

# Länsförsäkringar Alliance

## YEAR-END REPORT 2007

A summary of the 2007 banking and insurance year for 24 regional insurance companies in alliance.

### 2007 in brief

- The technical result for non-life insurance remained strong and amounted to SEK 2,322 M (2,114). Operating profit was SEK 3,769 M (4,545). The return on shareholders' equity was 11.6%.
- As a result of the favorable earnings within non-life insurance, 15 of the regional insurance companies will pay bonuses in various forms to their customers. In total, the bonuses amount to about SEK 800 M.
- The total return on investment assets in Länsförsäkringar Liv (life assurance) was 6.7% (8.0), which was the best of all pension companies in Sweden. Successful management provided customers a bonus rate of 10% at year-end.
- Income from bank operations before loan losses amounted to SEK 290 M (236) and operating income to SEK 238 M (198). Lending to the public rose 25% to SEK 67 billion (54) and deposits from the public increased by 22% to SEK 30 billion (24). Mortgage lending rose 30% to SEK 48 billion (37).
- Income before tax for the Länsförsäkringar Alliance's jointly owned company Länsförsäkringar AB with subsidiaries amounted to SEK 1,269 M (821). The return on shareholders' equity was 10.0% (7.7).
- The Swedish Quality Index for 2007 revealed that Länsförsäkringar had Sweden's most satisfied private bank customers, mortgage customers, medical insurance customers and car insurance customers. Within all other categories, Länsförsäkringar was ranked among the top three. The Länsförsäkringar Alliance was also awarded a number of distinctions in 2007, including "Life Assurance Company of the Year" and "Non-life Insurance Company of the Year" from Finansbarometern and "Best Broker of the Year."

**Tommy Persson, Managing Director of Länsförsäkringar AB, the Alliance's jointly owned company:**

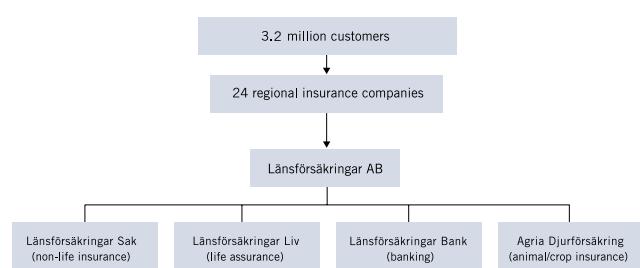
Länsförsäkringar has been a leader in Swedish non-life insurance for many years – in terms of market shares, expertise and customer offering. We continue to hold this position, but after the past year I would be so bold as to say that we are also Sweden's best life-assurance company, with the best return to our savers of all of Sweden's pension companies and with finances that have been further strengthened. Successful management leads to successful sales, and new sales rose by more than 60%. Volume growth in the banking operations was the strong ever, for example, mortgage lending rose by 30%. All in all, we can summarize a strong 2007 with favorable earnings across the board and a robust financial position. The end of the year was characterized by major turmoil in the global capital markets. However, Länsförsäkringar is not exposed to the unrest in the credit market.

The 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. 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 Alliance

The Länsförsäkringar Alliance comprises 24 regional and customer-owned insurance companies and the jointly owned Länsförsäkringar AB. The Länsförsäkringar Alliance is based on a strong belief in the local market presence, and its customer contacts are conducted through the regional insurance companies. The regional insurance companies offer a broad range of insurance, bank services and other financial solutions for corporate customers and private individuals. The Länsförsäkringar Alliance has approximately 3.2 million customers and a combined total of 5,500 employees.



## LÄNSFÖRSÄKRINGAR ALLIANCE, NON-LIFE INSURANCE

	2003	2004	2005	2006	2007
Net asset value, SEK M	16,896	20,249	27,738	32,093	34,112
Solvency margin, %	113	125	169	195	201
Premiums earned, after ceded reinsurance, SEK M	14,084	15,861	16,216	16,362	16,671
Technical result, SEK M	983	1,957	2,515	2,114	2,322
Operating income, SEK M	2,148	3,213	7,075	4,545	3,769
Combined ratio, SEK M	101	93	89	93	93

## Credit rating

Company	Institute	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	Standard & Poor's	AAA	
Länsförsäkringar Hypotek	Moody's	Aaa	
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*	

\*pi ratings are ratings that do not involve forecasts but that are based on public information, such as annual reports.

## Länsförsäkringar AB

The regional insurance companies own Länsförsäkringar AB, which conducts operations through subsidiaries in such areas as life assurance, unit-linked insurance, banking services, fund management, reinsurance, health and special insurance and animal insurance. Another primary assignment is to provide service to the regional insurance companies and assume responsibility for common strategic development for the Länsförsäkringar Alliance. Via these assignments, Länsförsäkringar AB creates the conditions for the regional insurance companies to be successful in their respective markets.

Länsförsäkringar AB is wholly owned by the regional insurance companies, together with 14 local insurance companies. Its shareholdings are included in the net asset value of the regional insurance companies. The value growth of the share was 9.8% in 2007. At year-end, the net worth of the share was SEK 1,647.

## LÄNSFÖRSÄKRINGAR AB, GROUP\*

	2003	2004	2005	2006	2007
Income before tax, SEK M	750	781	2,100	821	1,269
Solvency capital, SEK M	6,839	7,603	9,703	10,713	11,874
Solvency margin, %	147	389	497	498	437
Total assets, SEK M	59,061	69,414	80,478	91,184	116,243
Return on capital employed, %	9.3	8.6	19.0	7.7	10.0

\* Excluding the life-assurance operations, which are conducted with a prohibition against issuing dividends.

## LÄNSFÖRSÄKRINGAR BANK, GROUP

	2003	2004	2005	2006	2007
Deposits from the public, SEK M	18,154	20,048	21,535	24,379	29,735
Lending to the public, SEK M	30,044	39,426	47,094	53,884	67,040
Operating income, SEK M	47	127	154	198	238

## LÄNSFÖRSÄKRINGAR LIV, GROUP

	2003	2004	2005	2006	2007
Premium income, SEK M*	8,083	8,703	9,420	10,141	10,794
Net profit for the year, SEK M	3,808	2,348	4,584	7,646	11,361
Collective consolidation, %	92	103	114	114	114
Solvency ratio, %	122	123	126	136	152

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

## LÄNSFÖRSÄKRINGAR SAK FÖRSÄKRINGS AB

	2003	2004	2005	2006	2007
Premiums earned after ceded reinsurance, SEK M	3,697	2,260	1,045	1,158	1,340
Income before appropriations and tax, SEK M	617	641	1,856	591	1,045
Solvency margin, %	72	273	401	339	381

# Non-life insurance\*

- Continued market-leading position, with a market share of 29.4% (29.8).
- For the fifth consecutive year, Länsförsäkringar was named “Non-life Insurance Company of the Year.”
- The technical result for non-life insurance remained strong and amounted to SEK 2,322 M (2,114). The finance business reported strong results again for 2007. Total operating income amounted to SEK 3,769 M (4,545). As a result of the favorable earnings within non-life insurance, 15 of the regional insurance companies will pay bonuses in various forms to their customers. In total, the bonuses amount to about SEK 800 M.
- The healthcare venture is continuing and Länsförsäkringar holds a strong position within medical insurance in a growing market.

KEY FIGURES	2007	2006
Premiums earned <sup>1)</sup> , SEK M	16,671	16,362
Technical result, SEK M	2,322	2,114
Operating income, SEK M	3,769	4,545
Return on shareholders' equity	11.6	15.5
Solvency capital, SEK M	34,108	32,093
Solvency margin, %	201	195
Claims ratio	72	73
Expense ratio	21	20
Combined ratio	93	93

<sup>1)</sup> After ceded reinsurance

Länsförsäkringar Alliance remained a market leader in 2007 and the market share, calculated as premiums paid, was 29.4% (29.8). As in previous years, the total non-life insurance market experienced modest growth. This was due to such factors as intensified price competition as a result of the increase in the number of players. The Länsförsäkringar Alliance increased its market share, measured as the number of policies, within all areas of the private market. Measured as premiums paid, the market share rose a full 3.1 percentage points within accident and medical insurance, and third-party liability insurance also reported an increase. Within household and home-owner, motor vehicle and commercial insurance, the market share, measured in premiums, declined slightly. The decrease within commercial and property insurance

was primarily due to an increasing number of large companies and municipalities choosing captive solutions.

Despite intensified competition in the corporate market, the Länsförsäkringar Alliance maintained a dominant position.

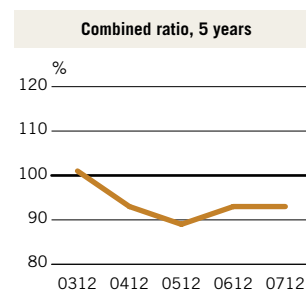
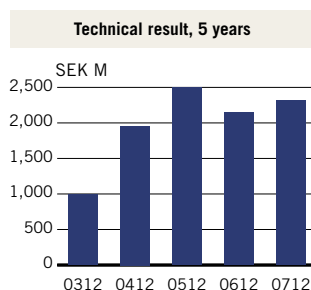
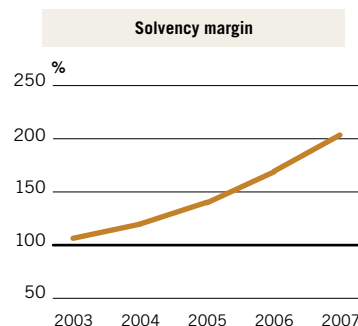
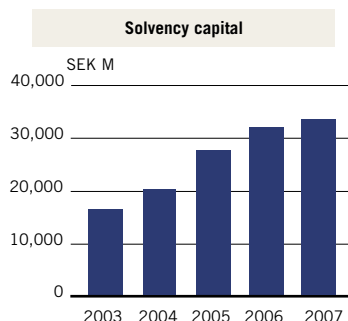
The market for health insurance products continued to grow and increasing numbers of companies are insuring their employees. Despite many new players and increasingly intense competition, the Länsförsäkringar

Alliance maintained its market share of approximately 40% for medical insurance.

## Brokered sales

Länsförsäkringar Mäklarservice reaches customers who choose to use an insurance broker when purchasing insurance.

As in the preceding year, the non-life insurance market was temperate, with relatively few purchases and distinct price pressure in transactions. On behalf of the



\* Länsförsäkringar's earnings from non-life insurance consist of the sum of the earnings of the 24 regional insurance companies and the Länsförsäkringar AB Group, excluding the life assurance and bank groups. The value and changes in value of the regional insurance companies' holdings of shares in Länsförsäkringar AB and subordinated loans have been eliminated. The 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.

regional insurance companies, Mäklarservice brokered a non-life insurance premium of SEK 1,141 M (1,199) at the end of 2007. The insurance-broker industry displayed continued high profitability, attracting new players as a result.

## Expenses

The combined ratio was unchanged in 2007 and amounted to 93% (93). Despite increasing price competition in the commercial market and minor portfolio increases in private insurance, the Länsförsäkringar Alliance experienced a total increase of 2% in premiums earned, which amounted to SEK 16,671 M (16,362).

The Länsförsäkringar Alliance has been working on profitability-improving measures in the form of claims prevention for a long period of time. Based on the increase in the number of policies in the portfolio, claims cost trend was stable and amounted to SEK -12,048 M (-11,878). The claims ratio declined to 72 (73).

On January 14, 2007, Hurricane Per swept across Sweden. The cost of the hurricane was estimated at SEK 487 M. As a result of an extensive reinsurance cover, the storms have only had a marginal effect on net claims costs. However, in the long term, the major claims burden on the reinsurance systems will impact reinsurance premiums.

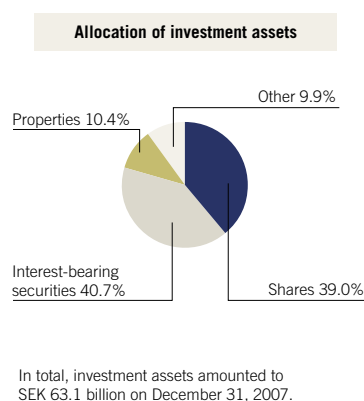
The expense ratio, which amounted to 21% (20), was impacted by investments in international ventures and operational support. The Länsförsäkringar Alliance continued investing in the development of rational and customer-friendly IT support. During spring 2008, an improved and expanded Internet functionality will be launched and the development of motor vehicle insurance systems

will continue within the platform implemented in 2006.

## Results

The technical result amounted to SEK 2,322 M (2,114) before bonuses and discounts. As a result of the favorable earnings within non-life insurance, 15 of the regional insurance companies will pay bonuses in various forms to their customers. In total, the bonuses amount to about SEK 800 M.

Although trends in the financial markets were turbulent in 2007, investment income amounted to 6.4%, SEK 3,717 M. Operating income amounted to SEK 3,769 M (4,545).



The Länsförsäkringar Alliance's specialist company for animal and crop insurance, Agria, reported a technical result of SEK 99 M (45). Premiums earned by Agria rose to SEK 1,089 M (949).

## Growing sectors of the non-life insurance market

### Fast growth in healthcare area

The market for insurance within the healthcare area is rapidly expanding. Demand for insurance solutions among companies is increasing substantially in the areas of health-

care, rehabilitation, preventive healthcare and other solutions that supplement the protection of the public. The main reason is that companies' operations become seriously disrupted if employees are absent due to illness. Healthy employees increase profitability. With medical insurance, the Länsförsäkringar Alliance demonstrates how private care can complement public care. The market for these products is growing and about 6% of the population of Sweden currently has medical insurance, privately or as a fringe benefit.

### Establishing operations abroad

In 2007, the Länsförsäkringar Alliance decided to establish non-life insurance operations in Latvia and Lithuania. The first insurance policy was sold at the beginning of 2008. In 2007, Agria International took another step in the international market. Agria established operations in several countries, partly through its own operations in Norway and the UK and partly through partners in Finland, Iceland and the Åland Islands. Agria International's sales amounted to slightly more than SEK 120 M and profitability was favorable.

### Intensified cooperation with the Federation of Swedish Farmers

At the end of 2007, the Länsförsäkringar Alliance acquired insurance operations from the Federation of Swedish Farmers (LRF). A permit for the acquisition is expected to be finalized in 2008. The insurance operations comprise individual and group life, medical and accident insurance for more than 200,000 customers. The customers primarily include LRF's approximately 165,000 members, but also other agricultural and forestry associations. The aim of the cooperation is to increase value for LRF's members within the agricultural

market, while, at the same time, strengthening the customer offering of the Länsförsäkringar Alliance. The acquisition is also part of the continuing growth strategy.

#### *Extended responsibility in third-party liability insurance*

One of the major issues facing the Länsförsäkringar Alliance and the insurance industry is the proposed changes to third-party liability insurance. In autumn 2006, the Budget Bill proposed that third-party liability insurance assume all costs for professional rehabilitation and losses of income in connection with traffic accidents. This change was to be carried out in two stages.

The first step was to introduce a 32% excise duty on third-party liability insurance premiums from July 1, 2007. The duty is intended to finance the Swedish government's expenses for the claims that have already been incurred and will occur before the extended responsibility can be put into effect. The insurance industry has been negative toward introducing such a change because the duty involves a double taxation for costs that are currently financed through employer contributions. Nevertheless, the duty was introduced and insurance companies were given the right to compensate for this tax levy by also raising third-party liability insurance premiums for ongoing insurance agreements. This resulted in a nonrecurring withdrawal for which the Länsförsäkringar Alliance sent 1.4 million notices to customers and received slightly more than SEK 500 M in tax compensation.

During the next phase, an investigation was conducted to determine the feasibility of transferring all costs to the insurance companies for individuals injured in traffic accidents. The results of the investigation were

to be presented on April 30, with implementation scheduled for January 1, 2009. Due to the complexity of the inquiry, an extension of the investigation period until June 15, 2009 was requested.

The Länsförsäkringar Alliance has formed a project to investigate and handle the opportunities involved in extended responsibility in third-party liability insurance. Such changes would lead to adjustments in the operations of the insurance companies and it is important that Länsförsäkringar, often together with the other players in the industry, participates actively in the formulation of such adjustments to identify the best possible solution for its customers.

#### *Increased focus on claims-prevention activities*

In addition to decreasing the number of claims and claims costs, successful claims-prevention initiatives can lead to a reduction in environmental impact. For example, reducing the number of fires contributes to a decrease in carbon dioxide emissions and calculations indicate that a fire in a private home causes emissions of slightly more than 25 tons of gases, dust and waste products. Every time water damage is avoided, carbon dioxide emissions are reduced by an average of approximately 300 kilos. Claims-prevention activities also keep down claims costs and, thereby, premiums. For this reason, this work is, in many ways, a key area of focus for the Länsförsäkringar Alliance.

#### *Environmental insurance*

The recycling insurance that is now included in most regional insurance companies' agricultural insurance policies has been met with considerable appreciation from customers.

Once a year, Länsförsäkringar collects environmentally hazardous waste and scrap from farming operations free of charge. The recycling insurance reduces the risk of damages and stress on the environment, at the same time enabling customers to solve their waste concerns in a safe and environmentally sound manner.

# Life assurance and pension insurance

- Länsförsäkringar had the highest total return of all life assurance companies, 6.7%. Successful management provided customers a bonus rate of 10% at year-end.
- The new sales rose 63% and amounted to SEK 19,231 M (11,762).
- In 2007, Länsförsäkringar became the third largest pension company in Sweden and the market share, measured in new sales, increased to 12.2% (9.4%).
- Sales via insurance brokers grew the fastest, with the total sales value amounting to SEK 8,842 M.
- Länsförsäkringar became an eligible manager in the new ITP plan. Of those individuals that made an active pension choice, 14% selected Länsförsäkringar.
- Länsförsäkringar was named "Life and Unit-linked Insurance Company of the Year" by Swedish companies in business daily Affärsvärlden's annual survey.

## Länsförsäkringar Liv\* (Life)

KEY FIGURES	2007	2006
Net profit for the year, SEK M	11,361	7,646
Premium income, net, SEK M	6,150	6,361
Premium income in accordance with the Swedish Insurance Federation's definition, SEK M	10,794	10,141
Total assets, SEK M	162,793	153,300
Total return, traditional management, %	6.7	8.0
Return, New World, %	4.2	11.1

The year 2007 was highly successful for Länsförsäkringar's life assurance operations. Savers with traditional management enjoyed the industry's best total return, while market shares rose significantly and the economy was further strengthened.

In 2007, focus was again placed on growth and during the year initiatives continued to be carried out in the private and occupational pension markets. These initiatives yielded clear results, which were reflected in such areas as substantially increased growth.

New sales amounted to SEK 19,231 M (11,762) during the year, an increase of 63%, and the market share rose from 9.4% to 12.2%. Another notable result was reflected in the pension choice for private-sector salaried employees, the ITP choice. Between July 1 and November 15, 44,000 salaried employees selected their collective agreement pensions.

A total of 14% of salaried employees between the ages of 25 and 29 who made an active choice selected Länsförsäkringar, which corresponded to a third place among the pension company alternatives.

Another significant success was the substantial increase in sales via insurance brokers. New sales records were set, with a total sales value of SEK 8,842 M, which means that Länsförsäkringar is now second largest in Sweden in terms of brokered occupational pensions and has the highest proportion of current premiums. Structured reworking of the life insurance brokers and effective support resulted in such achievements as being named "Best Broker of the Year" by the SFM industry organization.

In the private market, sales success continued for Insured Pension, which was launched in 2006. Due to its simplicity, security and low price, Insured Pension is a product that is perfectly in line with Länsförsäkringar's core values.

Total premium income in accordance with the Swedish Insurance Federation's definition rose to SEK 10,794 M (10,141). Despite strong sales, the market share, measured as premium income, declined to 7.4% (7.9). This decrease in market share is primarily due to Alecta's non-competitive portfolio being reclassified as

competitive, and is now included in market-share statistics. A major portfolio transfer from Alecta to Handelsbanken also impacted market-share statistics and made the market appear to grow more than it actually did.

## Länsförsäkringar offers a variety of management forms

### Solvency and consolidation

For customers who save in pension and capital-endowment insurance, Länsförsäkringar offers different management forms. *Traditional management*, *New World management* and *Insured Pension* are offered through Länsförsäkringar Liv and *Unit-linked insurance* through Länsförsäkringar Fondliv. The management forms offer different advantages depending on the objectives of the savings and the level of risk the saver is willing to take.

### Traditional life assurance\*

KEY FIGURES	2007	2006
Premium income, net, SEK M	5,780	6,032
Investment income, net, SEK M	6,175	7,976
Profit after tax, SEK M	11,002	7,812
Investment assets, SEK M	118,593	111,687
Total assets, SEK M	123,393	117,864
Collective consolidation, %	114	114
Solvency ratio, %	152	136

\* Effective January 1, 2007, Länsförsäkringar Liv adjusted 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 reported as a deposit via the balance sheet, instead of being reported as income in the income statement. In the same manner, claims payments are reported as withdrawals from the insurance operations in the balance sheet. Instead, those fees paid by the customer are reported as premium income and costs for insurance risk are reported as a cost.



With strong returns, 2007 was another positive year for Länsförsäkringar's life-assurance and pension savers with traditional management. On December 31, 2007, the total return was 6.7% (8.0), which was the best among all pension companies in Sweden. Successful management provided customers a bonus rate of 10% at year-end. However, the bonus rate was lowered to 7% on January 1, 2008 as a result of the turmoil in the financial markets.

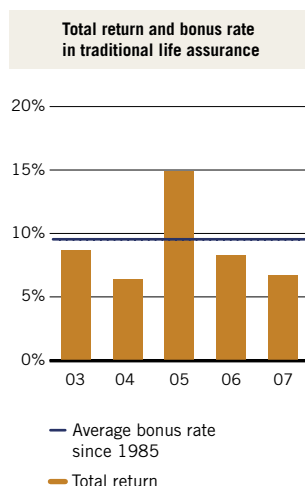
Investments are primarily made in listed shares and interest-bearing securities, as well as properties and Alternative Investments. Alternative Investments comprise investments in funds that purchase, develop and sell unlisted companies. On December 31, 2007, 52.0% of pension savers' money was invested in shares, 39.2% in interest-bearing securities, 6.2% in properties and 2.6% in absolute return investments.

In 2007, return for the listed equity portfolio was 4.5% (14.9). Investments in unlisted shares performed exceptionally well. The return on Private Equity shares was 31.2% (38.1). The return on bond investments was diminished by rising interest rates. The return for the fixed-income portfolio was 3.3% (1.1). Currency exposure in the portfolio declined during the year, which slightly reduced the negative effect of the strengthening of the Swedish krona (SEK).

The property portfolio generated a return of 12.5% (10.4).

In 2007, the foundation was established for a new management model with an increased focus on total return after expenses. The basic aim of the new management model

is to ensure that the implementation of different markets is conducted in the most efficient, flexible and inexpensive manner possible. Active positions are taken only when assessments indicate that doing so will actually create added value. The success of this new management model can already be seen in the results for 2007, which reveal that it generated the best return of all Swedish pension companies.



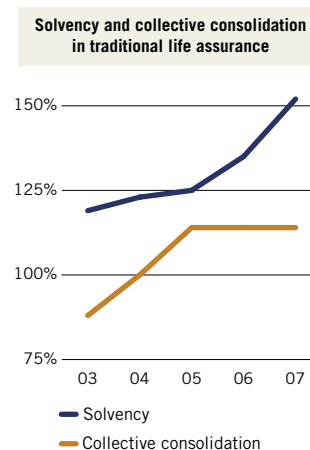
### Solvency and consolidation

Länsförsäkringar Liv has a strong balance sheet and the solvency ratio was 152% (136) on December 31, 2007. This improvement is primarily attributable to the favorable total return on investment assets in 2007 and the dissolution of the life assurance provisions as a result of higher market interest rates. Solvency is a measure of the financial position strength of a life assurance company. It shows the value of the company's assets in

relation to the guaranteed commitments to customers. The solvency ratio is calculated as the value of the company's assets in relation to the technical reserves in the balance sheet.

At the end of 2007, collective consolidation was 114% (114). Collective consolidation is a measure of a traditional life assurance company's capacity to provide a bonus and describes the market value of the company's assets in relation to the guaranteed commitments and the preliminary bonus allocation.

The measure reflects a situation in which the company would pay out the entire capital assured during a single day. However, the shortest payment period for a traditional life assurance is five years and the average maturity is about 23 years.



### New World

At year-end, 70% of the pension capital of New World was invested in shares and 30% in interest-bearing securities. Within the equity portfolio, 20% was invested in North American shares, 15% in Swedish shares, 15% in European shares, 10% in Japanese shares and 10% in Asian shares.

In 2007, the return amounted to 4.2% (11.1). Slightly falling interest rates in the autumn favored New World's fixed-income investments. However, during the year in general, fixed-income investments generated weaker returns than equity investments.

#### INVESTMENT INCOME IN 2007 FOR LÄNSFÖRSÄKRINGAR LIV, TRADITIONAL MANAGEMENT

Amount in SEK M Investments	Market value, January 1, 2007	%	Market value, December 31, 2007	%	Total return, % Investments
Interest-bearing securities	50,652	50.9	40,769	39.2	3.3
Shares	35,194	35.4	45,696	43.9	4.5
Alternative Investments	7,936	8.0	11,056	10.7	31.2
Properties	5,691	5.7	6,479	6.2	12.5
<b>Total</b>	<b>99,473</b>	<b>100</b>	<b>104,000</b>	<b>100</b>	<b>6.7</b>

\* Effective January 1, 2007, Länsförsäkringar Liv adjusted 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 reported as a deposit via the balance sheet, instead of being reported as income in the income statement. In the same manner, claims payments are reported as withdrawals from the insurance operations in the balance sheet. Instead, those fees paid by the customer are reported as premium income and costs for insurance risk are reported as a cost.

Assets in the New World portfolio are hedged and, as a result, the level of return is not affected by the trend of the Swedish krona against other currencies. Since the krona strengthened against the dollar (USD) this year, New World has benefited from being currency-neutral. The New World portfolio has generated an average annual return of 7.6% since its inception in 1996.

### Insured Pension

Länsförsäkringar's private pension product, Insured Pension, enables customers to take advantage of upturns in the stock market without risking invested funds due to stock market declines. The savings consists of a bond that extends until the year in which the saver plans to retire and a fund for which the return level depends on the trend in share prices. As a result, the savings perform differently depending on age.

For customers who save in Insured Pension until the year they retire, the pension will never be smaller than the total of the deposits, only larger. During the savings period, customers are able to see how large the pension will be on the pension date. This is

called the insured value. For the average saver, the insured value was 41% higher at the end of 2007 than at the beginning of the year.

### Unit-linked insurance\*

KEY FIGURES	2007	2006
Premium income, net, SEK M	369	329
Investment income, net, SEK M	1,511	3,586
Profit/loss after tax, SEK M	73	-27
Total assets, SEK M	42,405	38,222

Although the market was characterized by uncertainty and stock market turmoil, 2007 was a positive year for Länsförsäkringar's unit-linked insurance offering. More than three quarters of the funds generated positive returns during the year. The ten funds with the highest returns rose an average of 38%. The strongest funds included those that invest in Asia and Latin America and in such growth markets as China, India and Russia. Funds that invest in technology shares also showed strong growth.

Carlson Asian Small Cap, which rose 67%, generated the best return among the funds in the unit-linked insurance offering. ABN Amro China and Fidelity India Focus

Fund followed, with increases of 50% and 48% respectively. Top funds also included ABN Amro Latin America, Black Rock MLIIF Latin America, FIM Bric, Skagen Kon-Tiki and Länsförsäkringar Asia Fund, with growth between 29% and 35%.

Länsförsäkringar's unit-linked fund offering comprises funds from leading fund managers in Sweden and abroad. The goal is to have the strongest fund offering in Sweden. The fund offering includes Länsförsäkringar's own funds and funds from a number of other well-known players, such as ABN Amro, Carlson, Catella, Fidelity, FIM, Lannebo, SEB and Skagen. In 2007, a new agreement was signed with the American fund manager Blackrock Merrill Lynch. The cooperation with SGAM ended at the beginning of 2008.

\* Effective January 1, 2007, Länsförsäkringar Liv adjusted 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 reported as a deposit via the balance sheet, instead of being reported as income in the income statement. In the same manner, claims payments are reported as withdrawals from the insurance operations in the balance sheet. Instead, those fees paid by the customer are reported as premium income and costs for insurance risk are reported as a cost.



# Bank

- Income amounted to SEK 290 (236) M before loan losses and operating income amounted to SEK 238 M (198), an increase of 20%.
- Lending to the public increased 24% to SEK 67 billion (54) and deposits from the public rose 22% to SEK 30 billion (24). Mortgage lending increased 30% to SEK 48 billion (37).
- Fund volumes rose 5% to SEK 65 billion (62).
- Net interest income rose 10% to SEK 1,017 M (927).
- Länsförsäkringar has the most satisfied private bank and mortgage customers according to the Swedish Quality Index 2007.

## Länsförsäkringar Bank, Group

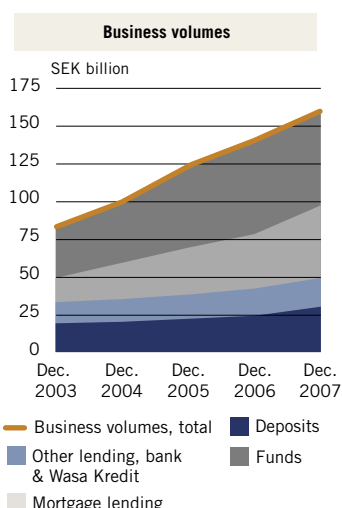
KEY FIGURES	2007	2006
Deposits from the public, SEK M	29,735	24,379
Lending to the public, SEK M	67,040	53,884
Operating income, SEK M	238	198
Return on equity, %	5.0	4.6
Cost/income ratio before loan losses	0.74	0.77

In 2007, volume growth was the strongest to date and mortgage lending rose 30% to 48 billion (37). The market share of the lending market grew to 3.4% (3.0) and market growth was 7%. According to the Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied private bank and mortgage customers, which shows that the company's focus on service, personal meetings and strong local presence have yielded results. Fund volumes grew to 65 billion (62) and the market share amounted to 3.9% (3.9). Turmoil continued in the credit market during the fourth quarter. The refinancing operations functioned well, making strong market growth possible. The liquidity situation is favorable.

## Total assets

In 2007, total assets increased by 36% to SEK 85 billion (63). Lending to the public rose 24% or SEK 13 billion to SEK 67 billion (54). Accordingly, lending accounted for 79% of total assets. All lending was in Swedish kronor. Mortgage lending by the subsidiary Länsförsäkringar Hypotek amounted to SEK 48 billion (37), an increase of 30%. Interest-bearing securities rose 97% during the year to SEK 11 billion (6). Deposits from the public rose by 22% or SEK 6 billion to SEK

30 billion (24). Issued securities increased by 45% or SEK 14 billion to SEK 46 billion (32), of which covered bonds amounted to SEK 37 billion.



## Lending

A number of activities were carried out in 2007 to increase lending, including a specially targeted mortgage campaign that offered customers the opportunity to group their household insurance, salary accounts and mortgages in Länsförsäkringar. Combined with local marketing activities, the campaign resulted in Länsförsäkringar capturing 7% of market growth in the fiercely competitive mortgage market. On December 31, 2007 Länsförsäkringar acquired mortgage stock worth SEK 1.2 billion from Kaupthing Bank. The mortgage stock's customers are primarily found in Stockholm and encompass a total of about 2,200 loans. The market position

strengthened to a 3.4% (3.0) market share and the number of mortgage customers rose to 106,300 (90,400).

## Own agricultural mortgage operations in 2008

In 2007, a decision was made to commence the company's own agricultural mortgage operations. An improved banking and insurance offering was launched for farmers and Länsförsäkringar now offers first-lien mortgages for agricultural and forestry properties after the partnership agreement with agricultural mortgage operations expired in February 2008.

## Deposits

During the year, deposits increased by 22% to SEK 30 billion (24). A large part of the increase is attributable to fixed interest accounts.

## Borrowing

The primary financing in the capital market takes place through the subsidiary Länsförsäkringar Hypotek.

On June 18, 2007, Länsförsäkringar Hypotek began issuing covered bonds. The issuance of the covered bonds took place through an exchange offer directed toward holders of bonds issued under one of Länsförsäkringar Bank's programs. Competitiveness in the borrowing market was strengthened with the covered bonds. At the end of 2007, the volume of the covered bonds amounted to SEK 37 billion (0). Borrowing through these programs amounted to SEK 9 billion (32), of

which SEK 2 billion (28) was long-term borrowing. During the year, covered bonds totaling SEK 7 billion in foreign currency were issued. During the fourth quarter of 2007, the credit market remained marked by unrest and uncertainty. Operations were characterized by a low level of risk both in lending and the liquidity portfolios and refinancing functioned well. The bank's liquidity situation is highly favorable.

### Capital adequacy

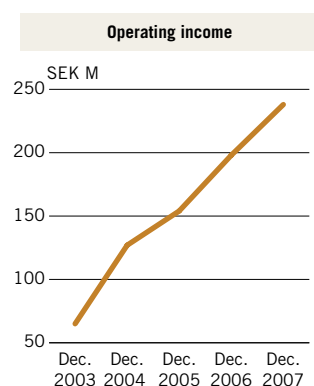
The new capital adequacy rules, Basel II, were introduced in February 2007. Accordingly, Länsförsäkringar applies the Internal Ratings-based Approach (IRB approach), in accordance with the permit it received from Finansinspektionen (Swedish Financial Supervisory Authority). The aim of the new rules is to achieve enhanced transparency and risk management, and thereby greater stability in the financial system. The advanced risk classification method provides the most opportunities to strategically and operationally manage credit risks and is used for all household exposure. The Standardized Approach is applied to agriculture and other exposures until further notice to calculate the capital requirement for credit risk. The changes in the capital base will emerge gradually since the transition rules involve a three-year adaptation period. In 2007, the banking Group applied a 5% reduction.

In accordance with the applicable transition rules, the capital adequacy ratio amounted to 10.59%, while the Tier 1 ratio amounted to 8.78%. The target level for capital adequacy is 10.5% and for the Tier 1 ratio 8.5%. A deviation of  $\pm 0.5$  percentage points is allowed for both targets. The capital requirement for the portion of the portfolio that is now calculated in accordance with the IRB approach and that will apply when the Basel II provisions are fully implemented, declined by 56%, from SEK 3,069 M to SEK 1,356 M.

### Earnings and profitability

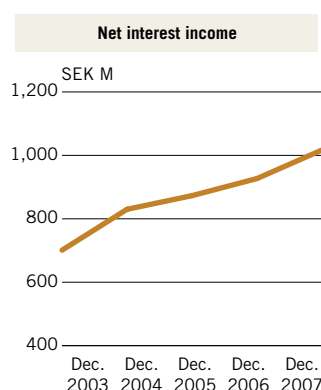
Income before loan losses amounted to SEK 290 M (236) and operating income amounted to SEK 238 M (198). Income after tax

amounted to SEK 176 M (139). Return on average equity amounted to 5.0% (4.6).



### Revenue

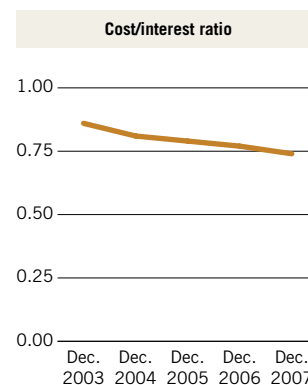
Net interest income rose 10% to SEK 1,017 M (927), an increase attributable to higher lending and deposit volumes to the public. An amount of SEK 12 M (10) for mandatory government deposit insurance was charged against net interest income. The investment margin amounted to 1.43% (1.62). The lower investment margin is attributable to a higher proportion of low-margin products and competition in lending. Net commission income declined to negative SEK 45 M (neg: 33). The decline is attributable to higher compensation to the regional insurance companies. Other operating revenues amounted to SEK 132 M (115). Income rose by a total of 8% to SEK 1,106 M (1,023).



### Expenses

Operating expenses rose by 4.0% or SEK 29 M to SEK 816 M (787). The increase was due to higher functionality and a broader range of products, which resulted in increased operating expenses. The cost/income ratio was 0.74

(0.77) before loan losses and 0.78 (0.80) after loan losses.



### Loan losses

Depending on the product, provisions were mostly made after group-wise appraisal and only to a limited extent after individual review. Net loan losses amounted to SEK 51 M (38). The increase is attributable to the sale during the year of receivables previously written off.

### Interest-rate risk

On December 31, 2007, an increase of market interest rates by 1 percentage point would have caused an increase in the value of interest-bearing assets and liabilities, including derivatives, of SEK 29 M (15).

### Rating

In February 2007, Länsförsäkringar Bank's credit rating was raised from A- to A (stable) by Standard & Poor's and from A3 (stable) to A2 (stable) by Moody's. The grade increase was a confirmation of the banking operations' positive trend and strategic significance for the Länsförsäkringar Alliance. The high capital adequacy, high credit quality and continued positive improvements in the performance of the banking operations were also cited as reasons for the raise.

On May 29, 2007, the covered bonds received the highest credit rating, Aaa, from Moody's. On June 7, 2007, the covered bonds also received the highest possible credit rating, AAA, even from Standard & Poor's.

Accordingly, Länsförsäkringar Hypotek is one of three players in the market for covered bonds with the highest rating from both rating institutes.

## 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*	Standard & Poor's	AAA	–
Länsförsäkringar Hypotek*	Moody's	Aaa	–

\* Refers to the company's covered bonds.

## Parent Company

Deposits and lending are conducted by the Parent Company. Lending to the public amounted to SEK 11 billion (9) and deposits from the public amounted to SEK 30 billion (24). Funding amounted to SEK 9 billion (32). Most of the lending operations are conducted through Länsförsäkringar Hypotek and Wasa Kredit. The Parent Company's operating income amounted to negative SEK 4 M (neg: 30). Operating revenue amounted to SEK 382 M (337). Expenses, excluding loan losses, amounted to SEK 378 M (352). Loan losses amounted to SEK 8 M (15).

## Subsidiaries

### Länsförsäkringar Hypotek

	2007	2006
Total assets, SEK M	48,332	36,883
Lending volume, SEK M	47,555	36,550
Net interest income, SEK M	236	182
Operating income, SEK M	58	36

Mortgage lending in the bank's mortgage institution increased by 30% to SEK 48 billion (37). The goal is to be among the major players in the mortgage loan market within three years.

Up to 75% of the market value of mortgage loans are carried by Länsförsäkringar Hypotek and the remainder by the Parent Company.

The market share in lending for private homes and tenant-owned apartments amounted to 3.4% (3.0). The number of mortgage customers increased by 18% and amounted to 106,300 (90,400) at December 31, 2007. Operating income amounted to SEK 58 M (36).

### Wasa Kredit

	2007	2006
Total assets, SEK M	9,245	8,438
Lending volume, SEK M	8,501	8,070
Net interest income, SEK M	339	355
Operating income, SEK M	98	117

Wasa Kredit is a finance company whose operations focus on car financing, computer financing, financing for heavy machinery and unsecured loans. Wasa Kredit's operating income before appropriations and tax amounted to SEK 98 M (117). The lending volume totaled SEK 8.5 billion (8).

### Länsförsäkringar Fondförvaltning

	2007	2006
Total assets, SEK M	263	218
Assets under management, SEK M	64,562	61,652
Net commission income, SEK M	277	260
Net inflow, SEK M	1,796	3,024
Operating income, SEK M	83	76

Länsförsäkringar is Sweden's fifth largest fund company with a market share of 3.9% (3.9). The market share measured as net sales

rose sharply and amounted to 6.8% compared with 3.6% in 2006. In 2007, eight of the funds received a higher rating from Morningstar, and three of these funds received the highest rating.

Of the 30 largest fund companies, measured by the number of funds with a Morningstar rating, Länsförsäkringar Fondförvaltning is ranked first with an average of 3.68 stars with a three-year rating. Morningstar's overall rating comprises a weighted average of the three, five and ten-year ratings. Länsförsäkringar's overall rating is an average of 3.36 stars, as a number five.

Länsförsäkringar Fondförvaltning manages SEK 65 billion (62) in 31 (30) mutual funds with different investment orientations. Länsförsäkringar's mutual funds are available as direct fund saving, as various unit-linked products and through the PPM system.

Länsförsäkringar's equity funds generated returns between positive 29.2% and negative 16.5%. The Asia Fund and Growth Market Fund generated the highest returns of 29.2% and 25.7% respectively during the year. During the autumn, parts of the fund operations were integrated into the bank to provide customers with a more standardized offering.

Operating income amounted to SEK 83 M (76). The improvement was due to realized efforts to streamline expenses and continued strong volume growth. A 62% portion of the increase in assets under management is due to net sales and 38% to value growth.

# Customer trends

The number of customers in the Länsförsäkringar Alliance at the end of the fourth quarter amounted to 3,218,000, an increase of 35,000 customers during the year. The proportion of customers who broadened and deepened their involvement in Länsförsäkringar continued to grow. The number of customers engaged in two or more core businesses increased to approximately 775,000.

## Private customers

An increasing number of customers are discovering the advantages of grouping their banking, non-life insurance and life assurance business in Länsförsäkringar and in 2007, the number of private customers who are customers in more than one core area increased by 20,000 customers. Private customers with products in all three of the core areas – non-life insurance, life assurance and banking – rose just over 13%. In total, the number of private customers increased by 25,000 and now amounts to 2,715,000.

## Commercial customers

The number of commercial customers continued to grow significantly and now amounts to 325,000. In 2007, the number of commercial customers increased by 8,000. Sales of life assurance and pension insurance products to non-life insurance customers performed positively and 30% of commercial customers now have products in two or more business areas.

## Agricultural customers

In 2007, the number of agricultural customers increased by 2,000 and amounted to 178,000. The agricultural business is continuously being broadened and 3,000 farmers increased their involvement in Länsförsäkringar to include more than one core area. The proportion of agricultural customers engaged in all three core areas rose 7%.

## Satisfied customers

For many years, Länsförsäkringar been ranked at the top of the Swedish Quality Index's surveys of how satisfied customers are with their banks and insurance companies. Länsförsäkringar has Sweden's most satisfied private bank customers, mortgage customers, medical insurance customers and car insurance customers. Within all other categories surveyed, Länsförsäkringar was ranked among the top three. The Länsförsäkringar Alliance was also awarded a number of distinctions in 2007, including "Life Assurance Company of the Year" and "Non-life Insurance Company of the Year" from Finansbarometern and "Best Broker of the Year."

## Income statements and balance sheets

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

Income statement, SEK M	2007	2006
Premiums earned, after ceded reinsurance	16,671	16,362
Investment income transferred from financial operations	1,118	927
Claims payments, after ceded reinsurance	-12,048	-11,878
Operating expenses	-3,477	-3,320
Other technical revenues/expenses	59	24
<b>Technical result from non-life insurance operations before bonuses and discounts</b>	<b>2,322</b>	<b>2,114</b>
Bonuses and discounts	-804	-1,020
<b>Technical result from non-life insurance operations after bonuses and discounts</b>	<b>1,518</b>	<b>1,095</b>
Total investment income	3,717	4,664
Investment income transferred to insurance operations	-1,118	-927
Other non-technical expenses	-347	-287
<b>INCOME BEFORE APPROPRIATIONS AND TAX</b>	<b>3,769</b>	<b>4,545</b>

Balance sheet, SEK M	Dec. 31, 2007	Dec. 31, 2006
<b>ASSETS</b>		
Shares and participations	24,611	25,286
Bonds and other interest-bearing securities	25,566	23,050
Other investment assets	12,883	12,342
Total investment assets	63,060	60,678
Reinsurers' portion of technical reserves	1,176	455
Receivables and other assets	13,626	9,858
Prepaid expenses and accrued income	674	641
<b>TOTAL ASSETS</b>	<b>78,536</b>	<b>71,632</b>

<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		
Shareholders' equity	24,607	22,213
Untaxed reserves	1,861	1,341
Technical reserves (before ceded reinsurance)	35,519	32,874
Other provisions and liabilities	14,814	13,440
Accrued expenses and deferred income	1,734	1,764
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>78,536</b>	<b>71,632</b>

<sup>1)</sup> Länsförsäkringar's earnings from non-life insurance consist of the sum of the earnings of the 24 regional insurance companies and the Länsförsäkringar AB Group, excluding the life assurance and bank groups. Transactions between the regional insurance companies and Länsförsäkringar AB have been eliminated. The value and changes in value of the regional insurance companies' holdings of shares in Länsförsäkringar AB and subordinated loans have been eliminated. The 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.

From 2007, 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. The new accounting principles have not have a material effect on the regional insurance companies' income statements or balance sheets.

The Länsförsäkringar AB Group has listed debentures and must apply international accounting principles in the preparation of its consolidated accounts. In Länsförsäkringar's earnings in non-life insurance, the Länsförsäkringar AB Group's income statement and balance sheet have been adapted to legally restricted IFRS.

### LÄNSFÖRSÄKRINGAR LIV, GROUP (LIFE ASSURANCE)

Income statement, SEK M	2007	2006
Premium income before ceded reinsurance	6,547	6,496
Premium income after ceded reinsurance	6,150	6,361
Investment income, net	8,066	11,610
Claims payments	-3,698	-4,074
Other technical revenues and expenses	594	237
Change in technical reserves	2,834	-4,029
Operating expenses	-1,441	-1,532
<b>Technical result, insurance operations</b>	<b>12,505</b>	<b>8,573</b>
Non-technical expenses	-195	-194
<b>Income before tax</b>	<b>12,310</b>	<b>8,379</b>
Tax	-949	-733
<b>NET PROFIT FOR THE PERIOD</b>	<b>11,361</b>	<b>7,646</b>

Balance sheet, SEK M	Dec. 31, 2007	Dec. 31, 2006
<b>ASSETS</b>		
Intangible assets	1,457	1,643
Investment assets	114,600	107,140
Investment assets for which policyholders bear the investment risk	40,900	36,884
Reinsurers' portion of technical reserves	796	683
Receivables	261	408
Other assets	2,025	3,904
Prepaid expenses and accrued income	2,754	2,638
<b>TOTAL ASSETS</b>	<b>162,793</b>	<b>153,300</b>

<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		
Share capital	8	8
Funds plus net profit for the period	36,632	26,869
Technical reserves	80,720	85,761
Reserves for life assurance for which policyholders bear the investment risk	40,905	36,885
Provisions for other risks and expenses	246	74
Deposits from reinsurers	860	713
Liabilities	2,858	2,539
Accrued expenses and prepaid income	564	451
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>	<b>162,793</b>	<b>153,300</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 reported as a deposit via the balance sheet, instead of being reported as income in the income statement. In the same manner, claims payments are reported as withdrawals from the insurance operations in the balance sheet.

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

# BANK

Income statement, SEK M	2007	2006
Net interest income	1,017	927
Net commission income	-45	-33
Other operating revenues	134	129
<b>Total operating revenues</b>	<b>1,106</b>	<b>1,023</b>
Personnel costs	-276	-273
General administration expenses	-468	-438
Other operating expenses	-72	-76
<b>Total expenses before loan losses</b>	<b>-816</b>	<b>-787</b>
<b>Income before loan losses</b>	<b>290</b>	<b>236</b>
Loan losses, net	-51	-38
<b>TOTAL OPERATING INCOME</b>	<b>239</b>	<b>198</b>
Tax	-63	-59
<b>NET PROFIT FOR THE YEAR</b>	<b>176</b>	<b>139</b>

Balance sheet, SEK M	Dec. 31, 2007	Dec. 31, 2006
<b>ASSETS</b>		
Eligible treasury bills	7,964	-
Lending to the public	67,040	53,884
Bonds and other securities	3,105	5,607
Intangible assets	247	144
Tangible assets	21	8
Other assets	6,717	2,895
<b>TOTAL ASSETS</b>	<b>85,094</b>	<b>62,538</b>

<b>LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>		
Deposits and borrowing from the public	29,735	24,379
Securities issued	45,981	31,635
Other liabilities	5,554	3,340
Shareholders' equity	3,824	3,184
<b>TOTAL LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>	<b>85,094</b>	<b>62,538</b>

## Transition to International Financial Reporting Standards (IFRS)

As of 2007, Länsförsäkringar Bank prepares its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). The introduction of the new regulations also entails that comparative figures for 2006 have been restated.

The transition to IFRS is primarily affected by IAS 39 and the bank's reporting of financial instruments. The bank applies hedge accounting where the method is deemed to best reflect the company's operations. The model encompasses loan receivables and funding at fixed interest rates in which the interest-rate risk is hedged on the basis of derivative instruments. The compensation paid by customers in conjunction with the premature redemption of fixed-term lending was previously reported as interest income allocated over the remaining term of the original loan. This compensation is recognized in income in its entirety as the net result of financial items at fair value when payment is made.

Certain fees charged to customers in conjunction with credit issuing are reported as interest income instead of commission revenues. Fees charged in conjunction with borrowing (classified as transaction costs) are reported as interest expenses over the term of the issued security. Previously, such fees were reported as commission expenses.

## Financial calendar

### First quarter:

Interim report, Länsförsäkringar Bank, April 22, 2008

Interim report, Länsförsäkringar Hypotek, April 22, 2008

### Second quarter:

Interim report, Länsförsäkringar Bank, August 25, 2008

Interim report, Länsförsäkringar Hypotek, August 25, 2008

Interim report, Länsförsäkringar Alliance, August 26, 2008

Interim report, Länsförsäkringar AB, August 26, 2008

### Third quarter:

Interim report, Länsförsäkringar Bank, October 27, 2008

Interim report, Länsförsäkringar Hypotek, October 27, 2008

Interim report, Länsförsäkringar Alliance, October 27, 2008

Interim report, Länsförsäkringar AB, October 27, 2008



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