

# Länsförsäkringar Alliance Year-end Report 2009

A SUMMARY OF THE 2009 BANKING AND INSURANCE YEAR FOR 24 REGIONAL INSURANCE COMPANIES IN ALLIANCE.

## 2009 in brief

- Based on strong key figures, all core business segments are continuing to grow and generate favourable profitability.
- Operating profit for non-life insurance operations improved substantially to SEK 5,457 (loss: 7,511). The technical result fell due to the changed cost of capital and higher claims costs, and totalled SEK 1,643 M (2,453).
- The Länsförsäkringar Alliance has a collective consolidation level that is uniquely strong both in a national and international context. Solvency capital rose to SEK 31,668 M (25,916) and the solvency margin to 173% (146).
- Throughout the financial crisis, Länsförsäkringar Liv has pursued a policy of low-risk allocation which has always governed investments of customers' money. Key figures remain strong with a solvency ratio of 137% (114) and collective consolidation of 107% (105).
- Operating profit in the banking operations rose to SEK 258 M (245). Länsförsäkringar is Sweden's fifth largest retail bank. Deposits were up 6% to SEK 37 billion (35) and lending to the

**Sten Dunér, President of Länsförsäkringar AB, the Alliance's jointly owned company:**

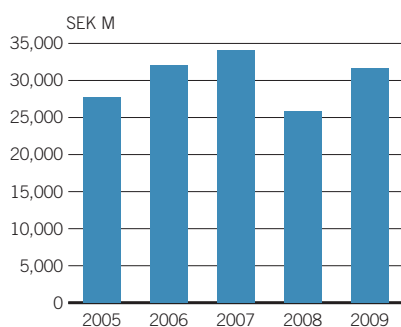
*We retained both our profitability and robust key figures in all core business segments throughout the financial crisis. The sharp improvement in earnings for the non-life insurance operations, SEK 13 billion, has created a basis for elevated ambition levels in the banking and life-assurance activities. The life-assurance return was weak in 2009, but has been highly competitive for the past two years and in the long term.*

public rose 27% to SEK 100 billion (79).

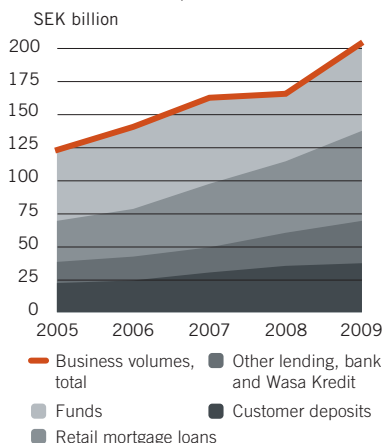
Retail mortgage lending in the subsidiary Länsförsäkringar Hypotek increased 26% to SEK 68 billion (54). The risk profile is low and credit quality remained favourable.

- Cost control and risk management are becoming increasingly central parts of the operations. Efficiency-enhancement measures implemented in the jointly owned Länsförsäkringar AB in 2008 led to operating expenses for 2009 declining by 8%.
- In 2009, Länsförsäkringar Fastighetsförmedling established a total of 30 housing stores, bringing the total to more than 100. Residential properties were sold for SEK 11.1 billion in 2009.

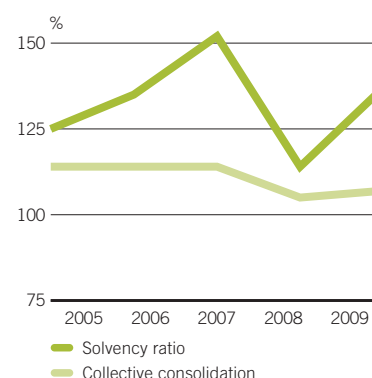
**SOLVENCY CAPITAL, NON-LIFE INSURANCE**



**BUSINESS VOLUMES, BANK**



**SOLVENCY/COLLECTIVE CONSOLIDATION, LIFE ASSURANCE**

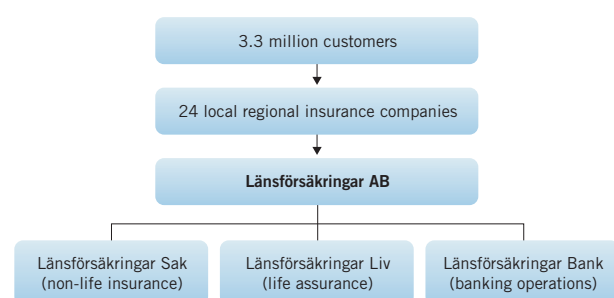


The Länsförsäkringar Alliance is an alliance between 24 independent regional insurance companies that jointly own Länsförsäkringar AB. Länsförsäkringar's earnings from non-life insurance consist of the total of the earnings of the 24 regional insurance companies and of the jointly-owned Länsförsäkringar AB, excluding life assurance and banking.



# Länsförsäkringar in brief

Länsförsäkringar comprises 24 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. Customers are provided with a complete offering of banking and insurance 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 it is not Länsförsäkringar's money that is being managed but its customers'. This approach characterises the entire business. Länsförsäkringar has almost 3.3 million customers and approximately 5,800 employees.



## Cooperation through Länsförsäkringar AB

The jointly owned Länsförsäkringar AB has three main tasks: conducting business activities in non-life insurance, life assurance and banking services, assuming responsibility for the Länsförsäkringar's joint strategic development activities and providing service to the regional insurance companies. Länsförsäkringar AB is responsible for creating the prerequisites for the regional insurance companies to be more effective in their roles of cultivating their local markets and creating and promoting customer relations.

### LÄNSFÖRSÄKRINGAR ALLIANCE, NON-LIFE INSURANCE

	2009	2008	2007	2006	2005
Solvency capital, SEK M	31,668	25,916	34,140	32,093	27,738
Solvency margin, %	173	146	198	195	169
Premiums earned after ceded reinsurance, SEK M	17,828	17,406	16,671	16,362	16,216
Technical result, SEK M	1,643	2,453	2,322	2,114	2,515
Operating profit/loss, SEK M	5,457	-7,511	3,606	4,545	7,075
Combined ratio	96	93	93	93	89

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

	2009	2008	2007	2006	2005
Operating profit/loss, SEK M	693	-3,392	1,270	821	2,100
Solvency capital, SEK M	8,709	7,907	11,652	10,713	9,703
Solvency margin, %	228	252	429	498	497
Total assets, SEK M	157,076	130,554	116,241	91,184	80,478
Return on shareholders' equity, %	6.6	-28.8	10.6	7.7	19.0

<sup>1)</sup>Excluding the life-assurance operations, which are conducted with a prohibition against issuing dividends.

### LÄNSFÖRSÄKRINGAR BANK, GROUP

	2009	2008	2007	2006	2005
Deposits from the public, SEK M	37,365	35,090	29,735	24,379	21,535
Lending to the public, SEK M	99,582	78,564	67,040	53,884	47,094
Operating profit, SEK M	258	245	238	198	154

### LÄNSFÖRSÄKRINGAR LIV, GROUP

	2009	2008	2007	2006	2005
Premium income, SEK M <sup>2)</sup>	11,879	10,719	10,794	10,141	9,420
Net profit/loss, SEK M	17,922	-30,126	11,361	7,646	4,584
Collective consolidation, %	107	105	114	114	114
Solvency ratio, %	137	114	152	136	126

<sup>2)</sup>In accordance with the Swedish Insurance Federation's definition measured as rolling 12-month figures.

### LÄNSFÖRSÄKRINGAR SAK FÖRSÄKRINGS AB

	2009	2008	2007	2006	2005
Premiums earned after ceded reinsurance, SEK M	1,539	1,473	1,340	1,158	1,045
Profit/loss before appropriations and tax, SEK M	511	-2,807	1,045	591	1,856
Solvency margin, %	173	129	364	339	401

## CREDIT RATING

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A2/Stable	P-1
Länsförsäkringar Hypotek <sup>3)</sup>	Standard & Poor's	AAA	
Länsförsäkringar Hypotek <sup>3)</sup>	Moody's	Aaa	

<sup>3)</sup> Pertains to the company's covered bonds.

<sup>4)</sup> Pi ratings are ratings that do not involve forecasts but that are based on public information, such as annual reports.

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar AB	Standard & Poor's	A-/Stable	
Länsförsäkringar AB	Moody's	A3/Stable	
Länsförsäkringar Sak	Standard & Poor's	A/Stable	
Länsförsäkringar Sak	Moody's	A2/Stable	
Agria Djurförsäkring	Standard & Poor's	A-/pi <sup>4)</sup>	

# Non-life insurance<sup>1)</sup>

- Operating profit improved substantially to SEK 5,457 (loss: 7,511). The technical result fell due to the changed cost of capital and higher claims costs, and totalled SEK 1,643 M (2,453). The combined ratio amounted to SEK 96 M (93) and the claims ratio to 74 (72).
- Positive investment income of SEK 5,920 M for the period was attributable to a positive trend in both credits and equities.
- Solvency remained strong with solvency capital at SEK 31,668 M (25,916) and the solvency margin improved to 173% (146).
- Continued leading market position with an approximate share 30%.
- Länsförsäkringar was named Non-Life Insurance Company of the Year in the corporate market for the seventh consecutive year according to the Finansbarometern survey.

KEY FIGURES	2009	2008
Premiums earned, SEK M	17,828	17,406
Technical result, SEK M	1,643	2,453
Operating profit/loss, SEK M	5,457	-7,511
Return on shareholders' equity, %	18	-25
Solvency capital, SEK M	31,668	25,916
Solvency margin, %	173	146
Claims ratio	74	72
Expense ratio	22	21
Combined ratio	96	93

Länsförsäkringar retained its leading position in the non-life insurance market. Länsförsäkringar increased its premiums earned in a declining market. The market, measured in premiums paid, declined during the year, which is largely the result of the recession and intensified competition. A favourable claims scenario in third-party liability insurance led to reductions in premiums, which also contributed to the stagnating market.

Nevertheless, Länsförsäkringar retained its leading position in the commercial and property insurance markets,

despite fiercer competition from more competitors and despite more companies than normal entering into bankruptcy or reducing their sales due to the recession. Länsförsäkringar continues to hold a leading position in the medical insurance market, with a share of approximately 38%. Länsförsäkringar also maintained its leading position in the private car and homeowner insurance markets, and Länsförsäkringar dominates the pet insurance market through Agria Djurförsäkring with a share of almost 60%.

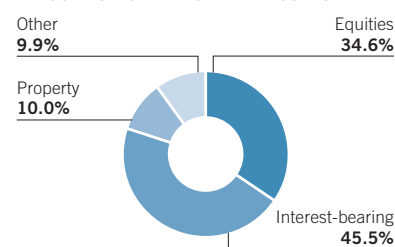
## Risk management

The local regional insurance companies and their Boards, as well as the jointly owned non-life insurance companies in Länsförsäkringar AB, strive to retain a strong solvency margin to maintain even pricing over time. Länsförsäkringar endeavours to strike a balance between risk and available surplus capital, and assigns high priority to safeguarding key figures. Under Länsförsäkringar's investment strategy, 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, with its strong solvency margin, the Länsförsäkringar Alliance has a substantial buffer of capital, which allows a certain percentage can be invested in assets with higher anticipated returns, for example, in equities. The trend in the financial markets was positive during the year following a reserved beginning to the year. The percentage of equities rose by 5.9 percentage points to 34.6% during the year.

## ALLOCATION OF INVESTMENT ASSETS

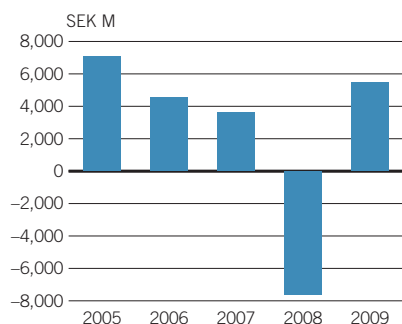
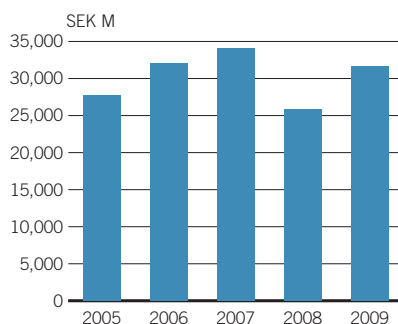
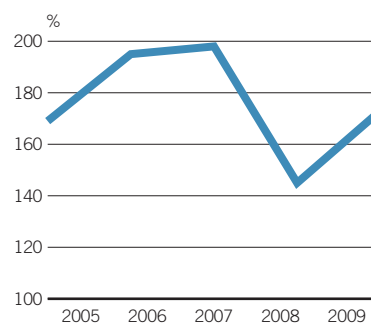
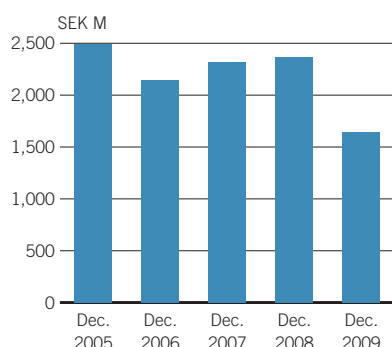
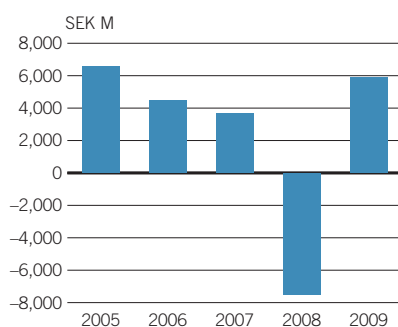
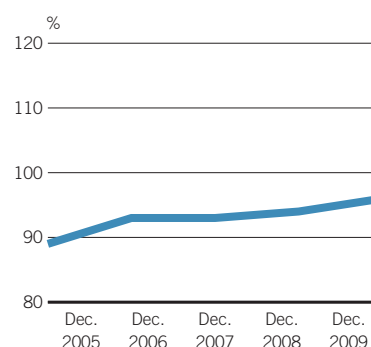


Total investment assets on December 31, 2009 amounted to SEK 60.5 billion.

## Earnings

Profitability in the Länsförsäkringar Alliance's non-life insurance operations remained stable with a technical result of SEK 1,643 M (2,453). The decline is due to lower transferred cost of capital, as a result of lower interest rates, and higher claims costs. The continuation of strong positive trends in the financial markets led to a favourable trend in the investment portfolio. Investment income was positive at SEK 5,920 M (neg: 7,410). Accordingly, total operating profit improved to SEK 5,457 M (loss: 7,511). The Länsförsäkringar Alliance retained its strong solvency with solvency capital of SEK 31,668 M (25,916) and a solvency margin of 173% (146). The combined ratio rose to 96% (93) and, primarily due

<sup>1)</sup> Earnings from non-life insurance consist of the total of the earnings of the 24 regional insurance companies and Länsförsäkringar AB Group, excluding the Life Assurance Group and the Bank Group. The value and changes in the value of the regional insurance companies' holding of shares in Länsförsäkringar AB and subordinated loans have been eliminated. Länsförsäkringar is neither a legal entity nor, in the legal sense of the term, a Group; it is an alliance between 24 independent regional insurance companies that jointly own Länsförsäkringar AB.

**OPERATING PROFIT/LOSS****SOLVENCY CAPITAL****SOLVENCY MARGIN****TECHNICAL RESULT****TOTAL INVESTMENT INCOME****COMBINED RATIO**

to higher costs associated with water and fire damage, the claims ratio increased to 74% (72). The expense ratio was 22% (21).

**Länsförsäkringar's business volumes**

The Länsförsäkringar Alliance increased both its premiums earned and portfolio during the period. Premiums earned increase 2% in the face of intense price competition. Growth was primarily attributable to animal and crop insurance that is sold through Agria Djurförsäkring and to accident claims. A large portion of the growth in premiums in Agria derives from its international operations. Premiums earned also rose in household insurance, while the number of household insurance policies declined slightly. However, premium volumes for commercial insurance fell due to the recession and tougher competition. Furthermore, motor-vehicle insurance reported lower premiums earned as a result of premium reductions, despite a higher number of insurance policies.

**Claims trend**

Claims costs rose 6% compared with the year-earlier period, largely due to higher costs for water-damage claims in mainly private insurance, but also in commercial and agricultural insurance. In total, water damage accounted for costs totalling nearly SEK 1.1 billion. Costs associated with burglary claims in private insurance also rose, as did fire claims for the commercial and agricultural insurance sector. The trend in motor-vehicle insurance is positive, with lower claims costs in primarily third-party liability insurance. The recession has resulted in a general decrease in traffic, both business and leisure travel, which in turn has led to fewer traffic accidents.

**Operations abroad**

Länsförsäkringar conducts animal insurance operations in the UK, Norway, and Finland via Agria International. Agria International's business is growing substantially, with premiums earned having more than tripled compared with

2008 and amounting to SEK 301 M (91).

Länsförsäkringar also conducted non-life insurance operations in Latvia and Lithuania through its subsidiary Länsförsäkringar International until November 2009. The operations were sold to Gjensidige Forsikring BA in November. Länsförsäkringar International commenced these operations in 2008 and, prior to the divestment, generated premium income of SEK 78 M. The reason for the sale was the weaker market conditions in the Baltic region.

# Life-assurance and pension insurance

- Profit for Länsförsäkringar Liv amounted to SEK 18 billion (loss: 30). The positive result was largely due to increases in interest rates during the year reducing technical reserves.
- Länsförsäkringar is the leader in the private market, measured in new sales, and the second largest player in the occupational pension market.
- During the year, the allocation strategy was directed to a lower risk level, focusing on retaining a solvency margin of more than 100. The percentage of equities was gradually increased during the autumn. The solvency ratio was 137% (114) on December 31, 2009. Collective consolidation amounted to 107% (105).
- The bonus rate was raised to 5% from November 1. The average bonus rate since Länsförsäkringar's life-assurance operations were started in 1985 is 8.9%.
- New sales remained at a high level. Total new sales in 2009 amounted to SEK 16,777 M (16,553) (as defined by the Swedish Insurance Federation).
- Länsförsäkringar has Sweden's most satisfied life-assurance customers in the commercial market according to the Swedish Quality Index, and is ranked second in the private market. During the year, Länsförsäkringar received the award of "Life-Assurance and Fund Company of the Year" in the commercial market and was named Sweden's best pension manager by the European industry magazine Investment & Pensions Europe.

According to preliminary statistics from the Swedish Insurance Federation, the Swedish life-assurance market grew 16% in 2009, measured in premium income. The occupational pension market continued to report a stable trend, particularly in the area of collective agreement pensions where premium income rose 14%. The private pension insurance market increased 4%. The endowment

insurance market increased 41% and now accounts for more than a third of total premium flows.

Länsförsäkringar is the leader in the private market, measured in new sales. Länsförsäkringar is the second largest player in the occupational pension market and increased its market share from 11.9 to 14.1%. A key driver was the strong sales via independent insurance brokers.

## Länsförsäkringar Liv, Group

KEY FIGURES	2009	2008
Premium income, SEK M*	11,879	10,719
Total assets, SEK M	162,989	150,216
Return, New World, %	24.3	-28.1
Total return, traditional life assurance, %	2.3	-0.6

\*In accordance with the Swedish Insurance Federation's definition.

## Traditional life assurance

KEY FIGURES	2009	2008
Premium income, net, SEK M	5,733	5,486
Investment income, net, SEK M	4,312	-4,766
Profit/loss after tax, SEK M	17,880	-29,490
Investment assets, SEK M	108,694	106,797
Total assets, SEK M	119,243	120,694
Solvency ratio, %	137	114
Collective consolidation, %	107	105

## Earnings and profitability

Profit for Länsförsäkringar Liv Group for 2009 amounted to SEK 17,922 M (loss: 30,126). The significant improvement is largely attributable to the changes in technical reserves. Long-term interest rates rose during the year, meaning that the valuations of liabilities declined. At the same time as liabilities decreased, assets did not incur any corresponding negative effect.

Throughout the financial crisis, Länsförsäkringar has pursued a policy of safe/reliable allocation which governs investments of customers' money. As a result, the life-assurance company remains strong with an enhanced solvency ratio and collective consolidation.

The total return in traditional management for 2009 amounted to 2.3%. During the period, assets were allocated based on the aim of maintaining a low level of risk and strong key figures.

## Solvency and collective consolidation

Key figures remain strong. The solvency ratio was 137% (114) on December 31, 2009. The solvency ratio shows the value of the company's assets in relation to the guaranteed commitments to customers. Collective consolidation was 107% (105) on December 31, 2009, meaning there is a surplus of 7% compared with customers' insurance capital.

### SOLVENCY RATIO AND COLLECTIVE CONSOLIDATION IN TRADITIONAL LIFE ASSURANCE



## Unit-linked insurance

KEY FIGURES	2009	2008
Premium income, net, SEK M	338	334
Investment income, net, SEK M	9,994	-12,488
Profit/loss after tax, SEK M	20	-77
Total assets, SEK M	47,377	33,072



## Business volumes

The sales trend remained favourable. New sales for 2009 were slightly higher than the level for the year-earlier period at SEK 16,777 M (16,553). The market share of the total life-assurance sales market, measured in new sales, amounted preliminarily to 9.9% (9.5) on December 31. The market share for the private pension sub-market was 15.4% (16.6).

Premium income as defined by the Swedish Insurance Federation continued to increase and amounted to SEK 11,879 M (10,719). The largest increase was seen in the product groups Occupational pension and Collective agreement pension. Previous successes in agreement procurements for the Collective agreement pension product area were the main reason for higher premium income. Länsförsäkringar Liv is one of the eligible managers in all collective pension areas, including SAF-LO for private-sector workers, ITP for private-sector salaried employees and PA-KFS for employees of municipal companies. Managed assets rose during the fourth quarter from SEK 144 billion to SEK 151 billion (133). The largest increase in managed assets was in unit-linked insurance where rising fund prices contributed to the increase. Managed assets in unit-linked insurance amounted SEK 46 billion (32) in December 2009.

## Demutualisation of Länsförsäkringar Liv

A vote was held among all the slightly more than 700,000 traditional-management customers in Länsförsäkringar Liv in autumn 2008. The vote was on the proposal of restructuring the life-assurance company to a profit-distributing, limited liability life-assurance company on January 1, 2010 (demutualisation). Customers voted in favour of the proposal and, accordingly, gave the go-ahead for a permit application to be submitted

to the Swedish Financial Supervisory Authority. The application was approved on all points except for one with regard to the issue of the distribution of the life-assurance company's assets between the customers and the owners.

Following an internal analysis and a continuous dialogue, the Financial Supervisory Authority and Länsförsäkringar are now in agreement. This means that the Financial Supervisory Authority no longer has any objections to demutualisation. Länsförsäkringar will provide information in the matter of demutualisation in the spring.

## Market and returns

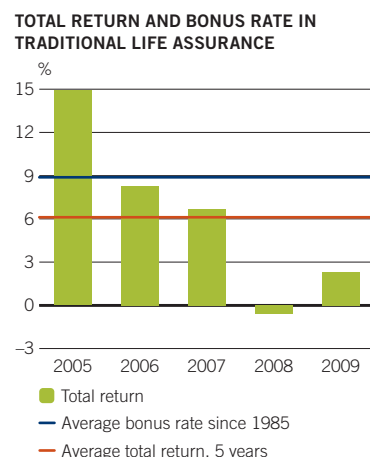
Investors started to resume their appetite for risk as the economic downturn slowed and interest rates remained at historically low levels, which meant that the value of risk-related assets increased sharply in 2009. Lending and stock markets throughout the world rose substantially, up from very negatively pressed levels. The autumn saw the positive trend break and move towards more of a phase of consolidation. Positive interim reports fended off a downturn, while profit taking impacted markets that had grown immensely in a short space of time, such as emerging markets.

Länsförsäkringar's customers can choose between a variety of management forms, traditional management and unit-linked insurance being the largest. Variants of traditional management are New World management and Insured Pension.

### Traditional management

The total return for traditional management amounted to 2.3% (neg: 0.6). The bonus rate was raised from 0% to 5% from November 1. The average bonus rate since Länsförsäkringar's life-assurance operations were started in 1985 is

8.9% per year. The average total return for the past five years amounted to 6.1%.



During the year, the allocation strategy was directed to a lower risk level, focusing on retaining a solvency margin of more than 100. However, equities exposure was raised towards the end of the year from the low level at the start of the year. Interest-bearing investments were made in loans, for example, which had a positive impact on returns. On December 31, the portfolio contained 49% equities, 36% interest-bearing securities, 9% properties and 6% alternative investments. The return in the portfolio for equities during 2009 was positive 1.7%, for interest-bearing securities was positive 7.8%, for properties was positive 2.5% and for alternative investments was negative 0.2%. In addition, debt hedging and currencies had a negative impact on the total return.

### Unit-linked insurance

Länsförsäkringar's fond offering comprises funds from leading fund managers in Sweden and abroad, and the aim is to have Sweden's most attractive fund offering. The offering includes funds that represent a variety of investment areas and management styles. A solid base offering is supplemented by more specialised funds.

In 2009, Länsförsäkringar's fund offering was, on average, better than comparable funds in eight of 12 fund categories. Funds of funds, which are managed by the company itself, reported strong earnings and the fund of funds category is the category in which Läns-

## Total return, Länsförsäkringar Liv

On Dec. 31, 2009	Market value, Jan. 1, 2009, SEK M	Percentage of portfolio, %	Market value, Dec. 31, 2009, SEK M	Percentage of portfolio, %	Total return, %
Interest-bearing	74,923	76.3	35,435	36.3	7.8
Equities	10,408	10.6	47,699	48.9	1.7
Alternative investments	4,266	4.3	5,670	5.8	-0.2
Property	8,688	8.8	8,761	9.0	2.5
<b>Total</b>	<b>98,285</b>	<b>100</b>	<b>97,565</b>	<b>100</b>	<b>2.3</b>

försäkringar's fund offering performed the best in relation to the industry average. The Emerging Markets and Sweden Small Cap categories were the two categories for which returns were the highest during the year. Länsförsäkringar's offering in both of these categories also performed well above the industry average. Managed assets for unit-linked insurance rose to SEK 46 billion on December 31, having been at SEK 32 billion at year-end.

### **Risks and risk management**

Throughout 2009, Länsförsäkringar Liv continued to take minor risks in its management of policyholders' money. By investing in low-risk interest-bearing instruments, Länsförsäkringar strives to safeguard its guaranteed commitments and balance residual risk scope with respect to available surplus capital. Equities exposure gradually increased over the course of the year from low initial levels.

# Bank

- Länsförsäkringar is Sweden's fifth largest retail bank. Deposits were up 6% to SEK 37 billion (35) and lending increased 27% to SEK 100 billion (79).
- Net interest income declined 5% to SEK 1,148 M (1,211) and the operating profit increased 5% to SEK 258 M (245).
- Credit quality was highly favourable and the operations maintained a low risk profile. Loan losses amounted to SEK 50 M (65), net, corresponding to a loan loss level of 0.05% (0.07).
- Länsförsäkringar has Sweden's most satisfied bank customers in the retail market and the most satisfied mortgage customers in a comparison between all Swedish banks according to the Swedish Quality Index (SQI).
- The number of customers rose 8% to 759,000 (700,000).

## Länsförsäkringar Bank, Group

KEY FIGURES	2009	2008
Deposits from the public, SEK M	37,365	35,090
Lending to the public, SEK M	99,582	78,564
Operating profit, SEK M	258	245
Return on shareholders' equity, %	4.1	4.4
Cost/income ratio before loan losses	0.76	0.75

The lending market noted substantial growth in volumes and toward the end of the year market growth for mortgage loans was accelerating. Customer confidence in the equities market was restored, which could be discerned in the high influx towards equity funds. Deposits from retail customers also increased.

Prices of single-family homes levelled out toward the end of the year and increased 1% during the fourth quarter. The total increase in prices for single-family homes for the year was 5%. Länsförsäkringar Hypotek has a favourable position and its loan portfolio had a good geographic distribution.

Household indebtedness continued to rise, and indebtedness among those with the highest disposable income increased the most. Households generally experienced a more favourable situation as a result of lower taxes and interest rates.

According to the Swedish Quality Index 2009, Länsförsäkringar has Sweden's most satisfied retail bank customers for the fifth time and Sweden's most satisfied retail mortgage customers for the sixth time.

In addition, Länsförsäkringar reported the highest index increase. The most important factors by far for customers are the range of products and the banks' ability to live up to customer expectations. Länsförsäkringar received a top ranking for all of the criteria measured, including image, customer expectations, product range, service quality, value-for-money and loyalty. The survey also indicated that full-service customers are generally more satisfied than customers who use several banks.

The number of customers rose 8% to 759,000 (700,000). The number of household financing customers increased 21% to 194,000 (160,000). A total of 85% (82) of household financing customers are also customers of Länsförsäkringar's non-life insurance and/or life assurance operations, indicating that customer relations have strengthened. The number of bank cards rose 23% to 223,000 (181,000) and the number of private and savings accounts increased steadily.

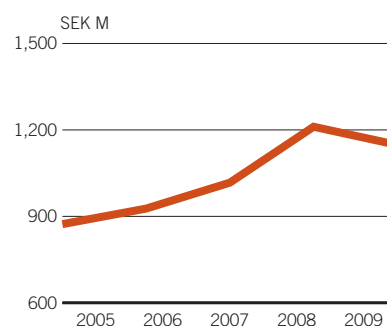
## Earnings and profitability

Operating profit rose 5% to SEK 258 M (245). The return on average shareholders' equity was 4.1% (4.4).

## Income

Operating income rose a total of 6% to SEK 1,301 M (1,225), primarily due to increased net profit from financial transactions and higher volumes. Net interest income fell 5% to SEK 1,148 M (1,211) and the investment margin was 0.96% (1.30). The decline was primarily due to lower deposit margins and lower yield on shareholders' equity as a result of lower market interest rates. The change in market interest rates compared with the preceding year impacted deposit margins and yield on shareholders' equity by approximately SEK 350 M. Net interest income was charged with SEK 20 M (0) for fees to the stability fund and SEK 16 M (11) for mandatory government deposit insurance. Higher lending and deposit volumes to the public contributed to net interest income. Net commission rose to negative SEK 95 M (neg: 138) as a result of higher fund management volumes. Net profit from financial transactions increased to SEK 101 M (1), primarily due to such factors as interest compensation in conjunction with loan conversions from fixed interest to loans with floating interest rates.

## NET INTEREST INCOME



## Expenses

Operating expenses increased 8%, or SEK 78 M, to SEK 992 M (915). This increase was primarily attributable to



higher IT costs in the subsidiary Wasa Kredit. The cost/income ratio was 0.76 (0.75) before loan losses and 0.80 (0.80) after loan losses.

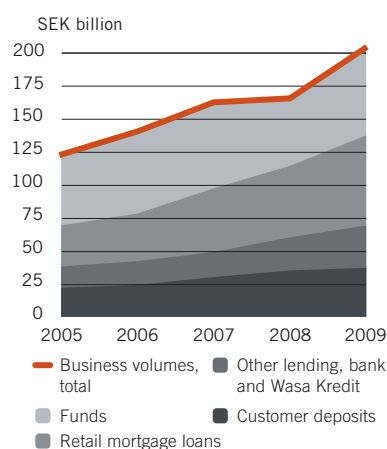
### Loan losses

Loan losses remained low and amounted to SEK 50 M (65). Bad debts amounted to SEK 213 M (192), corresponding to a share of bad debts totalling 0.21% (0.22).

### Business volumes

Business volumes continued to increase, with 23% or SEK 39 billion, and amounted to SEK 204 billion (165). Lending to the public rose 27%, or SEK 21 billion, to SEK 100 billion (79). Retail mortgage lending in the subsidiary Länsförsäkringar Hypotek increased 26%, or SEK 14 billion, to SEK 68 billion (54). All lending exposure occurred in Sweden and was in Swedish kronor. Deposits from the public rose 6%, or SEK 2 billion, to SEK 37 billion (35). The volume of managed funds rose 30% or SEK 16 billion to SEK 67 billion (51).

#### BUSINESS VOLUMES



### Lending

Lending to the public rose 27%, or SEK 21 billion, to SEK 100 billion (79). Retail mortgage lending in the subsidiary Länsförsäkringar Hypotek increased 26%, or SEK 14 billion, to SEK 68 billion (54). On December 31, 2009, the market share for household and retail mortgage lending in Sweden amounted to 4.0% (3.4), according to Statistics Sweden, and the share of market growth was almost 11% during the year.

First-lien mortgages for agricultural and forestry properties increased 142%

to SEK 7.8 billion (3.2). Agricultural lending increased 60% and totalled SEK 10.8 billion (6.5).

### Credit quality

The loan portfolio, totalling SEK 100 billion (79), has a good geographic distribution and maintained a high level of quality. A total of 85% (87) of the portfolio comprises household loans. Of the total portfolio, 75% (77) pertains to retail mortgage lending. Retail mortgage lending secured by collateral in single-family homes accounted for 81% (84) and tenant-owned apartments for 19% (16). Agricultural lending accounted for 11% (8) of the loan portfolio and the average commitment was SEK 1.3 M (1.0). First-lien mortgages mainly to family-owned agricultural properties comprised 72% (50) of agricultural lending.

### Deposits

Deposits from the public rose 6%, or SEK 2 billion, to SEK 37 billion (35), an increase primarily attributable to private and savings accounts. On December 31, 2009, the market share for deposits in the Swedish market amounted to 3.4% (3.2), according to Statistics Sweden, and the share of market growth was almost 9% for the year.

### Borrowing

Debt securities in issue rose by 27%, or SEK 13 billion, to SEK 62 billion (49), of which covered bonds amounted to SEK 55 billion (42). The Banking Group's long-term financing in the capital market primarily takes place through the subsidiary Länsförsäkringar Hypotek using covered bonds. Financing is also

conducted through certificate of deposits issued by Länsförsäkringar Bank. Newly issued covered bonds during the year amounted to a nominal SEK 32.9 billion (17.5). Repurchased covered bonds totalled a nominal SEK 17.2 billion (5.7) and matured covered bonds amounted to a nominal SEK 3.4 billion (7.4).

Borrowing issued under Länsförsäkringar Bank's various programmes amounted to SEK 7 billion (7). Issued certificates of deposits in Länsförsäkringar Bank amounted to a nominal SEK 13.9 billion (23.5) for the year. Repurchased certificates totalled a nominal SEK 0.7 billion (0.7) and matured certificates amounted to a nominal SEK 12.4 billion (24.3).

### Liquidity

The liquidity portfolio totalled SEK 27.2 billion (20.6) on December 31, 2009. All liquidity is invested in Swedish securities of a very high credit quality. A total of 17% of the liquidity portfolio comprises securities with the government as the counterparty, 65% covered bonds with the highest credit rating and 18% mortgage certificates, commercial papers and housing bonds. The liquidity of investment is very high.

### Rating

Company	Agency	Long-term rating	Short-term rating
Länsförsäkringar Bank	Standard & Poor's	A/stable	A-1(K-1)
Länsförsäkringar Bank	Moody's	A2/stable	P-1
Länsförsäkringar Hypotek <sup>1)</sup>	Standard & Poor's	AAA	–
Länsförsäkringar Hypotek <sup>1)</sup>	Moody's	Aaa	–

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

Programme	Limit, Nominal	Issued 2009, SEK billion	Issued Dec. 31, 2008, SEK billion	Remaining, Dec. 31, 2009, nominal, SEK billion	Remaining, Dec. 31, 2008, nominal, SEK billion	Remaining maturity, Dec. 31, 2009, years	Remaining maturity, Dec. 31, 2008, years
<b>Länsförsäkringar Hypotek</b>							
Benchmark	Unlimited	22	9	35	29	2.8	2.1
Medium Term Covered Note	SEK 20 billion	11	7	14	7	1.1	1.4
Euro Medium Term Covered Note	SEK 2 billion	–	1	5	5	1.1	2.0
<b>Total</b>		33	17	54	41		
<b>Länsförsäkringar Bank</b>							
Medium Term Note	SEK 20 billion	–	–	0	0	0.5	1.5
Domestic Commercial Paper	SEK 15 billion	14	24	6	5	0.3	0.3
Euro Commercial Paper	SEK 1,5 billion	–	–	–	–	–	–
Euro Medium Term Note	EUR 2 billion	–	–	1	2	0.2	1.1
<b>Total</b>		14	24	7	7		
<b>Group total</b>		47	41	61	48		

Länsförsäkringar Bank has a credit rating of A (stable) from Standard & Poor's and A2 (stable) from Moody's. The bank's short-term rating from Standard & Poor's is A-1. Moody's short-term rating is P-1 and Länsförsäkringar Bank's Financial Strength Rating is C. The credit ratings are unchanged, with a stable outlook from both Standard & Poor's and Moody's. Länsförsäkringar Hypotek's covered bonds have the highest rating, Aaa, from Moody's and the highest credit rating, AAA, from Standard & Poor's. Länsförsäkringar Hypotek is one of four players in the Swedish market for covered bonds with the highest rating from both rating agencies.

In mid-December, Standard & Poor's introduced a new rating method for covered bonds. In conjunction with this new method, the programmes of essentially all international and Swedish issuers of covered bonds were added to a watchlist and given negative forecasts, including Länsförsäkringar Hypotek's programmes.

### Capital adequacy

Länsförsäkringar applies the Internal Ratings-based Approach (IRB Approach). The aim is to achieve enhanced transparency and valuation of risks to determine appropriate capital. The advanced risk-classification method provides the greatest opportunities to strategically and operationally manage credit risks and is used for all retail exposures. The Standardised Approach is applied to agricultural customers and other exposures to calculate the capital requirement for credit risk. In December, the Swedish Financial Supervisory Authority approved the Bank's application to use a basic IRB method to calculate the capital requirements for agricultural exposures. Changes in the capital requirement will emerge gradually through transition rules. In accordance with the transition rules, the capital requirement will be reduced to 80% of the Basel I rules in 2009. In December 2009, the Swedish Financial Supervisory Authority issued general guidelines for the continued application of transition rules for capital base requirements through 2011.

The Group's Tier 1 ratio according to Basel II was 12.5% (14.6) and the capital adequacy ratio was 14.8% (17.7). The target level for Tier 1 ratio is 12 percentage points, +/- 0.5 percentage points, when Basel II is fully implemented. In accordance with Pillar I of the new rules, the capital requirement, excluding transition rules, amounted to SEK 2,907 M, down 50% compared with SEK 5,786 M according to the Basel I regulations.

### Interest-rate risk

On December 31, 2009, an increase in market interest rates of 1 percentage point would have increased the value of interest-bearing assets and liabilities, including derivatives, by SEK 36 M (22).

### Risks and uncertainties

The Group is exposed to a number of risks, primarily comprising credit risks and financial risks. The operations are characterised by a low risk profile, which has been valuable during the financial crisis and the downturn in the economy. Loan losses remain low and the company was able to refinance its business activities throughout the turbulent period in the capital market.

A detailed description of risks is available in the 2008 Annual Report. No significant changes in the allocation of risk have taken place compared with the description provided in the Annual Report.

### Parent Company

Deposits and some lending are conducted by the Parent Company. Most of the lending and borrowing operations are conducted through the subsidiary Länsförsäkringar Hypotek. Lending to the public rose 40% to SEK 23 billion (16). Deposits from the public increased 6% to SEK 37 billion (35). Debt securities in issue amounted to SEK 7 billion (7). The Parent Company reported an operating loss of SEK 37 M (loss: 24), which was primarily attributable to lower net interest income. Operating income rose to SEK 480 M (469), mainly due to increased net profit from financial transactions and lower commission expense. Net interest income declined to SEK 420

M (484) and was primarily attributable to lower deposit margins. Operating expenses rose to SEK 512 M (485), mainly due to changes in settlement methods between the Parent Company and the bank, as well as increased depreciation and amortisation. Loan losses were low and amounted to SEK 5 M (8).

### Subsidiaries

#### *Länsförsäkringar Hypotek*

Retail mortgage lending in the bank's mortgage institution increased 26%, or SEK 14 billion, to SEK 68 billion (54). Up to 75% of the market value of retail mortgage loans are granted by Länsförsäkringar Hypotek and the remainder by the Parent Company. Operating profit totalled SEK 141 M (129) and was attributable to higher lending volumes and increased net profit from financial transactions. Loan losses amounted to positive SEK 5 M (0), net, since recoveries exceeded loan losses. The loan loss level remained unchanged at 0% (0). The number of retail mortgage customers rose to 134,000 (115,000).

SEK M	Dec. 31, 2009	Dec. 31, 2008
Total assets	81,750	67,184
Lending volume	67,536	53,592
Net interest income	285	361
Operating profit	141	129

#### *Wasa Kredit*

Wasa Kredit's lending volume totalled SEK 9 billion (9). Leasing assets increased during the year, while the unsecured loan portfolio declined somewhat. Net interest income rose to SEK 442 M (361) and operating profit to SEK 109 M (106). The change of production system resulted in higher IT costs. Loan losses declined to SEK 51 M (57), net.

SEK M	Dec. 31, 2009	Dec. 31, 2008
Total assets	9,478	8,956
Lending volume	9,082	8,582
Net interest income	442	361
Operating profit	109	106

### *Länsförsäkringar Fondförvaltning*

Länsförsäkringar is Sweden's fifth largest fund company with a market share of 4.2% (4.2). The company's volume of managed funds increased 30% to SEK 67 billion (51). The company manages 30 (29) investment funds with different investment orientations. Two new index funds were added to the product range during the year, bringing the total number of index funds to three. Länsförsäkringar's average Morningstar rating on a three-year basis is 3.21, which is one of the strongest ratings among the major fund companies. The funds are available as direct fund savings, IPS and unit-linked insurance and through the PPM system. The company's net flow was positive during the year and amounted to SEK 3.4 M (2.4). Operating profit rose to SEK 50 M (36).

SEK M	Dec. 31, 2009	Dec. 31, 2008
Total assets	202	168
Assets under management	66,659	51,336
Net commission	221	218
Net flow	3,395	2,356
Operating profit	50	36

# Real-estate brokerage

*Since it was founded in 2001 under the name Länshem Fastighetsförmedling, Länsförsäkringar Fastighetsförmedling has established approximately 100 housing stores throughout Sweden, of which 30 were established in 2009. This strong growth earned Länsförsäkringar a number four ranking among the country's real-estate brokerages.*

On January 1, 2010, Länshem Fastighetsförmedling changed its name to Länsförsäkringar Fastighetsförmedling. The purpose of this change was to more fully utilise the Länsförsäkringar brand. The change of name also highlights and clarifies the fact that Länsförsäkringar offers a full range of banking and insurance services in conjunction with homeowner transactions.

In addition to assistance from experienced and knowledgeable brokers, Länsförsäkringar Fastighetsförmedling also provides individuals who are sell-

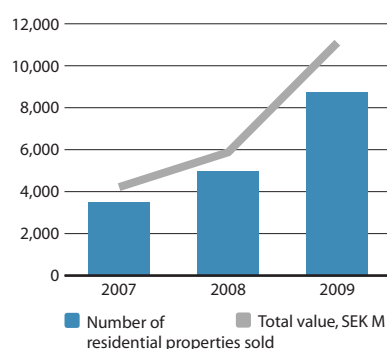
ing or purchasing a home with access to a broad range of banking and insurance services, financial advisory services and extensive claims prevention expertise, as well as the offerings associated with these areas. Homeowners are a strategic target group for the regional insurance companies and transactions with homeowners offer an excellent opportunity to discuss the total offering.

Länsförsäkringar Fastighetsförmedling's operations are conducted in franchise form, whereby the regional insurance companies act as the franchiser and

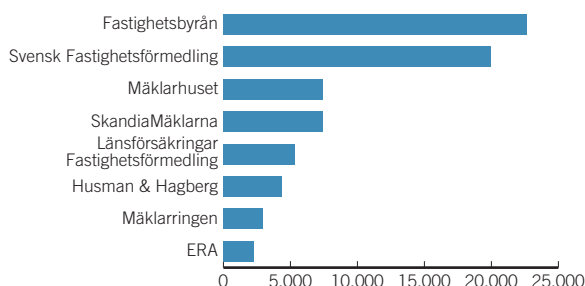
principal for the local branches. In other words, Länsförsäkringar Fastighetsförmedling always has a local base, thereby distinguishing itself from nationwide real-estate brokerage chains, which are controlled and managed centrally.

A total of 3,475 private residences, 4,144 tenant-owned apartments and 515 leisure homes were sold in 2009. The value of the sales amounted to SEK 11.1 billion and the company's market share was 5.1%.

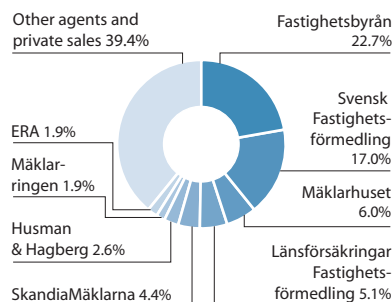
**NUMBER OF RESIDENTIAL PROPERTIES SOLD**



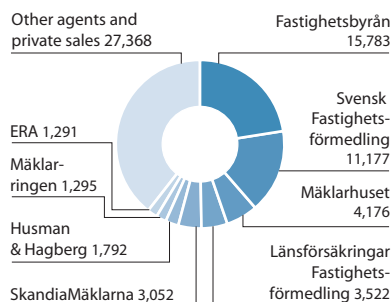
**VALUE OF SALES, 2009, SEK M**



**MARKET SHARES, 2009**



**NUMBER OF RESIDENTIAL PROPERTIES SOLD 2009**



## Income statements and balance sheets

### NON-LIFE INSURANCE<sup>1)</sup>

Income statement, SEK M	2009	2008
Premiums earned after ceded reinsurance	17,828	17,406
Investment income transferred from financial operations	921	1,315
Claims payments after ceded reinsurance	-13,289	-12,472
Operating expenses	-3,871	-3,794
Other technical revenue/expenses	53	-2
<b>Technical result from non-life insurance operations before partner discounts</b>	<b>1,643</b>	<b>2,453</b>
Bonuses and discounts	-592	-290
<b>Technical result from non-life insurance operations after partner discounts</b>	<b>1,051</b>	<b>2,163</b>
Total investment income	5,920	-7,410
Investment income transferred to insurance operations	-921	-1,315
Other non-technical expenses	-593	-948
<b>PROFIT/LOSS BEFORE APPROPRIATIONS AND TAX</b>	<b>5,457</b>	<b>-7,511</b>

Balance sheet, SEK M	Dec. 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Shares and participations	20,942	14,855
Bonds and other interest-bearing securities	27,518	24,484
Other investment assets	12,045	12,378
<b>Total investment assets</b>	<b>60,505</b>	<b>51,717</b>
Reinsurers' portion of technical reserves	1,043	512
Receivables and other assets	13,658	16,880
Prepaid expenses and accrued income	839	845
<b>TOTAL ASSETS</b>	<b>76,044</b>	<b>69,954</b>

### SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES

Shareholders' equity	25,196	20,956
Technical reserves (before ceded reinsurance)	37,300	35,954
Other provisions and liabilities	11,159	10,964
Accrued expenses and deferred income	2,388	2,080
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>76,044</b>	<b>69,954</b>

<sup>1)</sup> Länsförsäkringar's earnings from non-life insurance consist of the total of the earnings of the 24 regional insurance companies and of Länsförsäkringar AB Group, excluding the Life Assurance Group and the Banking Group. Transactions between the regional insurance companies and Länsförsäkringar AB have been eliminated. The value and changes in the value of the regional insurance companies' holding of shares in Länsförsäkringar AB and subordinated loans have been eliminated. Länsförsäkringar Alliance is neither a legal entity nor, in the legal sense of the term, a Group; it is an alliance between 24 independent regional insurance companies that jointly own Länsförsäkringar AB.

The 24 regional insurance companies and the Länsförsäkringar AB Group apply the approved international reporting standard (IFRS). The regional insurance companies apply these standards with certain limitations due to the Swedish Annual Accounts in Insurance Companies Act, and the relationship between reporting and taxation, known as legally restricted IFRS.

### LÄNSFÖRSÄKRINGAR AB, GROUP

Income statement, SEK M	2009	2008
Premiums earned after ceded reinsurance	3,524	3,024
Net interest income	1,241	1,340
Investment income, net	520	3,161
Other operating income	3,014	3,382
<b>Total operating income</b>	<b>8,299</b>	<b>4,585</b>
Claims payments after ceded reinsurance	-2,391	-1,953
Other expenses	-5,215	-6,026
<b>Total expenses</b>	<b>-7,606</b>	<b>-7,979</b>
<b>Operating profit</b>	<b>693</b>	<b>-3,395</b>
Tax	-184	915
<b>NET PROFIT FOR THE YEAR</b>	<b>509</b>	<b>2,480</b>

Balance sheet, SEK M	Dec. 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Goodwill	353	351
Other intangible assets	868	1,006
Property and equipment	190	101
Owner-occupied property	2,208	2,205
Shares in Länsförsäkringar Liv Försäkrings AB	514	514
Shares and participations in associated companies	23	21
Reinsurers' portion of technical reserves	5,917	5,889
Lending	99,582	78,564
Financial assets	39,153	26,280
Other assets	8,268	15,623
<b>TOTAL ASSETS</b>	<b>157,076</b>	<b>130,554</b>

### SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES

Shareholders' equity	8,058	7,466
Subordinated liabilities	114	114
Technical reserves	19,692	20,104
Debt securities in issue	61,022	48,478
Deposits from the public	36,978	34,624
Financial liabilities	23,244	12,139
Other liabilities	7,963	7,624
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>157,076</b>	<b>130,554</b>

**LÄNSFÖRSÄKRINGAR BANK, GROUP**

Income statement, SEK M	2009	2008
Net interest income	1,148	1,211
Net commission	-95	-138
Other operating income	247	152
<b>Total operating income</b>	<b>1,300</b>	<b>1,225</b>
Staff costs	-305	-331
General administrative expenses	-612	-531
Other operating expenses	-75	-53
<b>Total operating expenses</b>	<b>-992</b>	<b>-915</b>
<b>Profit before loan losses</b>	<b>308</b>	<b>310</b>
Loan losses, net	-50	-65
<b>Operating profit</b>	<b>258</b>	<b>245</b>
Tax	-80	-68
<b>NET PROFIT FOR THE YEAR</b>	<b>178</b>	<b>177</b>

Balance sheet, SEK M	Dec. 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Eligible treasury bills	2,000	-
Lending to credit institutions	3,216	9,831
Lending to the public	99,582	78,564
Bonds and other interest-bearing securities	22,701	10,446
Intangible assets	330	327
Property and equipment	18	21
Other assets	3,450	4,947
<b>TOTAL ASSETS</b>	<b>131,297</b>	<b>104,136</b>

**SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES**

Liabilities to credit institutions	21,232	9,113
Deposits and borrowing from the public	37,365	35,090
Debt securities in issue	62,016	48,985
Other liabilities	5,990	6,657
Shareholders' equity	4,694	4,291
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>131,297</b>	<b>104,136</b>

**LÄNSFÖRSÄKRINGAR LIV, GROUP**

Income statement, SEK M	2009	2008
Premium income before ceded reinsurance	6,507	6,237
Premium income after ceded reinsurance	6,072	5,820
Investment income, net	14,465	-17,596
Claims payments	-4,300	-4,245
Other technical revenue and expenses	257	252
Change in technical reserves	4,058	-11,495
Operating expenses	-1,540	-1,641
<b>Technical result for insurance operations</b>	<b>19,012</b>	<b>-28,905</b>
Non-technical expenses	-195	-196
<b>Profit/loss before tax</b>	<b>18,817</b>	<b>-29,101</b>
Tax	-895	-1,025
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>17,922</b>	<b>-30,126</b>

Balance sheet, SEK M	Dec. 31, 2009	Dec. 31, 2008
<b>ASSETS</b>		
Intangible assets	1,001	1,197
Investment assets	104,395	102,388
Investment assets for which policyholders bear the investment risk	46,070	31,708
Reinsurers' portion of technical reserves	705	792
Receivables	3,888	3,088
Other assets	4,953	8,117
Prepaid expenses and accrued income	1,977	2,926
<b>TOTAL ASSETS</b>	<b>162,989</b>	<b>150,216</b>

**SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES**

Share capital	8	8
Funds plus net profit for the period	27,330	11,043
Technical reserves	83,820	97,992
Provisions for life assurance for which policyholders bear the investment risk	46,071	31,709
Provisions for other risks and expenses	230	233
Deposits from reinsurers	787	853
Liabilities	4,201	7,723
Accrued expenses and deferred income	542	655
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>162,989</b>	<b>150,216</b>

Effective January 1, 2007, Länsförsäkringar Liv transferred to new accounting regulations, legally restricted IFRS. One effect of the new accounting principles is that paid premiums for financial instruments in the unit-linked insurance operations are recognised as a deposit via the balance sheet, instead of being recognised as income in the income statement. In the same manner, claims payments are recognised as withdrawals from the insurance operations in the balance sheet.

Instead, those fees paid by the customer are recognised as premium income and costs for insurance risk are recognised as a cost.



## Financial calendar 2010

### First quarter:

Interim report, Länsförsäkringar Bank.....April 27

Interim report, Länsförsäkringar Hypotek.....April 27

### Second quarter:

Interim report, Länsförsäkringar Bank.....August 24

Interim report, Länsförsäkringar Hypotek.....August 24

Interim report, Länsförsäkringar Alliance .....August 25

Interim report, Länsförsäkringar AB.....August 25

### Third quarter:

Interim report, Länsförsäkringar Bank.....October 26

Interim report, Länsförsäkringar Hypotek.....October 26

Interim report, Länsförsäkringar Alliance .....October 26

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