

# Länsförsäkringar Alliance

*Interim review January-June 2014*

## JANUARY-JUNE 2014 COMPARED WITH JANUARY-JUNE 2013

- Operating profit for the Alliance's non-life insurance operations amounted to SEK 3,120 M (1,471).
- The technical result in the Alliance's non-life insurance operations amounted to SEK 1,195 M (382). The combined ratio amounted to 92 (100).
- Investment income in the Alliance amounted to SEK 2,567 M (1,842). Solvency capital strengthened SEK 6,443 M to SEK 43,721 M.
- Operating profit for the Bank Group amounted to SEK 428 M (297). Net interest income strengthened to SEK 1,208 M (1,095).
- Operating profit for Länsförsäkringar Fondliv amounted to SEK 171 M (103). Premium income amounted to SEK 4,585 M (5,166). Commission income amounted to SEK 570 M (472).
- Profit for Länsförsäkringar Liv amounted to SEK 790 M (3,142). The solvency ratio was 117% (116) and the total return amounted to 5.1% (negative 3.7).

## SECOND QUARTER OF 2014 COMPARED WITH FIRST QUARTER OF 2014

- Operating profit for the Alliance's non-life insurance operations amounted to SEK 1,710 M (1,410).
- The technical result in the Alliance's non-life insurance operations amounted to SEK 671 M (524). The combined ratio amounted to 90 (94).
- Investment income in the Alliance amounted to SEK 1,386 M (1,180). Solvency capital strengthened SEK 2,197 M to SEK 43,721 M.
- Operating profit for the Bank Group amounted to SEK 231 M (197). Net interest income amounted to SEK 624 M (584).
- Operating profit for Länsförsäkringar Fondliv amounted to SEK 94 M (77). Premium income amounted to SEK 2,257 M (2,328). Commission income amounted to SEK 292 M (278).
- Profit for Länsförsäkringar Liv amounted to SEK 579 M (211). The solvency ratio was 117% (117). The total return amounted to 2.5% (2.6).

**STEN DUNÉR**, PRESIDENT OF LÄNSFÖRSÄKRINGAR AB, THE ALLIANCE'S JOINTLY OWNED COMPANY.



The economic recovery in Sweden has continued. Consumption and investments performed at a healthy pace and employment continues to grow. However, low inflation and the low interest-rate scenario are giving cause for concern. A clear message was sent from the Governor of the Riksbank following the latest repo-rate cut that further political measures would be needed to reduce the risks associated with household leverage.

A healthy volume trend, strong investment income and a favourable claims trend mean that the Länsförsäkringar Alliance can report a very strong first six months of 2014. Increased premiums earned combined with lower claims costs and operating expenses meant that the combined ratio declined to 92. The bank is affected by lower market interest rates but the earnings trend improved and the return on equity amounted to 8%.

Of the many exciting projects being carried out in the Alliance, the development of our mobile services is one of the most important for the future. Customer demand is increasing and we are at the very forefront in this area. We won the Web Service Award for best mobile app for the second consecutive year.

Changed banking and insurance regulations impose new demands on solvency and capitalisation. To further strengthen the capital base of the jointly owned Länsförsäkringar AB, a new share issue of SEK 500 M was carried by the regional and local insurance companies at the end of June. Strong banks and insurance companies are a prerequisite for a healthy finance sector and, over time, will provide value to customers and society. The regulations must be clear, harmonised and predicated on a long-term view so that we as a company get a clear understanding of the regulatory framework and can act long-term.

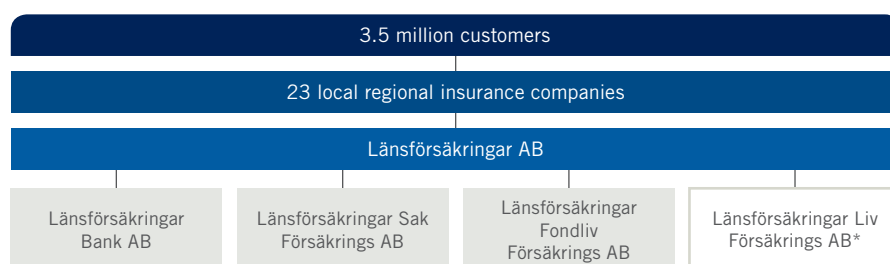
## LÄNSFÖRSÄKRINGAR ALLIANCE

The Länsförsäkringar Alliance consists of 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 each regional insurance company. The starting point is the local presence and decision-making. Experience shows that local decision-making authority combined with joint strength creates substantial added value for customers. Long-term respect for customers' money is fundamental. There are no external shareholders; it is the customers' money that is being managed. This approach characterises the entire business. The Länsförsäkringar Alliance has almost 3.5 million customers and 5,900 employees.

The Länsförsäkringar Alliance is not a Group in the legal sense of the term. Most

of the non-life insurance business within the Länsförsäkringar Alliance is underwritten in the 23 customer-owned regional insurance companies. The business conducted by Länsförsäkringar AB's non-life insurance group comprises health insurances, animal insurance as well as cargo insurance and some liability, property and motor hull insurance. Länsförsäkringar Sak also manages the Länsförsäkringar Alliance's joint reinsurance cover and assumed international reinsurance.

The earnings from the Länsförsäkringar Alliance's non-life insurance operations consist of the total earnings of the 23 regional insurance companies and the Länsförsäkringar AB Group, excluding Länsförsäkringar Fondliv and Länsförsäkringar Bank Group. Länsförsäkringar Liv Försäkrings AB is operated in accordance with mutual principles and is not consolidated in Länsförsäkringar AB. Transactions between the regional insurance companies and the Länsförsäkringar AB Group have been eliminated.



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

## CREDIT RATING

Länsförsäkringar AB's credit rating is A3/Stable from Moody's. Länsförsäkringar Bank's credit rating is A3/Stable from Moody's. Länsförsäkringar Hypotek's covered bonds have the highest credit rating of Aaa from Moody's and AAA/stable from Standard & Poor's. Länsförsäkringar Sak's rating from Moody's is A2/stable.

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar AB	Standard & Poor's	A-/Stable	
Länsförsäkringar AB	Moody's	A3/Stable	
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A3/Stable	P-2
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA/Stable	
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa	
Länsförsäkringar Sak	Standard & Poor's	A/Stable	
Länsförsäkringar Sak	Moody's	A2/Stable	
Agria Djurförsäkring	Standard & Poor's	A-/pi <sup>2)</sup>	

<sup>1)</sup> Pertains to the company's covered bonds

<sup>2)</sup> Pi ratings are ratings that do not involve forecasts but that are based on public information, such as annual reports.

## MARKET COMMENTARY

Economic statistics in the US improved significantly during the second quarter and the Federal Reserve continuing to reduce its bond buying programme. Despite the strengthening of the US economy in the second quarter, long-term interest rates remained low. General security concerns in Ukraine, speculation on the heightened interest-rate sensitivity of the economy and a generally pressurised interest-rate environment due to increased expectations of further measures from the ECB put downward pressure on interest rates.

Continued weak inflation in Europe led to the ECB reducing its key interest rate to 0.15% and deposit rate to -0.1% in June. Meanwhile, extraordinary measures were announced to address the strong euro and to stimulate inflation. As a result, interest rates in the eurozone continued to fall. In Sweden, economic recovery continued; domestic demand in the form of consumption and investments performed at a healthy pace and employment continued to grow. However, inflation remained low, which led to interest rates falling based on high expectations of further cuts from the Riksbank.

There was a mixed performance in global stock markets during the second quarter, with the US and Swedish stock markets strengthening slightly, while the European stock market weakened marginally. The stock market in Japan reported the strongest trend with the country's economy appearing to have managed the VAT increase in April better than expected. In the credit market, spreads continued to narrow. The effect could also be seen in the interest-rate margins between Swedish mortgage bonds and the government bond curve, which continued to shrink during the period, primarily for longer maturities.

# Financial overview

Report commented on the development January-June 2014 compared to the same period in 2013, unless otherwise stated.

## LÄNSFÖRSÄKRINGAR ALLIANCE

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Total capital, SEK M	44,852	42,393	37,979	44,852	37,979	41,518
<b>Non-life insurance</b>						
Solvency capital, SEK M	43,721	41,524	37,278	43,721	37,278	40,458
Solvency margin, %	205	198	190	205	190	206
Return on equity, %	15	13	3	14	8	10
Premiums earned after ceded reinsurance, SEK M	5,335	5,162	4,990	10,497	9,880	20,067
Technical result, SEK M	671	524	117	1,195	382	1,247
Operating profit, SEK M	1,710	1,410	283	3,120	1,471	3,863
Combined ratio	90	94	100	92	100	98

## LÄNSFÖRSÄKRINGAR AB, GROUP<sup>1)</sup>

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Operating profit, SEK M	421	293	140	714	326	923
Total assets, SEK M	339,302	339,492	315,809	339,302	315,809	322,550
Return on equity, %	8	6	3	7	4	5
Capital base for the financial conglomerate <sup>2)</sup>	17,823	16,735	16,130	17,823	16,130	16,391
Necessary capital requirement for the financial conglomerate <sup>2)</sup>	13,967	13,249	12,611	13,967	12,611	12,773

<sup>1)</sup> Excluding Länsförsäkringar Liv Försäkrings AB. The company is operated in accordance with mutual principles.

<sup>2)</sup> The financial conglomerate comprises Länsförsäkringar AB, all insurance companies in the Group, Länsförsäkringar Bank AB with subsidiaries and Länsförsäkringar Liv Försäkrings AB.

## LÄNSFÖRSÄKRINGAR SAK, GROUP

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premiums earned after ceded reinsurance, SEK M	1,087	1,180	1,015	2,267	2,073	4,122
Technical result, SEK M	145	86	105	231	173	434
Operating profit, SEK M	219	89	71	308	128	427

## LÄNSFÖRSÄKRINGAR BANK, GROUP

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Deposits from the public, SEK M	72,783	69,825	65,516	72,783	65,516	69,220
Loans to the public, SEK M	167,240	163,393	156,610	167,240	156,610	162,003
Operating profit, SEK M	231	197	161	428	297	647
Return on equity, %	8	8	7	8	6	7
Tier 1 ratio according to Basel III the Bank Group, %	16	14	–	16	–	14
Capital adequacy ratio according to Basel III the Bank Group, %	20	19	–	20	–	19

## LÄNSFÖRSÄKRINGAR FONDIV

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premium income, SEK M <sup>3)</sup>	8,893	9,059	9,868	8,893	9,868	9,473
Operating profit, SEK M	94	77	44	171	103	247
Managed assets, SEK M	86,222	80,545	69,180	86,222	69,180	77,517
Solvency ratio	1.6	1.7	2.1	1.6	2.1	1.7

## LÄNSFÖRSÄKRINGAR LIV, GROUP

	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premium income, SEK M <sup>3)</sup>	2,919	3,119	3,896	2,919	3,896	3,388
Profit, SEK M	579	211	3,071	790	3,142	5,174
Collective consolidation, Old Trad, %	113	111	107	113	107	107
Collective consolidation, New Trad, %	116	117	114	116	114	115
Solvency ratio, %	117	117	116	117	116	118

<sup>3)</sup> In accordance with Insurance Sweden's definition, measured as rolling 12-month figures.

# Non-life insurance

- Solvency capital strengthened SEK 3,263 M during the period, and amounted to SEK 43,721 M.
- The technical result in the Alliance's non-life insurance operations strengthened to SEK 1,195 M (382).
- The combined ratio was 92% (100).
- Investment income amounted to SEK 2,567 M (1,842).

## NON-LIFE INSURANCE, LÄNSFÖRSÄKRINGAR ALLIANCE

KEY FIGURES, SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan-Jun 2014	Jan-Jun 2013	Full-year 2013
Premiums earned after ceded reinsurance	5,335	5,162	4,990	10,497	9,880	20,067
Technical result	671	524	117	1,195	382	1,247
Operating profit	1,710	1,410	283	3,120	1,471	3,863
Investment income	1,386	1,180	601	2,567	1,842	4,441
Solvency capital	43,721	41,524	37,278	43,721	37,278	40,458
Solvency margin, %	205	198	190	205	190	206
Expense ratio	19	19	20	19	20	19
Claims ratio	71	75	80	73	80	79
Combined ratio	90	94	100	92	100	98

### Earnings

The Länsförsäkringar Alliance's operating profit for non-life insurance operations strengthened to SEK 3,120 M (1,471). The improvement was due to both a strong technical result and robust investment income. The technical result increased SEK 813 M to SEK 1,195 M (382) due to premium increases, portfolio increases and lower claims costs. Investment income amounted to SEK 2,567 M (1,842). Falling interest rates and a favourable stock-market trend during the first six months of the year contributed to high investment income. The combined ratio was 92% (100). The reasons for the improvement in the combined ratio were the higher premiums

earned with lower claims costs and slightly lower operating expenses. The claims ratio amounted to 73% (80) and the expense ratio to 19% (20). Solvency capital strengthened SEK 3,263 M since year-end and amounted to SEK 43,721 M and the solvency margin was 205% (206).

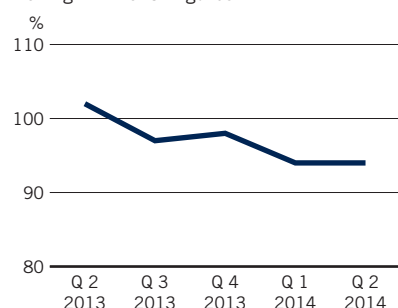
### Business volumes

Premiums earned rose 6% to SEK 10,497 M (9,880), primarily attributable to premium increases, although portfolio increases also made a contribution. Motor hull insurance increased, with vehicle-damage and hull insurance rising due to both premium increases and growth in the portfolio. In commercial insurance volumes rose 4%, mainly in real estate and municipal insurance. The increase in municipal insurance is explained by increase in premiums. Even in private insurance the premium volumes continued to increase, with the largest increase in homeowner and household insurance. The growth in premiums in Agria was continuously favourable.

### Claims trend

Claims payments after ceded reinsurance fell SEK 192 M to SEK 7,651 M (7,843).

COMBINED RATIO  
Rolling 12-month figures



The claims trend in the first six months of the year was favourable. The claims ratio improved to 73% (80) and was mainly due to the higher premiums earned, with falling claims costs also contributing. Primarily claims costs for fire and water damage accounted for the decrease. Expenses for fire and water damage declined 22%. However, claims costs rose slightly in the motor hull business, mainly in vehicle-damage insurance for which claims costs increased slightly more than 7%.

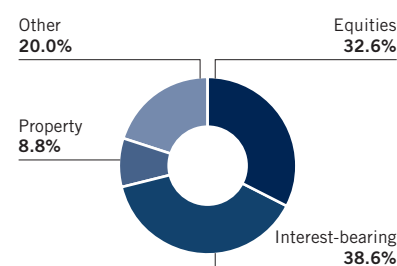
### Investment income

Investment income further strengthened during the second quarter and amounted to SEK 2,567 M (1,842) for the first six months of the year. The strong stock-market trend in the first six months, with the Swedish stock market increasing 8.3% and the global index rising 11.3%, combined with falling interest rates contributed to the significantly improved return compared with the preceding year.

## CAPITAL AND INVESTMENTS

The regional insurance companies and the non-life insurance companies in Länsförsäkringar AB strive to retain a strong solvency margin to maintain uniform premium pricing over time. In line with the investment strategies, a percentage of assets is invested in low-risk interest-bearing securities to ensure the commitments of the non-life insurance operations. At the same time, the strong solvency margin provides a substantial buffer of capital, allowing a certain portion to be invested in assets with higher anticipated returns.

### ALLOCATION OF INVESTMENT ASSETS



Total investment assets amounted to SEK 77.4 billion on June 30, 2014.

# Bank

- Operating profit rose 44% to SEK 428 M (297) and the return on equity strengthened to 8.0% (6.3). Net interest income rose 10% to SEK 1,208 M (1,095).
- Loan losses amounted to SEK –23 M (63), net, corresponding to loan losses of –0.03% (0.07).
- Business volumes rose 12% to SEK 334 billion (298). Deposits increased 11% to SEK 73 billion (66) and lending increased 7% to SEK 167 billion (157).
- The number of customers increased 4% to 906,000, the number of bank cards rose 10% to 406,000 and the number of deposit accounts increased 5%.

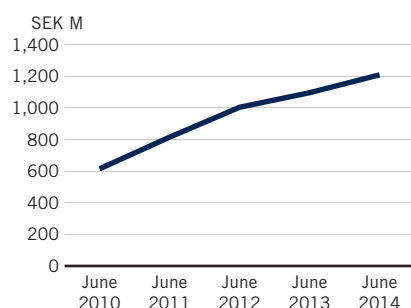
## LÄNSFÖRSÄKRINGAR BANK, GROUP

KEY FIGURES, SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Deposits from the public	72,783	69,825	65,515	72,783	65,515	69,220
Loans to the public	167,240	163,393	156,610	167,240	156,610	162,003
Operating profit	231	197	161	428	297	647
Return on equity, %	8	8	7	8	6	7
Cost/income ratio before loan losses	0.69	0.62	0.64	0.65	0.64	0.63

### Earnings

Operating profit rose 44% to SEK 428 M (297), due to higher net interest income, lower loan losses, improved net gains from financial items and increased commission income. The return on equity strengthened to 8.0% (6.3). Net interest income strengthened 10% to SEK 1,208 M (1,095), primarily attributable to higher volumes. Net gains from financial items improved to SEK 42 M (-43), primarily as a result of negative effects of changes in fair value being reported for the preceding year and the repurchase of own debt. Net commission amounted to an expense of SEK 186 M (140), attributable to higher remuneration to the regional insurance companies. Operating expenses rose 5% to SEK 690 M (655).

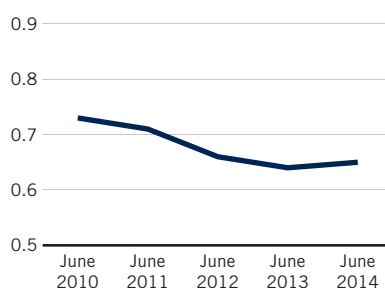
#### NET INTEREST INCOME



From January 1, 2014, a new method is applied regarding the commitment that the regional insurance companies have regarding loan losses related to business they have originated in the Bank Group. The new model entails that the regional insurance companies cover 80% of the provision requirement on the date when an impairment is identified, by an off-set against accrued commissions. The transition to the new model means that the provision requirement will be gradually reduced by SEK 158 M over two years and SEK 50 M was reversed during the period.

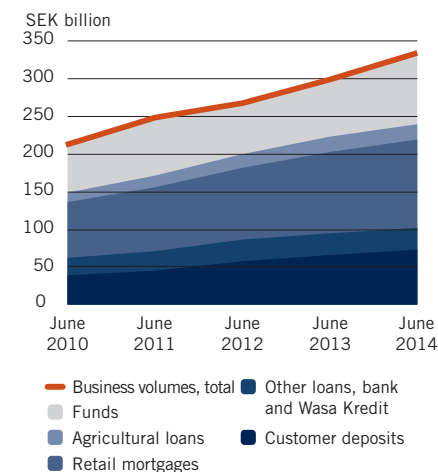
Loan losses amounted to SEK –23 M (63), net, corresponding to loan losses of –0.03% (0.07). Reserves totalled SEK 377 M (392), corresponding to a reserve ratio in relation to loans of 0.21% (0.23). The

#### COST/INCOME RATIO BEFORE LOAN LOSSES



cost/income ratio before loan losses amounted to 0.65 (0.64) and the cost/income ratio after loan losses strengthened to 0.63 (0.71).

#### BUSINESS VOLUMES



Business volumes increased SEK 20 billion to SEK 334 billion during the first six months of the year. Deposits from the public increased 11% to SEK 73 billion (66) and the market share strengthened to 4.6% (4.4) on May 31, 2014.

Fund volumes increased 25% to SEK 94 billion (76). Monthly savings in funds performed well, as did fund transfers, Individual Pension Savings (IPS) and the number of securities depositories. Lending increased 7% to SEK 167 billion (157). Retail mortgages in Länsförsäkringar Hypotek increased 9% to SEK 117 billion (108) and the market share of household lending remained unchanged at 5.0% on May 31, 2014.

### Funding and liquidity

The Bank Group has a low refinancing risk and the maturity structure is highly diversified. Debt securities in issue fell to SEK 120 billion (124), of which senior funding accounted for SEK 22 billion (25) and covered bonds for SEK 93 billion (95). During the second quarter, Länsförsäkringar Hypotek 506 and a EUR 1 billion three-year Euro benchmark covered bond matured. After handling this maturity concentration, the maturity structure of the Group's capital market funding improved. The average remaining term was 3.0

years (2.2) on June 30, 2014. Covered bonds were issued at a volume corresponding to a nominal SEK 13.5 billion (7.1), with repurchased covered bonds amounting to a nominal SEK 4.6 billion (4.5) and matured covered bonds to a nominal SEK 15.3 billion (3.2) for the period. Länsförsäkringar Bank issued senior unsecured bonds in the nominal amount of SEK 10.9 billion (9.3) during the second quarter.

The liquidity reserve amounted to SEK 40.7 billion (46.6) and is invested in securities with very high credit quality that are eligible for transactions with the Riksbank and, where appropriate, with the ECB. By utilising the liquidity reserve, contractual undertakings for almost two years can be met without needing to secure new funding in the capital market.

The Liquidity Coverage Ratio (LCR) amounted to 187% (246) and was an average of 306% (229) during the second quarter of 2014. The LCR in EUR amounted to 154% (182).

#### Capital adequacy

The Group applies the Internal Ratings-based Approach (IRB Approach). The advanced IRB Approach is applied to all retail exposure and to counterparty exposures to corporates and the agricultural sector up to SEK 5 M. The foundation IRB Approach is used for counterparty exposures to corporates and the agricultural sector in excess of SEK 5 M, and the Standardised Approach for other exposures.

The Risk Exposure Amount (REA) in the Bank Group on June 30, 2014 amounted to SEK 51,336 M (51,405). The REA declined SEK 70 M due to lower exposure to institutions and improved credit quality in the private segment.

Furthermore, during the period, the bank received permission to apply netting agreements to financial counterparties, which affected REA for counterparty risk and CVA (credit value adjustment).

With CRR (575/2013) coming into force, Länsförsäkringar Bank will be subject to a change of rules regarding the reporting of capital adequacy concerning the consolidation level. Under CRR, the consolidated situation is to also include the parent mixed financial holding company Länsförsäkringar AB, in addition to the Bank Group.

To better reflect the actual risk and capital situation of the Bank Group, Länsförsäkringar Bank applied for an exemption from this CRD IV regulation. The Swedish Financial Supervisory Authority announced in its decision of June 30, 2014 that the exemption under CRD IV could not be considered since the regulations would not be incorporated into Swedish law until August 2, 2014. The bank is likely to submit a new application after August 2, 2014. Since the bank maintains the opinion that the actual risk and capital situation is best seen in the Bank Group's capital ratios, if the exemption is granted by the Financial Supervisory Authority, the actual risk and capital situation will, until further notice, be published in parallel with the capital ratios according to the new consolidated situation.

Measures were taken prior to the end of the half-year in the event that the ex-

emption described above was not granted. The regional insurance companies paid a shareholders' contribution of SEK 500 M to Länsförsäkringar AB. In addition, an extra dividend was made from Länsförsäkringar Sak to Länsförsäkringar AB in the amount of SEK 500 M. These measures strengthen Länsförsäkringar Bank's capital ratios according to the new consolidated situation. Länsförsäkringar AB also paid a conditional shareholders' contribution of SEK 550 M to Länsförsäkringar Bank on June 27, 2014.

The Bank Group's Core Tier 1 ratio, if the exemption is granted by the Financial Supervisory Authority described above, amounted to 16.0% and the capital adequacy ratio to 20.5%. According to the new consolidation situation, the Core Tier 1 ratio amounted to 13.5% and the capital adequacy ratio to 17.3%.

## Unit-linked insurance

- Operating profit for Länsförsäkringar Fondliv strengthened to SEK 171 M (103).
- Unit-linked life assurance company manages SEK 86.2 billion for life-assurance and pension insurance customers. Managed assets rose 11% during the first six months, which was due to favourable returns and a positive net inflow during the half-year.
- Premium income amounted to SEK 4,585 M (5,166) accumulated during the first six months. Lower amount of capital transferred explains the decline. Capital transferred contributed with SEK 1,018 M (1,548).

#### LÄNSFÖRSÄKRINGAR FOND LIV

KEY FIGURES, SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premium income, net (rolling 12 months)	8,893	9,059	9,868	8,893	9,868	9,473
Operating profit	94	77	44	171	103	247
Managed assets	86,222	80,545	69,180	86,222	69,180	77,517
Solvency ratio	1.6	1.7	2.1	1.6	2.1	1.7
Total assets	88,404	83,744	71,558	88,404	71,558	79,930

#### Earnings

Operating profit for the unit-linked life assurance company increased 66% to SEK 171 M (103). Income from customer fees for unit-linked insurance contracts rose

19% to SEK 282 M. Management remuneration amounted to SEK 284 M, up 21%. Operating expenses totalled SEK 431 M, an increase of SEK 41 M year-on-year. The increase in operating expenses was



primarily explained by changes in organization which makes this year's costs not comparable with previous years.

Managed assets for life-assurance and pension-insurance customers increased 11% to SEK 86.2 billion, which was due to strong returns on funds and a positive net inflow during the quarter.

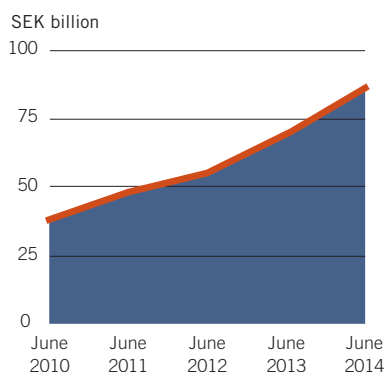
Premium income amounted to SEK 4,585 (5,166). The reason for the decline was lower capital transferred, which amounted to SEK 1,018 M (1,548). Most of the premium flows are recognised in the balance sheet. Premium income in the income statement amounted to SEK 53 M (24) and pertains to the portion of premiums containing insurance risk.

### Fund management

More than 90% of the offering performed positively during the first six months. 25 funds increased more than 10%. The India fund Fidelity India Focus, Länsförsäkringar Fastighetsfond and DNB Renewable Energy performed the best. The best funds also included those investing in Swedish shares, including small companies. Funds oriented to Russia and Eastern Europe experienced a difficult start with sharp downturns at the start of 2014. They recovered a large portion of their declines, yet remained at a minus at the end of the half-year.

The offering was supplemented with Länsförsäkringar Tillväxtmarknad Index and Macquarie Asia New Stars during the second quarter. Länsförsäkringar Teknologi was merged with Länsförsäkringar USA Aktiv and DNB Asian Small Cap was removed from the offering.

### MANAGED ASSETS



# Traditional life assurance

- Profit for Länsförsäkringar Liv amounted to SEK 790 M (3,142) and was primarily the result of changed conditions to New Trad and positive investment income. Falling long-term interest rates had a negative impact on earnings.
- The solvency ratio amounted to 117% (116).
- The total return for Old Trad benefited from interest-rate declines and amounted to 5.1% (negative 3.7). The total return for New Trad amounted to 5.1% (–).

### LÄNSFÖRSÄKRINGAR LIV

KEY FIGURES, SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premium income, net (rolling 12 months)	2,919	3,119	3,896	2,919	3,896	3,388
Investment income, net	3,004	2,683	–1,496	5,687	–3,610	–1,743
Profit after tax	579	211	3,071	790	3,142	5,174
Investment assets, New Trad	5,136	3,645	–	5,136	–	3,022
Investment assets, Old Trad	97,811	98,226	102,407	97,811	102,407	97,526
Investment assets, New World	12,710	12,677	12,449	12,710	12,449	12,997
Total assets	122,301	126,090	124,111	122,301	124,111	120,155
Solvency ratio, %	117	117	116	117	116	118
Collective consolidation, New Trad, %	116	117	114	116	114	115
Collective consolidation, Old Trad, %	113	111	107	113	107	107
Total return, New Trad, %	3.1	2.0	–	5.1	–	4.3
Total return, Old Trad, %	2.5	2.6	–1.3	5.1	–3.7	–3.0
Total return, New World, %	3.3	0.5	–0.2	3.8	4.1	12.8

### Earnings and profitability

Profit for Länsförsäkringar Liv amounted to SEK 790 M (3,142). Falling long-term market interest rates had a negative impact on earnings. Liabilities to the policyholders are discounted by the market interest rate and increase provisions when long-term interest rates fall. Technical provisions increased SEK 2,614 M. Investment income was positively affected by falling long-term interest rates and amounted to SEK 5,687 M (expense: 3,610).

Changed insurance conditions to New Trad contributed positively to earnings, since guaranteed commitments decline, thereby positively affecting liabilities and earnings. Lower liabilities also provide greater scope for investments with higher expected returns.

Operating expenses totalled SEK 157 M (136). Claims paid amounted to SEK 3.5 billion (4.2). Investment assets increased to SEK 115 billion (112.8) since year-end.

### Traditional management

Länsförsäkringar Liv conducts traditional life assurance divided into four portfolios: New Trad, Old Trad, New World and Insured Pension. In 2014, the investment mix was relatively unchanged in all portfolios.

### New Trad

The work on expanding the offer inviting the customers to change the conditions of their insurance product to New Trad continued during first six months. The response from those customers who have received the offer has been positive and on June 30, 26,000 customers had accepted the offer to change the conditions of their insurance.

The New Trad investment mix comprised about 59% interest-bearing assets, 31% equities, 5% properties and 5% alternative investments. The total return amounted to 5.1%. Collective consolidation for New Trad was 116% and the bonus rate on June 30, 2014 was 7%.

## Old Trad

The risk scope in Old Trad is limited, which also means that the scope for investing assets in more risk-exposed investments, such as equities, is limited. On June 30, asset allocation in the traditionally managed portfolio, Old Trad, was as follows: 91% interest-bearing securities, 5% alternative investments and the remainder was equities and property. The total return amounted to 5.1% (neg: 3.7). The return was 5.1% (neg: 4.4) for interest-bearing securities, 11.4% (10.2) for equities, 2.1% (2.3) for alternative investments and 1.3% (0.1) for properties. Collective consolidation in Old Trad was 113% and the bonus rate in the first six months was 1%.

## New World

In the New World management form, 30% of the customers' capital is invested in bonds and 70% in equities. New World is a traditional insurance policy whereby customers are guaranteed to recoup at least the premiums paid, subject to deductions for expenses and yield tax. The return in June 2014 amounted to 3.8% (4.1).

# Real-estate brokerage

Through Länsförsäkringar Fastighetsförmedling, Länsförsäkringar offers a total solution for reliable mortgage transactions: real-estate brokerage, banking and insurance services all in one place.

Länsförsäkringar Fastighetsförmedling has 152 branches and almost 600 employees throughout Sweden. Strong growth has advanced Länsförsäkringar Fastighetsförmedling to the position of third largest brokerage in Sweden.

The real-estate brokerage is an integrated part of the local regional insurance companies' full-service offering. The aim is to offer customers a reliable mortgage transaction.

The operations are conducted in franchise form, whereby the regional insurance company acts as the franchiser for the local branch. This also means that Länsförsäkringar Fastighetsförmedling differs from national estate-agent chains by always being locally based.

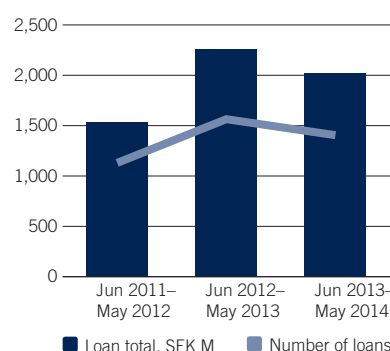
During the period June 2013 to May 2014, a total of 5,764 single-family homes, 8,311 tenant-owned apartments and 979 vacation homes were brokered. The value of the sales amounted to SEK 23.8 billion. During the period, sales of single-family homes and vacation homes resulted in SEK 2.0 billion in first-lien mortgages in Länsförsäkringar's mortgage institution. The market share amounted to 9.5% (9.1).

In April, Länsförsäkringar Fastighetsförmedling commenced a partnership with the new Blocket Bostad website (property classified advertisements), which has been developed together with three of Sweden's eight largest real-estate brokerage chains. By selecting Blocket Bostad as a partner, Länsförsäkringar Fastighetsförmedling's customers gain access to a modern property website that delivers the simplicity, user-friendliness and efficiency sought by both property sellers and buyers.

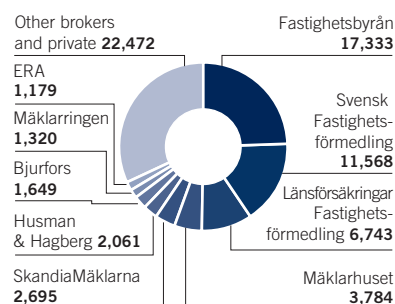
NUMBER OF SINGLE-FAMILY HOMES, VACATION HOMES AND TENANT-OWNED APARTMENTS SOLD



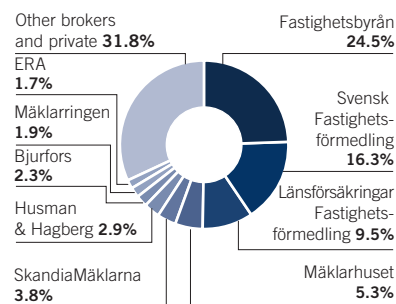
SINGLE-FAMILY HOMES AND VACATION HOMES, SOLD BY LÄNSFÖRSÄKRINGAR FASTIGHETS-FÖRMEDELING WHERE LOANS WERE INVESTED IN LÄNSFÖRSÄKRINGAR HYPOTEK



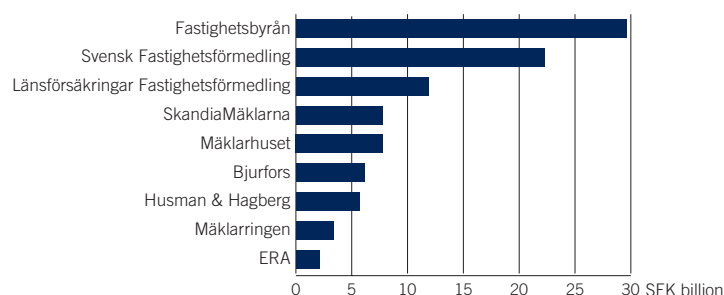
NUMBER OF SINGLE-FAMILY HOMES AND VACATION HOMES SOLD



MARKET SHARES



VALUE OF SALES OF SINGLE-FAMILY HOMES AND VACATION HOMES





# Financial statements

## LÄNSFÖRSÄKRINGAR ALLIANCE NON-LIFE INSURANCE

### INCOME STATEMENT

SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premiums earned after ceded reinsurance	5,335	5,162	4,990	10,497	9,880	20,067
Investment income transferred from financial operations	144	163	161	307	337	645
Claims payments after ceded reinsurance	–3,807	–3,844	–3,983	–7,651	–7,843	–15,589
Operating expenses	–1,004	–958	–1,033	–1,962	–1,998	–3,886
Other technical revenue/expenses	2	1	–18	3	6	10
<b>Technical result from non-life insurance operations before partner discounts</b>	<b>671</b>	<b>524</b>	<b>117</b>	<b>1,195</b>	<b>382</b>	<b>1,247</b>
Bonuses and discounts	–43	–43	–39	–86	–79	–488
<b>Technical result from non-life insurance operations after partner discounts</b>	<b>627</b>	<b>482</b>	<b>77</b>	<b>1,109</b>	<b>303</b>	<b>759</b>
Total investment income	1,386	1,180	601	2,567	1,842	4,441
Investment income transferred to insurance operations	–144	–163	–186	–307	–337	–645
Other non-technical expenses	–159	–89	–210	–248	–337	–692
<b>OPERATING PROFIT</b>	<b>1,710</b>	<b>1,410</b>	<b>283</b>	<b>3,120</b>	<b>1,471</b>	<b>3,863</b>

### BALANCE SHEET

SEK M	Jun 30, 2014	Dec 31, 2013
<b>ASSETS</b>		
Shares and participations	25,248	37,342
Bonds and other interest-bearing securities	29,920	30,156
Other investment assets	22,268	7,315
<b>Total investment assets</b>	<b>77,436</b>	<b>74,813</b>
Reinsurers' portion of technical provisions	7,750	7,205
Receivables and other assets	9,072	7,739
Cash and bank balances	5,286	4,849
Prepaid expenses and accrued income	1,052	893
<b>TOTAL ASSETS</b>	<b>100,597</b>	<b>95,500</b>
<b>EQUITY, PROVISIONS AND LIABILITIES</b>		
Equity	36,437	33,386
Technical provisions (before ceded reinsurance)	49,387	47,929
Other provisions and liabilities	12,497	11,837
Accrued expenses and deferred income	2,276	2,348
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>100,597</b>	<b>95,500</b>

# LÄNSFÖRSÄKRINGAR AB, GROUP

## CONSOLIDATED INCOME STATEMENT

SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
Premiums earned before ceded reinsurance	1,414	1,542	1,330	2,956	2,824	6,105
Reinsurers' portion of premiums earned	–314	–346	–328	–660	–728	–1,949
<b>Premiums earned after ceded reinsurance</b>	<b>1,100</b>	<b>1,196</b>	<b>1,002</b>	<b>2,296</b>	<b>2,096</b>	<b>4,156</b>
Interest income	2,151	2,303	2,305	4,454	4,691	9,488
Interest expense	–1,522	–1,705	–1,739	–3,227	–3,561	–7,187
<b>Net interest income</b>	<b>629</b>	<b>598</b>	<b>566</b>	<b>1,227</b>	<b>1,130</b>	<b>2,301</b>
Change in unit-linked insurance assets – policyholder bears the risk	4,412	1,814	122	6,226	2,757	8,251
Dividends in unit-linked insurance assets – policyholder bears the risk	–	–	–	–	–	4
Investment income, net	135	–19	–51	116	–138	–203
Commission income	547	525	468	1,072	929	2,014
Other operating income	505	491	519	997	976	2,036
<b>Total operating income</b>	<b>7,329</b>	<b>4,606</b>	<b>2,626</b>	<b>11,934</b>	<b>7,751</b>	<b>18,558</b>
Claims payments before ceded reinsurance	–901	–936	–770	–1,836	–1,725	–4,084
Reinsurers' portion of claims payments	183	175	121	358	397	1,381
<b>Claims payments after ceded reinsurance</b>	<b>–718</b>	<b>–761</b>	<b>–649</b>	<b>–1,479</b>	<b>–1,328</b>	<b>–2,704</b>
Change in life-assurance reserve	27	–91	26	–64	–64	–1
Change in unit-linked insurance liabilities – policyholder bears the risk	–4,447	–1,825	–122	–6,272	–2,757	–8,308
Commission expense	–590	–550	–514	–1,139	–1,019	–2,074
Staff costs	–476	–444	–432	–920	–855	–1,657
Other administration expenses	–744	–626	–767	–1,370	–1,339	–2,765
Loan losses	39	–16	–30	23	–63	–126
<b>Total expenses</b>	<b>–6,908</b>	<b>–4,312</b>	<b>–2,486</b>	<b>–11,220</b>	<b>–7,425</b>	<b>–17,635</b>
<b>Operating profit</b>	<b>421</b>	<b>293</b>	<b>140</b>	<b>714</b>	<b>326</b>	<b>923</b>
Tax	–79	–52	–32	–131	–67	–242
<b>NET PROFIT FOR THE PERIOD</b>	<b>342</b>	<b>241</b>	<b>108</b>	<b>583</b>	<b>259</b>	<b>682</b>
Earnings per share before and after dilution, SEK	36	26	11	62	27	70

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan–Jun 2014	Jan–Jun 2013	Full-year 2013
<b>Net profit for the period</b>	<b>342</b>	<b>241</b>	<b>108</b>	<b>583</b>	<b>259</b>	<b>682</b>
<b>Other comprehensive income</b>						
<b>Items that have been transferred or can be transferred to profit for the period</b>						
Translation differences attributable to foreign operations	14	4	9	19	–10	–0
Cash-flow hedges	1	–53	16	–53	30	15
Change in fair value of available-for-sale financial assets	11	–7	–54	4	–28	16
Tax attributable to items that have been transferred or can be transferred to profit for the period	–3	13	8	11	–1	–7
<b>Total</b>	<b>24</b>	<b>–43</b>	<b>–21</b>	<b>–19</b>	<b>–8</b>	<b>24</b>
<b>Items that cannot be transferred to profit for the period</b>						
Revaluation of owner-occupied property	13	13	26	26	26	53
Revaluation of defined-benefit pension plans	–	–	–	–	–	7
Tax attributable to items that cannot be reversed to profit for the period	–3	–3	–6	–6	9	2
<b>Total</b>	<b>10</b>	<b>10</b>	<b>21</b>	<b>21</b>	<b>36</b>	<b>62</b>
<b>Total other comprehensive income for the period, net after tax</b>	<b>34</b>	<b>–32</b>	<b>0</b>	<b>1</b>	<b>28</b>	<b>87</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>375</b>	<b>209</b>	<b>108</b>	<b>584</b>	<b>287</b>	<b>768</b>

# LÄNSFÖRSÄKRINGAR AB, GROUP

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK M	Jun 30, 2014	Dec 31, 2013
<b>ASSETS</b>		
Goodwill	723	711
Other intangible assets	3,710	3,804
Deferred tax assets	43	13
Property and equipment	53	58
Owner-occupied property	2,410	2,423
Shares in Länsförsäkringar Liv Försäkrings AB	183	208
Shares and participations in associated companies	57	31
Reinsurers' portion of technical reserves	7,754	7,208
Loans to the public	167,241	162,003
Unit-linked insurance assets– policyholder bears the risk	84,463	76,207
Shares and participations	1,175	1,148
Bonds and other interest-bearing securities	41,710	47,979
Treasury bills and other eligible bills	6,038	4,881
Derivatives	3,204	1,101
Change in value of hedge portfolios	914	551
Other receivables	11,897	8,146
Prepaid expenses and accrued income	2,944	3,933
Cash and cash equivalents	4,782	2,145
<b>TOTAL ASSETS</b>	<b>339,302</b>	<b>322,550</b>

SEK M	Jun 30, 2014	Dec 31, 2013
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	1,007	975
Other capital contributed	9,708	9,240
Reserves	498	496
Retained earnings including profit for the period	5,055	4,472
<b>Total equity</b>	<b>16,267</b>	<b>15,183</b>
Subordinated liabilities	2,000	2,000
Technical reserves	22,431	20,753
Provisions for life assurance – policyholder bears the risk	85,097	76,712
Deferred tax liabilities	862	861
Other provisions	133	132
Debt securities in issue	121,680	124,866
Deposits from the public	71,372	68,752
Due to credit institutions	7,350	1,600
Derivatives	2,429	2,801
Change in value of hedge portfolios	2,537	646
Other liabilities	3,209	3,284
Accrued expenses and deferred income	3,935	4,961
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>339,302</b>	<b>322,550</b>

## LÄNSFÖRSÄKRINGAR LIV, GROUP

### INCOME STATEMENT

SEK M	Q 2 2014	Q 1 2014	Q 2 2013	Jan-Jun 2014	Jan-Jun 2013	Full-year 2013
Premium income after ceded reinsurance	589	860	789	1,449	1,918	3,388
Investment income, net	3,004	2,683	-1,496	5,687	-3,610	-1,743
Claims payments	-1,721	-1,745	-2,097	-3,466	-4,250	-7,645
Change in technical provisions	-1,155	-1,399	6,026	-2,554	9,497	11,842
Operating expenses	-53	-104	-13	-157	-136	-347
<b>Technical result, life insurance operations</b>	<b>664</b>	<b>295</b>	<b>3,209</b>	<b>959</b>	<b>3,419</b>	<b>5,495</b>
Non-technical expenses	-70	-70	-133	-140	-266	-281
<b>Profit before tax</b>	<b>594</b>	<b>225</b>	<b>3,076</b>	<b>819</b>	<b>3,153</b>	<b>5,214</b>
Tax	-15	-14	-5	-29	-11	-40
<b>PROFIT FOR THE PERIOD</b>	<b>579</b>	<b>211</b>	<b>3,071</b>	<b>790</b>	<b>3,142</b>	<b>5,174</b>
Items that cannot be transferred to profit for the period	-	-	-	-	-	-1
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>579</b>	<b>211</b>	<b>3,071</b>	<b>790</b>	<b>3,142</b>	<b>5,173</b>

### BALANCE SHEET

SEK M	Jun 30, 2014	Dec 31, 2013
<b>ASSETS</b>		
Investment assets	115,075	112,755
Reinsurers' portion of technical provisions	605	605
Receivables	1,446	2,003
Other assets	3,528	3,708
Prepaid expenses and accrued income	1,647	1,084
<b>TOTAL ASSETS</b>	<b>122,301</b>	<b>120,155</b>
<b>EQUITY, PROVISIONS AND LIABILITIES</b>		
Equity	17,107	17,118
Technical provisions	100,177	97,563
Provisions for other risks and expenses	29	146
Deposits from reinsurers	605	605
Liabilities	4,082	4,345
Accrued expenses and deferred income	301	378
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>122,301</b>	<b>120,155</b>

# Financial calendar 2014

## THIRD QUARTER:

Interim review, Länsförsäkringar Alliance .....	<b>October 23</b>
Interim report, Länsförsäkringar AB.....	<b>October 23</b>
Interim report, Länsförsäkringar Bank .....	<b>October 23</b>
Interim report, Länsförsäkringar Hypotek .....	<b>October 23</b>

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