–583.4
Exchange-rate losses, net	–	–116.1
Capital losses, net		
Shares and participations	–0.0	–
Other investment assets	–19.2	–12.2
Total	–204.2	–806.2

NOTE 11 NET INVESTMENT INCOME, PER MEASUREMENT CATEGORY

Profit/loss by measurement category	2012	2011
Derivative assets intended for risk management, non-hedge accounting	30.4	–92.5
Other financial assets measured at fair value in profit and loss	250.4	901.2
Other financial liabilities	–3.5	–3.5
Loan receivables and accounts receivable	5.8	7.5
Items not specified by category		
Exchange-rate gains	12.1	–116.1
Translation, non-life annuity reserve	–31.2	–583.4
Asset management expenses	–124.1	–42.0
Non-financial items included in investment income, net	155.3	118.6
Total	295.2	189.8

NOTE 12 UNREALISED GAINS AND LOSSES ON INVESTMENT ASSETS

	Unrealised gains		Unrealised losses	
Unrealised gains/losses	2012	2011	2012	2011
Shares and participations	–	–	–30.2	–68.7
Bonds and other interest-bearing securities	18.8	451.2	–197.0	–10.3
Derivatives	0.7	0.1	–	–26.6
Other financial assets	0.6	–	–	–
Total	20.1	451.3	–227.2	–105.6

NOTE 13 OTHER NON-TECHNICAL EXPENSES

	2012	2011
Amortisation, goodwill	–29.0	–28.9
Total	–29.0	–28.9

NOTE 14 TAXES

	2012	2011
Current tax	–39.1	–
Total current tax	–39.1	–
Deferred tax		
Deferred tax pertaining to temporary differences	1.4	6.0
Deferred tax income, utilised capitalised tax-loss carryforward	–56.8	–21.0
Total deferred tax	–55.4	–15.0
Total recognised tax income/expense	–94.5	–15.0
	2012	2011
Reconciliation of effective tax rate		
Profit before tax	324.8	56.4
Tax at applicable tax rate	–85.4	–14.8
Tax on non-deductible costs	–9.3	–8.8
Tax on non-taxable income	0.0	0.1
Tax attributable to earlier years	–3.0	8.5
Tax attributable to changed tax rates	3.3	–
Total tax on net profit for the year	–94.5	–15.0
Current tax rate, %	26.3%	26.3%
Effective tax rate, %	29.1%	26.7%

Recognised deferred tax assets and tax liabilities are attributable to the following:

	Deferred tax assets		Deferred tax liabilities		Net	
December 31	2012	2011	2012	2011	2012	2011
Intangible assets	–	–	4.4	16.0	4.4	16.0
Receivables	–8.1	–25.3	20.4	27.5	12.3	2.2
Utilisation of loss carryforwards	–	–56.9	–	–	–	–56.9
Deferred tax asset (–)/deferred tax liability(+)	–8.1	–82.2	24.8	43.5	16.7	–38.7
Offset	–	43.5	–	–43.5	–	–
Net deferred tax asset (–)/deferred tax liability(+)	–8.1	–38.7	24.8	–	16.7	–38.7

The company has no temporary differences with tax effects in Group or associated companies.

Change in deferred tax in temporary differences and loss carryforwards

	Amount at January 1	Recognised in equity	Recognised in profit and loss	Amount at December 3
Intangible assets	16.0	–	–11.5	4.5
Receivables	2.1	–	10.1	12.2
Utilisation of loss carryforwards	–56.8	–	56.8	–
Deferred tax assets (–)/deferred tax liabilities(+)	–38.7	–	55.4	16.7

NOTE 15 PROPERTY AND EQUIPMENT

	Dec 31, 2012	Dec 31, 2011
Cost		
Opening cost, January 1	–	–
Acquisitions during the year	2.5	–
Closing cost, December 31	2.5	–
Depreciation		
Opening accumulated depreciation, January 1	–	–
Depreciation for the year	–0.2	–
Closing accumulated depreciation, December, 31	–0.2	–
Carrying amount, December 3	2.3	–

No impairment losses have been recognised.

NOTE 16 GOODWILL

	Dec 31, 2012	Dec 31, 2011
Capitalised acquisition cost of goodwill		
Opening cost	144.4	144.4
Closing cost	144.4	144.4
Amortisation		
Opening accumulated amortisation	-45.7	-16.8
Amortisation for the year	-29.0	-28.9
Closing accumulated amortisation	-74.7	-45.7
Carrying amount at year-end	69.7	98.7

NOTE 17 OTHER INTANGIBLE ASSETS

	Internally developed IT systems	Acquired IT systems	Acquired customer- based assets	Total
Accumulated cost				
Opening cost, January 1, 2011	129.7	13.3	322.8	465.8
Acquisitions during the year	14.1	–	–	14.1
Closing cost, December 31, 2011	143.8	13.3	322.8	479.9
Opening cost, January 1, 2012	143.8	13.3	322.8	479.9
Acquisitions during the year	11.8	–	–	11.8
Closing cost, December 31, 2012	155.6	13.3	322.8	491.7
Accumulated amortisation				
Opening amortisation, January 1, 2011	-44.0	-5.3	-179.8	-229.1
Amortisation for the year	-4.8	-2.7	-60.1	-67.6
Closing amortisation, December 31, 2011	-48.8	-8.0	-239.9	-296.7
Opening amortisation, January 1, 2012	-48.8	-8.0	-239.9	-296.7
Amortisation for the year	-3.5	-2.6	-48.0	-54.1
Closing amortisation, December 31, 2012	-52.3	-10.6	-287.9	-350.8
Accumulated impairment				
Opening impairment, January 1, 2011	-65.8	–	–	-65.8
Impairment for the year	-8.8	–	–	-8.8
Closing impairment, December 31, 2011	-74.6	–	–	-74.6
Opening impairment, January 1, 2012	-74.6	–	–	-74.6
Closing impairment, December 31, 2012	-74.6	–	–	-74.6
Carrying amount				
Dec 31, 2011	20.4	5.3	82.9	108.6
Dec 31, 2012	28.7	2.7	34.9	66.3

Acquisitions for the year pertain to proprietary systems. All intangible assets were amortised, see the accounting policies.

NOTE 18 SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Carrying amount, property	Market value, property	Equity Dec 31, 2012	Of which profit 2012	Carrying amount, Dec 31, 2012
Agria Försäkrings AB	516401-8003	Stockholm	40,000	100	–	–	429.0	83.1	823.8
Länsförsäkringar Sak Fastighets AB	556683-6416	Stockholm	1,000	100	67.9	393.0	68.0	-0.0	68.0
Länsförsäkringar Grupplivförsäkrings AB	516401-6692	Stockholm	28,000	100	–	–	217.7	30.5	338.8
Utile Dulci 2 HB	916601-0067	Stockholm	3,996	100	1,271.6	2,247.8	417.5	91.1	614.4
Total December 31, 2012							1,132.2	204.7	1,845.0
Total December 31, 2011							884.3	240.8	1,708.1

All shares and participations are unlisted.

Cost	Dec 31, 2012	Dec 31, 2011
Opening balance	1,708.1	1,638.1
Added and deducted assets	136.9	70.0
Closing balance	1,845.0	1,708.1
Total carrying amount	1,845.0	1,708.1

NOTE 19 LOANS TO GROUP COMPANIES

	Dec 31, 2012	Dec 31, 2011
Promissory notes to Utile Dulci 2 HB	915.0	975.0
Länsförsäkringar Bank AB (publ)	442.0	399.2
Länsförsäkringar Hypotek AB (publ)	733.7	712.2
Total	2,090.7	2,086.4

The loan to Utile Dulci 2 HB is current. The interest-rate period is determined by STIBOR, three-months at a time. Interest dates are March 31, June 30, September 30 and December 31. Matures on demand. With respect to Länsförsäkringar Hypotek, the loan comprises listed bonds.

NOTE 20 SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Share of equity %	Equity Dec 31, 2012	Profit, 2012	Carrying amount, Dec 31, 2012
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29	0.7	-0.0	0.0
Consulting AB Lennermark och Andersson	556131-2223	Örebro	1,582	29	45.8	12.1	10.7
European Alliance Partners Company AG ¹⁾	CH-0203026423-1	Zürich	10,570	14	55.7	2.9	6.8
Total							17.5

All shares and participations are unlisted.

Cost	Dec 31, 2012	Dec 31, 2011
Opening balance	17.5	17.5
Added and deducted assets	–	0.0
Closing balance	17.5	17.5
Total carrying amount	17.5	17.5

Summary of financial information pertaining to associated companies

Information pertains to Länsförsäkringar Sak's participating interest

	2012	2011
Income	47.6	46.0
Earnings	3.9	1.1
Assets	32.2	36.7
Liabilities	11.0	16.0
Equity	21.2	20.7

¹⁾ The reason that European Alliance Partners Company AG is classified as an associated company despite the fact that the participating interest is less than 20% is that Länsförsäkringar Sak is deemed to have a significant influence in the company. Länsförsäkringar Sak is represented on the company's Board of Directors and is entitled to participate in all decisions to be made, including strategic issues and issues regarding guidelines, budget and business plans. Furthermore, a large amount of information is exchanged with the company.

NOTE 21 SHARES AND PARTICIPATIONS

	Fair value Dec 31, 2012	Fair value Dec 31, 2011
Unlisted shares and participations	294.0	335.8
Total	294.0	335.8
Cost	333.7	333.8

Shares and participations are measured at fair value in profit and loss.

NOTE 22 BONDS AND OTHER INTEREST-BEARING SECURITIES

	Fair value Dec 31, 2012	Fair value Dec 31, 2011
Issued by		
Swedish government	6,054.8	5,432.6
Swedish mortgage institutions	2,080.3	1,166.5
Other Swedish issuers	1,152.5	566.1
Other foreign issuers	650.4	2,507.2
Total	9,938.0	9,672.4
Market status		
Securities listed	9,938.0	9,672.4
Amortised cost	9,355.7	8,828.0

The carrying amounts of the securities compared with their nominal amounts

	Dec 31, 2012	Dec 31, 2011
Carrying amount	9,938.0	9,672.4
Nominal value	7,396.9	7,300.0
Difference	2,541.1	2,372.4
Total surplus	2,541.6	2,377.9
Total deficit	-0.5	-5.5
Net difference	2,541.1	2,372.4

NOTE 23 DERIVATIVES**Derivative instruments with positive values or valued at zero**

	Fair value		Nominal amounts	
	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Interest-rate derivatives	0.8	–	710.2	–
Currency derivatives	19.2	66.9	1,563.0	8,520.8
Total	20.0	66.9	2,273.2	8,520.8

Derivatives with negative values

	Fair value		Nominal amounts	
	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Interest-rate derivatives	0.1	0.1	30.0	1,290.4
Currency derivatives	4.6	207.5	812.4	8,661.8
Total	4.7	207.6	842.4	9,952.1

NOTE 24 RECEIVABLES, DIRECT INSURANCE

	Dec 31, 2012	Dec 31, 2011
Receivables, policyholders	301.4	198.0
Receivables, insurance brokers	24.5	41.9
Receivables, insurance companies	0.5	3.1
Total	326.4	243.0

NOTE 25 OTHER RECEIVABLES

	Dec 31, 2012	Dec 31, 2011
Receivables, Group companies	388.8	369.2
Receivables, Parent Company	148.3	680.4
Receivables, Länsförsäkringar Liv Försäkrings AB	0.1	2.8
Other receivables	11.9	160.5
Total	549.1	1,212.9

NOTE 26 ACCRUED INTEREST INCOME

	Dec 31, 2012	Dec 31, 2011
Accrued interest rates pertaining to Group companies	17.8	17.4
Other accrued interest rates	73.0	21.4
Total	90.8	38.8

NOTE 27 PREPAID ACQUISITION COSTS

	Dec 31, 2012	Dec 31, 2011
Opening prepaid costs	19.7	19.7
Amortisation for the year	–19.7	–19.7
Provision for the year	22.0	19.7
Total	22.0	19.7

All acquisition costs have an amortisation period of less than one year.

NOTE 28 OTHER PREPAID EXPENSES AND ACCRUED INCOME

	Dec 31, 2012	Dec 31, 2011
Other accrued income	1.5	1.5
Other prepaid expenses	18.8	4.0
Total	20.3	5.5

NOTE 29 UNEARNED PREMIUMS AND UNEXPIRED RISKS

	Dec 31, 2012			Dec 31, 2011		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
<i>Unearned premiums</i>						
Opening balance	479.8	40.3	439.5	639.4	171.7	467.7
Provisions during the period	-23.3	-25.7	2.4	-161.6	-131.4	-30.2
Exchange-rate changes	-11.6	-0.5	-11.1	2.0	-	2.0
Closing balance	444.9	14.1	430.8	479.8	40.3	439.5
<i>Unexpired risk</i>						
Opening balance	24.4	1.1	23.3	61.2	16.1	45.1
Provisions during the period	-13.4	-1.1	-12.3	-36.8	-15.0	-21.8
Closing balance	11.0	0.0	11.0	24.4	1.1	23.3
Total of unearned premiums and unexpired risks	455.9	14.1	441.8	504.2	41.4	462.8

NOTE 30 CLAIMS OUTSTANDING

	Dec 31, 2012			Dec 31, 2011		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
Claims incurred and reported	8,186.7	2,304.0	5,882.7	8,600.6	2,289.9	6,310.7
Claims incurred and not reported	5,228.7	4,025.2	1,203.5	5,133.8	3,853.0	1,280.8
Annuities	4,635.1	-	4,635.1	3,793.8	0.0	3,793.8
Claims adjustment costs	301.4	5.8	295.6	324.7	6.6	318.1
Total opening balance	18,351.9	6,335.0	12,016.9	17,852.9	6,149.5	11,703.4
Provisions for the period	-62.8	381.8	-444.6	-196.1	188.5	-384.6
Exchange-rate changes	-29.8	-8.1	-21.6	3.9	-2.5	6.4
Effect of interest-rate revaluations for claims annuities	31.2	-	31.2	583.4	-	583.4
Enumeration of provision for claim annuities ¹⁾	34.8	-	34.8	107.8	-	107.8
Impairment	-	-0.8	0.8	-	-0.5	0.5
Total change for the year	-26.6	372.9	-399.4	499.0	185.5	313.5
Claims incurred and reported	6,078.8	2,342.5	3,736.3	8,186.7	2,304.0	5,882.7
Claims incurred and not reported	7,189.2	4,360.8	2,828.5	5,228.7	4,025.2	1,203.5
Annuities	4,779.9	-	4,779.2	4,635.1	-	4,635.1
Claims adjustment costs	277.4	4.6	272.8	301.4	5.8	295.6
Total closing balance	18,325.3	6,707.9	11,617.5	18,351.9	6,335.0	12,016.9

¹⁾ Please note that Transferred investment income does not include provision for annuities, and the discount rate for the annuities is 2.65%.

NOTE 31 PENSIONS AND SIMILAR COMMITMENTS

	Dec 31, 2012	Dec 31, 2011
Provisions for early retirement in accordance with pension agreement, SEK 000s		
Opening balance	17.3	10.6
Provision(+)/reversal (-) for the year	9.4	6.7
Closing balance	26.7	17.3

According to the pension agreement for the insurance sector, persons born in 1955 or earlier can voluntarily retire at the age of 62. The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on a summary of the ages and annual pensions calculated as an average per age group. A probability assessment has determined that 20% will utilise the option for early retirement. The remaining 80% is recognised under contingent liabilities.

NOTE 32 OTHER PROVISIONS

	Dec 31, 2012	Dec 31, 2011
Provision for contractual obligations	21.4	87.7
Other provisions	13.3	10.2
Total	34.7	97.9

NOTE 33 LIABILITIES, DIRECT INSURANCE

	Dec 31, 2012	Dec 31, 2011
Liabilities, policyholders	292.4	268.1
Liabilities, insurance brokers	3.1	7.9
Liabilities, insurance companies	279.9	293.6
Total	575.4	569.5

NOTE 34 OTHER LIABILITIES

	Dec 31, 2012	Dec 31, 2011
Liabilities, Group companies	99.3	-
Liability to the Parent Company	18.1	-
Other liabilities	17.2	76.9
Total	134.6	76.9

NOTE 35 PENSIONS
Defined-benefit pension plans

The company has a defined-benefit pension plan that is a pension agreement for 2006 for the insurance sector. Persons born in 1955 or earlier are entitled to voluntarily retire from the age of 62. The terms and conditions of this plan are designed such that the pension comprises about 65% of the pensionable salary at age 62. In addition to this plan, there are a number of minor plans that almost only encompass employees who have already reached retirement age. These plans cover old-age pensions and in some cases also survivor's pension. The pension amounts are paid in relation to the final salary level when the employee retires and in the vast majority of cases are life annuities. In the event that enumeration of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

	Dec 31, 2012	Dec 31, 2011
Pension commitments		
Provisions for pensions	5.7	6.2
Other provisions	14.4	10.7
Total	20.1	16.9
Of the amounts recognised as Pension provisions, only the following amounts are encompassed by the Swedish Pension Obligations Vesting Act.	5.7	6.2
The year's change in capital value of own commitments for which there are no separated assets		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	10.7	10.7
Income/expense excluding interest expense that impacted earnings	3.7	-0.4
Interest expense	0.0	0.4
Capital value at December 31	14.4	10.7
The year's change in capital value of own commitments which are wholly or partly covered by separated assets:		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	6.2	6.5
Pensions paid	-1.2	-1.2
Other change in capital value	0.7	0.9
Capital value at December 31	5.7	6.2
The year's change in the capital value of the company's own commitments		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	16.9	17.1
Income/expense excluding interest expense that impacted earnings	3.7	-0.4
Interest expense	0.0	0.4
Pensions paid	-1.2	-1.2
Other change in capital value	0.7	1.0
Capital value at December 31	20.1	16.9
Fair value of separated assets		
Fair value on January 1	16.7	17.0
Return on separated assets	0.6	0.9
Payments to and from pension foundations	-1.2	-1.2
Surplus on separated assets (Fair value of separated assets to the extent that the value does not affect the company's accounts)	-9.7	-9.9
Fair value on December 31	6.4	6.8
Net pension commitments on December 31	13.7	10.1

	Dec 31, 2012	Dec 31, 2011
Cost regarding pensions		
The company's own pensions		
Income/expense excluding interest expense	3.7	-0.3
Interest expense	0.0	0.4
Return on separated assets	0.6	0.9
Cost of the company's own pensions	4.3	1.0
Costs covered by surplus in separated assets	-0.6	-0.9
Recognised net cost attributable to pensions	3.7	0.1
Fair value of separated assets		
Participations in fixed-income funds	17.3	16.7
Cash and bank balances	2.2	2.2
Other assets	0.0	0.1
Liabilities	-9.8	-8.9
Total	9.7	10.1
Return as a percentage of separated assets	4.0%	4.8%
Assumptions pertaining to defined-benefit commitments		
Discount rate	0.4%	2.3%
Percentage expected to retire voluntarily at age 62	30.0%	20.0%
Future salary increases	0.0%	3.0%
Capital in separated assets that exceeds the capital value of pension commitments to employees. This surplus is not recognised in the balance sheet.	9.7	9.9

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees.

	Dec 31, 2012	Dec 31, 2011
Expenses for defined-contribution plans	23.3	20.6

NOTE 36 OTHER ACCRUED EXPENSES AND DEFERRED INCOME

	Dec 31, 2012	Dec 31, 2011
Premiums, received but not due	105.8	51.0
Other deferred income	4.6	9.6
Accrued holiday and overtime remuneration	9.1	8.4
Accrued expenses to the Parent Company	11.0	24.7
Other accrued expenses	23.9	27.5
Total	154.4	121.2

NOTE 37 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY

Dec 31, 2012	Loan receivables and accounts receivable	Financial assets measured at fair value in profit and loss		Non- financial assets	Total carrying amount	Fair value (financial assets)
		Financial assets measured at fair value	Held for trading			
ASSETS						
Goodwill	–	–	–	69.7	69.7	–
Other intangible assets	–	–	–	66.4	66.4	–
Participations in Group companies	–	–	–	1,845.0	1,845.0	–
Shares and participations in associated companies	–	–	–	17.5	17.5	–
Loans to Group companies	–	2,090.7	–	–	2,090.7	2,090.7
Shares and participations	–	294.0	–	–	294.0	294.0
Bonds and other interest-bearing securities	–	9,937.9	–	–	9,937.9	9,937.9
Derivatives	–	–	20.0	–	20.0	20.0
Other financial assets	–	52.7	–	–	52.7	52.7
Deposits with companies that have ceded reinsurance	–	–	–	62.7	62.7	–
Reinsurers' portion of technical provisions	–	–	–	6,721.9	6,721.9	–
Receivables, direct insurance	–	–	–	326.4	326.4	–
Receivables, reinsurance	–	–	–	155.3	155.3	–
Other receivables	–	–	–	549.1	549.1	–
Deferred tax assets	–	–	–	8.1	8.1	–
Property and equipment	–	–	–	2.3	2.3	–
Cash and bank balances	140.1	–	–	–	140.1	140.1
Prepaid expenses and accrued income	–	73.0	–	60.2	133.2	73.0
Total assets	140.1	12,448.3	20.0	9,884.6	22,493.0	12,608.4

	Financial assets measured at fair value in profit and loss		Other financial liabilities	Non-financial liabilities	Total carrying amount	Fair value (financial liabilities)
	Financial liabilities measured at fair value	Held for trading				
LIABILITIES						
Technical provisions	–	–	–	18,781.2	18,781.2	–
Other provisions	–	–	–	86.2	86.2	–
Deposits from reinsurers	–	–	–	26.9	26.9	–
Liabilities, direct insurance	–	–	–	575.4	575.4	–
Liabilities, reinsurance	–	–	–	311.2	311.2	–
Derivatives	–	4.7	–	–	4.7	4.7
Other liabilities	–	–	4.6	130.9	135.5	4.6
Accrued expenses and deferred income	–	–	–	154.4	154.4	–
Total liabilities	–	4.7	4.6	20,066.2	20,075.5	9.3

NOTE 37 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY, cont.

Dec 31, 2011	Loan receivables and accounts receivable	Financial assets measured at fair value in profit and loss		Non- financial assets	Total carrying amount	Fair value (financial assets)
		Financial assets measured at fair value	Held for trading			
ASSETS						
Goodwill	–	–	–	98.7	98.7	–
Other intangible assets	–	–	–	108.6	108.6	–
Participations in Group companies	–	–	–	1,708.1	1,708.1	–
Shares and participations in associated companies	–	–	–	17.5	17.5	–
Loans to Group companies	–	2,086.4	–	–	2,086.4	2,086.4
Shares and participations	–	335.8	–	–	335.8	335.8
Bonds and other interest-bearing securities	–	9,672.4	–	–	9,672.4	9,672.4
Derivatives	–	–	66.9	–	66.9	66.9
Other financial assets	–	238.1	–	–	238.1	238.1
Deposits with companies that have ceded reinsurance	–	–	–	42.1	42.1	–
Reinsurers' portion of technical provisions	–	–	–	6,376.4	6,376.4	–
Receivables, direct insurance	–	–	–	243.0	243.0	–
Receivables, reinsurance	–	–	–	256.3	256.3	–
Other receivables	164.7	–	–	1,048.2	1,212.9	164.7
Deferred tax assets	–	–	–	38.7	38.7	–
Cash and bank balances	243.0	–	–	10.4	253.4	243.0
Prepaid expenses and accrued income	–	38.8	–	25.2	64.0	38.8
Total assets	407.7	12,371.5	66.9	9,973.2	22,819.3	12,846.1

	Financial assets measured at fair value in profit and loss		Other financial liabilities	Non-financial liabilities	Total carrying amount	Fair value (financial liabilities)
	Financial liabilities measured at fair value	Held for trading				
LIABILITIES						
Technical provisions	–	–	–	18,856.1	18,856.1	–
Other provisions	–	–	–	115.2	115.2	–
Deposits from reinsurers	–	–	–	25.0	25.0	–
Liabilities, direct insurance	–	–	–	569.5	569.5	–
Liabilities, reinsurance	–	–	–	257.7	257.7	–
Derivatives	–	207.6	–	–	207.6	207.6
Other liabilities	–	–	24.5	52.4	76.9	24.5
Accrued expenses and deferred income	–	–	2.1	119.1	121.2	2.1
Total liabilities	–	207.6	26.6	19,995.0	20,229.2	234.2

NOTE 37 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY, cont.

Applied valuation techniques by class of financial instruments

Level note for financial instruments measured at fair value in profit for the year

Level 1: According to prices listed in an active market for the same instrument.

Level 2: Based on direct or indirect observable market data not included in Level 1.

Level 3: Based on input that is not observable in the market. Larger individual unlisted investments are measured by an independent external party. Small holdings are measured at equity per share based on the most recent company report. Delisted, insolvent companies are measured at zero, if no other listing can be found. For holdings in Private Equity funds, measurement data is received quarterly from each fund. Measurement complies with the guidelines of the European Private Equity and Venture Capital Association. The measurement is certified by each fund's external auditors.

	Dec. 31, 2012				Dec. 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Shares and participations	–	3.4	290.6	294.0	–	3.3	332.5	335.8
Bonds and other interest-bearing securities	11,113.6	915.0	–	12,028.6	10,783.8	975.0	–	11,758.8
Derivatives	0.8	19.2	–	20.0	–	66.9	–	66.9
Other investments	52.7	–	–	52.7	238.1	–	–	238.1
LIABILITIES								
Derivatives	0.0	4.7	–	4.7	–	207.6	–	207.6

Financial instruments measured at fair value according to Level 3 above.

	Financial assets measured at fair value in profit and loss		Financial assets measured at fair value in profit and loss
	Financial assets measured according to fair value option		Financial assets measured according to fair value option
	Shares and participations		Shares and participations
	Dec. 31, 2012		Dec. 31, 2011
Opening balance, January 1, 2012	332.5	Opening balance, January 1, 2011	411.3
Total profits and losses recognised:		Total profits and losses recognised:	
– recognised in net profit for the year	–41.9	– recognised in net profit for the year	–78.8
Sales proceeds, sales	0.0	Sales proceeds, sales	–
Transfer to level 3	–	Transfer to level 3	–
Closing balance, December 31, 2012	290.6	Closing balance, December 31, 2011	332.5

NOTE 38 ANTICIPATED RECOVERY AND STATEMENT PERIODS, AMOUNTS EXPECTED TO BE RECOVERED

	Dec. 31, 2012			Dec. 31, 2012		
	Not more than 1 year	More than 1 year	Total	Not more than 1 year	More than 1 year	Total
ASSETS						
Goodwill	28.9	40.8	69.7	28.9	69.8	98.7
Other intangible assets	34.5	31.9	66.4	65.0	43.6	108.6
Participations in Group companies	–	1,845.0	1,845.0	–	1,708.1	1,708.1
Shares and participations in associated companies	–	17.5	17.5	–	17.5	17.5
Loans to Group companies	–	2,090.7	2,090.7	–	2,086.4	2,086.4
Shares and participations	–	294.0	294.0	–	335.8	335.8
Bonds and other interest-bearing securities	1,782.3	8,155.6	9,937.9	99.1	9,573.3	9,672.4
Derivatives	20.0	–	20.0	66.9	–	66.9
Other financial assets	–	52.7	52.7	–	238.1	238.1
Deposits with companies that have ceded reinsurance	62.7	–	62.7	42.1	–	42.1
Reinsurers' portion of technical provisions	544.2	6,177.7	6,721.9	6,376.4	–	6,376.4
Receivables, direct insurance	326.4	–	326.4	243.0	–	243.0
Receivables, reinsurance	155.3	–	155.3	256.3	–	256.3
Other receivables	549.1	–	549.1	1,212.9	–	1,212.9
Deferred tax assets	8.1	–	8.1	38.7	–	38.7
Property and equipment	0.2	2.1	2.3	–	–	–
Cash and bank balances	140.1	–	140.1	253.4	–	253.4
Prepaid expenses and accrued income	133.2	–	133.2	64.0	–	64.0
Total assets	3,785.0	18,708.0	22,493.0	8,746.7	14,072.6	22,819.3
LIABILITIES						
Technical provisions	1,913.0	16,868.2	18,781.2	6,165.9	12,690.2	18,856.1
Other provisions	–	61.3	61.3	–	115.2	115.2
Deposits from reinsurers	26.9	–	26.9	25.0	–	25.0
Current tax liabilities	1.0	–	1.0	–	–	–
Deferred tax liabilities	–	24.8	24.8	–	–	–
Liabilities pertaining to direct insurance	575.4	–	575.4	569.5	–	569.5
Liabilities, reinsurance	311.2	–	311.2	257.7	–	257.7
Derivatives recognised as liabilities	4.7	–	4.7	207.5	0.1	207.6
Other liabilities	134.7	–	134.7	76.9	–	76.9
Accrued expenses and deferred income	154.3	–	154.3	121.2	–	121.2
Total liabilities	3,121.2	16,954.3	20,075.5	7,423.7	12,805.5	20,229.2

NOTE 39 MEMORANDUM ITEMS

	Dec. 31, 2012	Dec. 31, 2011		Dec. 31, 2012	Dec. 31, 2011
Pledged assets			Contingent liabilities		
Total registered investment assets on behalf of policyholders	14,077.7	13,855.6	Part-owner of Utile Dulci 2 HB	5.0	15.7
– of which pertain to preferential commitments	14,077.7	13,855.6	Early retirement at age 62 in accordance with pension agreement, 80%	47.8	29.1
Bank balance/bonds	–	187.9	Letter of Credit	–	1.9
Total	14,077.7	14,043.5	Total	52.8	46.7

The technical liabilities which correspond to registered assets amount to SEK 13,075.7 M.

Registered assets in accordance with Chapter 6, Section 30 of the Swedish Insurance Business Act amount to SEK 14,077.7 M. In the event of insolvency, the policyholders have a priority right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance undertakings are covered for liabilities in accordance with the Insurance Business Act.

NOTE 40 DISCLOSURES ON RELATED PARTIES

Organisation

Länsförsäkringar Sak is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 14 local insurance companies. Joint operations are conducted in Länsförsäkringar AB, which provides services to Länsförsäkringar Sak. This pertains to such services as equity management, legal, finance, safety, personnel and development of a joint IT system. The organisation means that there are a large number of current transactions and a number of non-recurring transactions between Länsförsäkringar Sak and Länsförsäkringar AB, subsidiaries and the regional insurance companies.

Related parties

Legal entities closely related to Länsförsäkringar Sak include all of the companies in the Länsförsäkringar AB Group, Länsförsäkringar Mäklarservice AB, the regional insurance companies with subsidiaries and the local insurance companies. All of these companies combined comprise the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members and companies owned by them.

Pricing

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

Agreements

Significant agreements for Länsförsäkringar Sak are primarily outsourcing agreements with Länsförsäkringar AB regarding asset management, IT, service and development. Furthermore, agreements have been entered into with Länsförsäkringar Mäklarservice regarding sales and with the regional insurance companies regarding commission for sales, claims adjustment

and reinsurance management. Additional agreements that have been entered into are with Humlegården Fastigheter AB regarding the administration of Utile Dulci 2 HB and partnership agreements with Länsförsäkringar AB regarding Utile Dulci 2 HB. Länsförsäkringar Sak leases its office premises from the Parent Company Länsförsäkringar AB, which in turn leases from the property owner Utile Dulci 2 HB. The property owner is a subsidiary of Länsförsäkringar Sak. Utile Dulci 2 HB is financed by Länsförsäkringar Sak through a loan of SEK 915 M (975).

Related-party transactions 2012

	Income	Expenses	Receivables	Liabilities
Parent Company	0.9	387.7	148.8	29.1
Group companies	314.2	6.6	2,525	99.3
Life Group	0.9	0.0	1.5	–
Associated companies	3.2	–	–	–
Regional insurance companies	19.9	30.4	6,256.1	7,058.9
Other related parties	0.0	9.7	–	3.1

Bank balances and interest income received from Länsförsäkringar Bank AB amounts to:

Cash and cash equivalents with Länsförsäkringar Bank AB	SEK 315.3 M
Interest income received	SEK 2.9 M

NOTE 41 SUPPLEMENTARY DISCLOSURES ON INCOME-STATEMENT ITEMS BY INSURANCE CLASS

2012	Total	Accident and health	Motor third-party liability	Motor hull, other classes	Marine, air and cargo	Fire and other property damage	General liability	Legal expenses insurance	Total, direct insurance	Assumed reinsurance
Premiums earned, gross	3,746.5	908.9	43.8	154.0	103.2	85.8	124.8	2.7	1,423.2	2,323.3
Claims payments, gross	-2,548.0	-573.5	-85.9	-134.1	-58.4	-3.6	-95.2	2.5	-948.3	-1,599.7
Operating expenses, gross	-568.5	-250.2	-22.6	-23.6	-28.1	-22.2	-35.1	-0.2	-381.9	-186.6
Profit/loss from ceded reinsurance	-554.8	-0.2	24.8	4.1	-2.7	-55.6	-12.4	-0.5	-42.6	-512.2
Profit/loss	75.2	84.9	-39.9	0.3	13.9	4.4	-17.8	4.6	50.4	24.8
Premium income, gross	3,709.8	931.0	35.4	98.1	104.7	86.7	134.9	2.9	1,393.8	2,316.0

The Annual Report was approved for publication by the Board of Directors on February 26, 2013.
The company's income statement and balance sheet will be adopted at the Annual General Meeting in May 2013.

Sten Dunér
Chairman

Kjell Lindfors
Deputy Chairma

Mariette Nicander
Board member

Carl Henrik Ohlsson
Board member

Göran Spetz
Board member

Axel von Stockenström
Board member

Mikael Sundquist
Board member

Åsa Jansson
Employee representative

Tomas Jönsson
Employee representative

Ann Sommer
President

My audit report was submitted on February 26, 2013.

Gunilla Wernelind
Authorised Public Accountant

Auditor's report

To the Annual Meeting of the shareholders of Länsförsäkringar Sak Försäkringsaktiebolag (publ) Corporate Registration Number 502010-9681

Report on the annual accounts

I have audited the annual accounts of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for 2012.

Responsibilities of the Board of Directors
and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act for Insurance Companies, and for the internal control deemed necessary by the Board of Directors and the President for the preparation of annual accounts that are free from material misstatement, whether such misstatement is due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The auditor chooses such procedures based on such assessments as the risk of material misstatement in the annual accounts, whether such misstatement is due to fraud or error. In making these risk assessments, the auditor considers internal control measures relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate taking the circumstances into account, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts.

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

Opinions

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of Länsförsäkringar Sak Försäkringsaktiebolag (publ) as of December 31, 2012 and its financial performance and cash flows for the year in

accordance with the Annual Accounts Act for Insurance Companies. The statutory Board of Director's Report is consistent with the other parts of the annual accounts.

I therefore recommend that the Annual Meeting of shareholders adopt the income statement and balance sheet.

Report on other legal and regulatory requirements

In addition to my audit of the annual accounts, I have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2021.

Responsibilities of the Board of Directors and the President
The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act and the Insurance Business Act.

Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on my audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal complies with the Companies Act.

As a basis for my opinion concerning discharge from liability, in addition to my audit of the annual accounts, I examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. I also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

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

Opinions

I recommend to the Annual Meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory Board of Director's Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, February 26, 2013

Gunilla Wernelind
Authorised Public Accountant

Board of Directors and auditors

BOARD OF DIRECTORS



Sten Dunér

Chairman, President and CEO of Länsförsäkringar AB. Born 1951. Employed 1982. Master of Science in Business Economics. Background: CFO and other senior positions at Länsförsäkringar AB. Board appointments: Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank, the Insurance Sweden and the Swedish Insurance Employers' Association (FAO), Board member of Fastighets AB Balder.



Kjell Lindfors

Born: 1962. Employed: Länsförsäkringar Norrbotten 1986, President 1995. Title: President. Education: Officers' Military Academy K4, Business Administration 140 credits, Non-life insurance and Life Assurance diplomas. Background: Skandia private Non-life, Controller, Commercial and Life Assurance salesman, Market Manager Commercial. Other Board appointments: Länsförsäkringar Norrbotten Holding AB (Board member), Brandskyddsföreningen Norrbotten Utbildnings AB (Board member), Assurera Försäkringsmäklare i Gällivare (Board member), Husbutik- en i Arvidsjaur AB (Chairman), Försäkringskonsult Hellsten AB (Board member), Ekonord invest AB (Deputy).(suppleant).



Mariette Nicander

Born: 1960. Employed: Länsförsäkringar Gotland 2011. Title: President. Education: Bachelor of Legal Science. Cranfield Management Development Program, Business leadership Program. Background: Worked in the insurance industry since 1984. Other Board appointments: Swedish Insurance Society (Board member), Holmia liv, TryggHansa Research Foundation.



Carl Henrik Ohlsson

Born: 1953. Employed: Länsförsäkringar Skaraborg Title: President. Education: Master of Science in Agriculture. Background: President of Agricultural Society of Skaraborg County. Other Board appointments: Länsförsäkringar Fastighetsförmedling (Board member) Gothia Intresseförening (Chairman).



Göran Spetz

Born: 1956 Employed: Länsförsäkringar Västernorrland Title: President. Education: Technical college. Background: Head of Claims Department at Länsförsäkringar Västernorrland. Other Board appointments: Länsförsäkringar i Norr Holding AB (Chairman), Ekonord Invest AB (Board member), Västernorrboten Fire Protection Association (Chairman).



Axel von Stockenström

Born: 1949 Employed: Chairman of Länsförsäkringar Södermanland Title: Chairman. Education: High School Graduation in 1968, University of Grenoble, Stockholm University. Frans Schartau Business Institute. Background: Self-employed. Other Board appointments: Mälarprov. Hypotek (Chairman) Länsförsb. Jägarförbundet, Canaxa AB, Änhammars Säteri AB, Länsförsäkringar Södermanland.



Mikael Sundquist

Born: 1961 Employed: Länsförsäkringar Bergslagen 1992. Title: President. Education: Master of Science in Business Economics. Other Board appointments: Länsförsäkringar Mäklarservice AB (Board member), Mälardalen Chamber of Commerce (Chairman).

EMPLOYEE REPRESENTATIVES



Åsa Jansson

Born 1972. Employed 1998. Employee representative Union of Insurance Employees (FTF), Claims adjuster at Horse, Agria Djurförsäkring. Food engineering graduate. Background: Recruitment consultant at Manpower. Board appointments: Länsförsäkringar Sak, Deputy Chairman Profit-sharing Association Ekorren at Agria Djurförsäkring.

Deputy:
Susanne Lindberg



Tomas Jönsson

Born 1951. Elected 2001. Employee representative Swedish Confederation of Professional Associations. Claims adjuster Non-life business unit. Bachelor of Legal Science, Master of Science in Engineering. Board appointments: Länsförsäkringar Sak, Bank and Insurance Section of Jusek. Background: Bank attorney Föreningsbanken.

Deputy:
Lotta Möller

AUDITOR elected by
Annual General Meeting

Gunilla Wernelind

Authorised Public Accountant,
KPMG AB.

Executive management

Ann Sommer
President

Thomas Abrahamsson
Business Area Health

Carina Bodesand
Business Support

Ulrica Hedman
Business Area Commercial
Special Insurance

Gunnel Karlsson
CFO

Göran Laurén
Finance

Birger Lövgren
Agria Djurförsäkring

Tor Mellbye
Business Area Reinsurance

Totte Pikanen
Corporate Senior Actuary

Michael Truwert
Head of Legal Affairs

EMPLOYEE REPRESENTATIVES

Åsa Jansson
Employee representative FTF

Tomas Jönsson
Employee representative SACO

Definitions

Run-off result

For claims for which final settlement has not been completed at the end of the financial year, funds are reserved in provisions for claims outstanding. The assessment of future payments implemented may however prove to be incorrect for various reasons. If the calculated compensation amount for a claim proves to be over-valued, run-off gains will arise when the compensation amount is reassessed or when the claim has been settled. If the amount is under-valued, a corresponding run-off loss will arise.

Direct yield

Direct yield refers to the balance of interest income, interest expense, dividends on shares and participations, and the surplus/deficit on property for the assets encompassed by the investment principles in relation to the average value of these assets during the year.

Direct insurance

Insurance contract concluded directly between the insurer and the policyholder. In contrast to assumed reinsurance, the insurance company is directly responsible to the policyholder.

Discounting of unsettled claims

Present value calculation of future claims payments in insurance transactions with long-term claims.

Operating expenses

Operating expenses is a collective term for expenses for sales, management and administration.

Expense ratio

Operating expenses as a percentage of premiums earned after ceded reinsurance.

After ceded reinsurance

The proportion of an insurance transaction for which the insurance company assumes the risk, and which is not reinsured with another company. Sometimes the term "for own account" is used.

Required solvency margin

The lowest permitted level of the capital base for insurance companies. The required solvency margin is calculated in accordance with the rules laid down in the Swedish Insurance Business Act.

Unearned premiums

A liability item, corresponding to the portion of premium income that pertains to the next year in the annual accounts.

Claims payments

The cost during the fiscal year for claims incurred, including costs for claims that have not yet been reported to the insurance company. The cost also includes the run-off result, meaning the profit and loss arising in the provision for claims outstanding made in the immediately preceding year-end accounts. Run-off profit/loss arises since some of the claims in the provision are either settled during the fiscal year at amounts differing from those allocated or are revalued pending final settlement.

Technical provisions

Reserves for unearned premiums and unexpired risks, and reserves for claims outstanding and comparable commitments in accordance with signed insurance contracts.

Investment income transferred from financial operations

Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to

obtain a return. The estimated interest (the computed interest) on these investments is transferred from investment income to the insurance operations. With the amendment of the accounting policies for indexed claims annuities, this is recognised as an increased capital cost for investment income transferred from the financial operation, to the change in provision for claims outstanding reducing the total claims payments. 2011 and 2010 have been recalculated according to the new policy, but prior years are recognised according to the previous policies.

Capital base

Recognised shareholders equity after proposed dividend, plus untaxed reserves and surplus values of property, less intangible assets.

Solvency margin

The ratio between solvency capital and premium income for own account, expressed as a percentage. The solvency margin, calculated in this manner, is the measure of capital strength of the insurance company normally used.

Solvency capital

Recognised shareholders equity, plus untaxed reserves, deferred tax liabilities and surplus values on property.

Premium income

Premiums paid in during the year or recognised as receivables at year-end since they have fallen due for payment. Premium income is a common measure of the volume of insurance business.

Premiums earned

The proportion of premium income attributable to the fiscal year.

Technical result, non-life insurance operations

Premiums earned less claims payments and operating expenses in the insurance operations plus profit/loss from ceded reinsurance and investment income transferred from financial operations.

Claims ratio

The ratio between Claims payments, including claims adjustment costs and Premiums earned after ceded reinsurance, expressed as a percentage.

Contingency reserve

Provisions for contingency reserve is an appropriation. The contingency reserve is to equalise fluctuations in the risk process and the uncertainty in the calculation basis for provisions for unearned premiums and claims outstanding.

Total return ratio

Total return ratio refers to the sum of the direct yield and changes in the value of the investment portfolio for the assets encompassed by the investment principles, including direct transaction costs but excluding management costs, in relation to the average value of these assets during the year. The changes in the value of the discounted technical provisions are not included in the total return.

Combined ratio

The sum of operating expenses in the insurance operations and claims payments as a percentage of premiums earned after ceded reinsurance.

Deferred tax

Deferred tax liabilities/assets pertain to temporary taxable temporary differences.

Reinsurance

Risk distribution method entailing that an insurance company purchases coverage for a portion of its commitment for insurance and reinsurance agreements, so-called ceded reinsurance. Reinsurance received from other insurance companies in the form of reinsurance.

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