

# 2006

A SUMMARY OF BANKING AND INSURANCE OPERATIONS  
FOR FISCAL YEAR 2006 FOR 24 REGIONAL INSURANCE  
COMPANIES IN COOPERATION



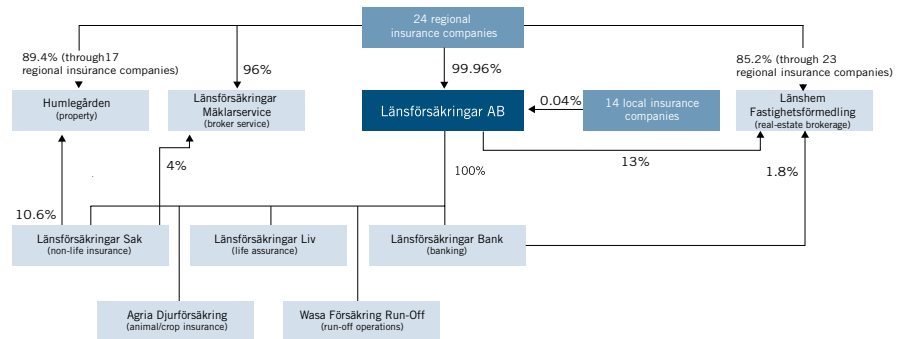
# Customers and owners from north to south

Each one of the 24 the regional insurance companies has only one employer – the customer in each county. The customer is also a part-owner in his/her regional insurance company and it is based on the needs and demands of the customer and owners that the companies control their operations in banking and insurance. Each company is independent and entirely adapts its operations to its local conditions. At the same time, strength is created in each individual company through strong cooperation. The 24 companies have chosen to work together in a number of areas through the jointly owned company Länsförsäkringar AB. Everything is based on the experience of local decision-making authority combined with joint strength creating added value for Länsförsäkringar's owner – its customers.



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**THE LÄNSFÖRSÄKRINGAR ALLIANCE** consists of 24 local, customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB, with subsidiaries in non-life insurance, life assurance, unit-linked insurance, banking and animal/crop insurance. The organization is based on a strong belief in local presence, and customer contact always occurs at the regional insurance companies. Economies of scale are achieved through Länsförsäkringar AB, and possibilities for the regional insurance companies to be successful in their respective markets are created through service and strategic development efforts.

Länsförsäkringar offers a wide range of insurance, pension solutions, bank services and other financial solutions for companies and private individuals. The number of customers exceeds three million and the Länsförsäkringar Alliance has a total of 5,500 employees.

### LÄNSFÖRSÄKRINGAR ALLIANCE

The 24 regional insurance companies and the joint companies in cooperation.

### LÄNSFÖRSÄKRINGAR

Länsförsäkringar is a communications concept used in internal and external information as a designation for the Länsförsäkringar Alliance.

### REGIONAL INSURANCE COMPANIES

The 24 independent and customer-owned regional insurance companies, each conducting banking and insurance operations in a specific geographical area and responsible for all customer contact within each business area.

### LÄNSFÖRSÄKRINGAR AB

The Parent Company of a financial group owned by the 24 regional insurance companies and 14 local insurance companies. The Group provides services for the regional insurance companies, is responsible for development operations and common strategies for the Länsförsäkringar Alliance and also conducts business operations via subsidiaries.

### LÄNSFÖRSÄKRINGAR LIV

Conducts traditional life assurance and, through its Länsförsäkringar Fondliv subsidiary, unit-linked life assurance. Operations are conducted in accordance with mutual principles, whereby earnings are not consolidated in Länsförsäkringar AB but accrue in their entirety to the customers.

### LÄNSFÖRSÄKRINGAR BANK

Conducts banking operations targeting private individuals and the agricultural sector.

### LÄNSFÖRSÄKRINGAR SAK

Conducts the Länsförsäkringar AB Group's non-life insurance operations, which include medical and accident insurance, various kinds of third-party and other liability insurance, transportation insurance, national customers in the commercial automotive area and producer liability insurance.

### AGRIA DJURFÖRSÄKRING

Insures animals and crops.

### LÄNSFÖRSÄKRINGAR MÄKLARSERVICE

The company, which is owned jointly by the regional insurance companies and Länsförsäkringar Sak, offers brokers a uniform conduct of operations and a reinforced service through regional broker desks.

### HUMLEGÅRDEN

Humlegården is included in the Länsförsäkringar Alliance and is owned by 17 regional insurance companies and Länsförsäkringar Sak. The purpose of the company is to enable its owners to invest jointly in the property market in Stockholm.

### WASA FÖRSÄKRING RUN-OFF

Wasa Försäkring Run-Off works actively with run-off portfolios, primarily within international reinsurance.

### LÄNSHEM

Länshem Fastighetsförmedling is Länsförsäkringar's real-estate brokerage that offers customers total solutions in conjunction with mortgage transactions and acquiring new homes.



**OPERATING INCOME AFTER BONUSES AND DISCOUNTS PER REGIONAL INSURANCE COMPANY**

SEK M	2006	2005
Länsförsäkringar Norrbotten	81	150
Länsförsäkringar Västerbotten	181	253
Länsförsäkringar Jämtland	94	119
Länsförsäkringar Västernorrland	54	85
Länsförsäkringar Gävleborg	101	216
Dalarnas Försäkringsbolag	378	527
Länsförsäkringar Värmland	121	133
Länsförsäkringar Uppsala	144	286

SEK M	2006	2005
Länsförsäkringar Bergslagen	249	324
Länsförsäkringar Stockholm	209	625
Länsförsäkringar Södermanland	152	203
Länsförsäkringar Göteborg och Bohuslän	325	574
Länsförsäkringar Skaraborg	133	304
Östgöta Brandstodsbolag	207	471
Länsförsäkringar Älvsborg	491	475
Länsförsäkringar Gotland	63	106

SEK M	2006	2005
Länsförsäkringar Jönköping	232	351
Länsförsäkringar Halland	213	303
Länsförsäkring Kronoberg	87	211
Länsförsäkringar Kalmar län	210	270
Länsförsäkringar Blekinge	71	113
Länsförsäkringar Göinge	84	103
Länsförsäkringar Kristianstad	57	114
Länsförsäkringar Skåne	544	596

**LÄNSFÖRSÄKRINGAR AB GROUP, EXCLUDING LIFE ASSURANCE**

	2006	2005
Technical result, SEK M	304	310
Operating income, SEK M	1,060	2,100
Solvency margin, %	502	497

**LÄNSFÖRSÄKRINGAR BANK**

	2006	2005
Deposits from the public, SEK M	23,942	20,739
Lending to the public, SEK M	53,884	47,094
Operating income after loan losses, SEK M	201	154

**LÄNSFÖRSÄKRINGAR ALLIANCE, NON-LIFE INSURANCE**

	2006	2005
Solvency capital, SEK M	32,098	27,738
Solvency margin, %	195	169
Premiums earned after ceded reinsurance, SEK M	16,362	16,216
Technical result, SEK M	2,114	2,515
Operating income, SEK M	4,545	7,075
Combined ratio	93	89

**AGRIA DJURFÖRSÄKRING**

	2006	2005
Premiums earned after ceded reinsurance, SEK M	948	844
Income before appropriations and taxes, SEK M	121	197

**LÄNSFÖRSÄKRINGAR LIV (LIFE)**

	2006	2005
Premium income, net, SEK M	10,020	9,472
Profit for the period, SEK M	7,644	4,584
Collective consolidation, %	114	114
Solvency ratio, %	136	126

Länsförsäkringar Liv is a limited liability company but operates according to mutual principles and all profits are distributed to policyholders.

**FIVE-YEAR OVERVIEW**

SEK M	2002	2003	2004	2005	2006
Premiums earned after ceded reinsurance, non-life insurance	11,859	14,087	15,857	16,216	16,362
Premium income after ceded reinsurance, life assurance	8,126	8,069	8,676	9,472	10,020
Solvency capital, non-life insurance	14,657	16,699	19,857	27,738	32,098
Bank lending to the public	19,861	30,044	39,426	47,094	53,884
Bank deposits from the public	14,736	17,013	18,599	20,739	23,942
Total assets managed, life assurance	86,828	92,075	96,383	108,446	115,281
Fund volumes managed	26,564	34,210	40,114	53,906	61,652


**CREDIT RATING FROM FEBRUARY 2007**

Company	Institution	Long-term rating	Short-term rating
Länsförsäkringar AB	Standard & Poor's	A-/Stable	–
Länsförsäkringar AB	Moody's	A3/Stable	–
Länsförsäkringar Bank	Standard & Poor's	A/Stable	A-1
Länsförsäkringar Bank	Moody's	A2/Stable	P-1
Länsförsäkringar Sak	Standard & Poor's	A/Stable	–
Länsförsäkringar Sak	Moody's	A2/Stable	–
Agria Djurförsäkring	Standard & Poor's	A-pi <sup>1)</sup>	–

<sup>1)</sup> pi ratings are ratings that do not involve forecasts but that are based on public information such as annual reports.

# The Länsförsäkringar Alliance

## 2006

- The technical result for non-life insurance amounted to SEK 2,114 M (2,515). Operating income amounted to SEK 4,545 M (7,075).
- Due to these positive results, a total of 17 regional insurance companies are paying bonuses or giving discounts to their customers and amount to a total of approximately SEK 1 billion.
- The life assurance company generated a total return on investment assets of 8.3% (14.9). The bonus rate was raised on December 1 from 6 to 8%.
- The Banking operations generated operating income of SEK 238 M (203) before loan losses, and SEK 201 M (154) after loan losses. Lending to the public increased by 14% to SEK 54 billion (47) and deposits from the public rose by 15% to SEK 24 billion (21). Mortgage lending rose by 18% and amounted to SEK 37 billion (31).
- For the fourth consecutive year, Länsförsäkringar was named "Non-life Insurance Company of the Year" by Swedish business magazine Affärsvärlden. According to the Swedish Quality Index, Länsförsäkringar has Sweden's most satisfied life assurance and pension insurance customers, and the most satisfied mortgage customers.

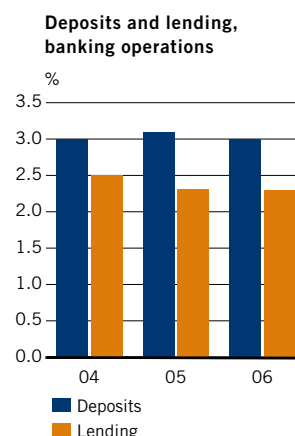
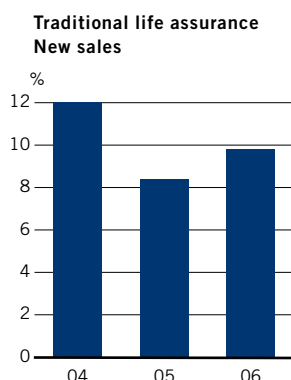
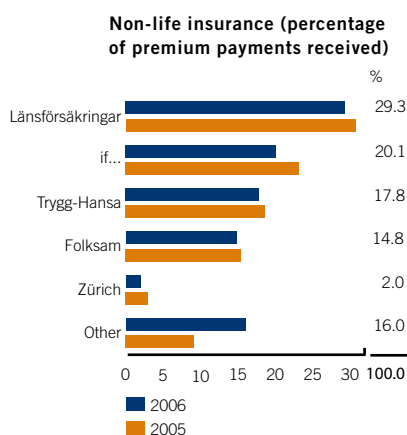
Figures in parenthesis pertain to 2005.

Key figures	2006
Solvency capital, non-life insurance, SEK billion	32
Solvency margin, non-life insurance, %	195
Market share, non-life insurance, %	29.3
Market share, life assurance and pension insurance, % <sup>1)</sup>	9.8
Premium income, life assurance, SEK billion	10.0
Premiums earned, non-life insurance, SEK billion	16
Lending, bank, SEK billion	54
Deposits, bank, SEK billion	24
Fund volumes managed, SEK billion	61.7
Number of employees	5,500
Number of customers	3.2 million

<sup>1)</sup> Measured as a percentage of new sales



### MARKET SHARES



## Comments

# Strategy for growth generates clear effects and success

**LÄNSFÖRSÄKRINGAR FOCUSES** on growth. This can take place organically, through expanding the range of products and services or structurally. In 2006, we grew by more than 10% in organic growth alone. Our focus on the healthcare area has made us a market leader in healthcare insurance. In banking, we view both organic and structural growth as a means to anchor Länsförsäkringar even more clearly as an alternative and the price-pressure force on the four major banks. Our aim is to become one of the three largest players in the mortgage market within five years. Our financial results for 2006 and our existing financial strength afford us the power we need to attain these growth targets.

### Excellent results

The Länsförsäkringar Alliance's overall results were excellent even though we did not quite reach the record-breaking levels of 2005. In non-life insurance, we have impressive financial strength and a total solvency capital of more than SEK 32 billion. The Alliance, excluding life assurance, is expected to earn around SEK 20 billion between 2003 and 2009. Solvency capital is expected to approach SEK 40 billion, corresponding to a solvency margin of more than 200%. No other player, be they Swedish or foreign, can compare favorably with us in the Swedish market. The combined ratio in non-life insurance rose slightly to 93%, yet remains below the long-term goal of 95%. The increase in costs is primarily attributable to IT investments, primarily within motor vehicle insurance for which an entirely new system was put into operation in 2006. In the next few years, IT investments will be made in such

areas as the Internet, the further development of motor vehicle insurance systems and support for meetings with claims customers.

The target profile for the Internet, adopted in 2006, is to have the possibility to perform 80% of the cases in non-life insurance, life assurance and banking currently conducted by telephone, also conducted via the Internet. This target profile is expected to be realized by year-end 2007.

### Life assurance and pensions – main causes for delight

Länsförsäkringar has truly turned around results in life assurance and pension insurance. Almost three years ago, our life-assurance company found itself, together with many competing companies, in a crisis-like situation due to the almost 70%-decline in share prices on the international stock exchanges. We experienced falling collective consolidation, low returns and we were forced to retreat in non-guaranteed savings.

Now the situation is completely different. We have exceedingly favorable key figures overall and we have largely surpassed all of our targets. Our returns in traditional management are the third highest and compared with the unit-linked insurance offering of our competitors, our funds are among the top three in their respective categories. Premium income has surpassed SEK 10 billion, the accumulated deficit in risk business has been removed and the administration result is positive. Market shares are also rising.

These improvements in results have also meant that Länsförsäkringar has become a choice for both traditional and unit-

linked insurance for those customers who are to select a manager for their ITP funds from July 2007. The fact that only we and another company passed Collectum's (the ITP pension administrator) close scrutiny for both traditional and unit-linked management clearly demonstrates that we are one of the most competitive life-assurance companies.

### Yet another rating upgrade for our banking operations

The banking operations are continuing to grow in terms of volumes, earnings and profitability. We have strong hopes to achieve the aggressive targets that have been established for organic growth by the end of 2009. Consolidated market presence focusing on clear offerings to our own customers will characterize the operations in the next few years. The business environment's assessment of and confidence in our banking operations has been strengthened, something that can be seen in the upgrade to our credit rating in 2007 by both Standard & Poor's and Moody's.

### Outstanding growth over the past 50 years...

In the past half-century, Länsförsäkringar has experienced outstanding growth, with annual levels varying between 15 and 20%. Growth that has taken place organically, through expanding the range of products and services or structurally has few counterparts in the Swedish business sector. Development and growth would not have been possible without the regional insurance companies extending their business model through new products and

establishing operations in new market segments. Around 50 years ago, today's regional insurance companies were practically local fire insurers. By adding such products as commercial insurance, motor vehicle insurance, bank and life-assurance products to the earlier offering, each one of the 24 the regional insurance companies has doubled its operations on numerous occasions and are, in the vast majority of counties, one of the largest employers in the financial sector and the largest supplier of bank and insurance services.

Progress in the past decade would not have been possible and would not have occurred without a distinct focus and a will to grow and continuously seek out growth in the Länsförsäkringar Alliance. This focus is based on the two principle duties of the customer-owned regional insurance company. The first is to produce customer value and the second to act as an entrepreneur. These two duties are unified in growth that reduces costs for the products the company offers to its customers. In achieving this, the new products and the new market segments in which Länsförsäkringar has established itself have always involved lower costs and better alternatives and conditions for customers than what has been offered before. The most recent example is the improved bank terms arising from the establishment of our banking operations.

#### **Increased growth in the coming years...**

The Länsförsäkringar Alliance believes that growth in the coming years must accelerate to preserve and develop the operations. By growing, our offerings to customers can strengthen, particularly in banking. Through growth we can continue to show our strengthen in our customer-owned and local approach and the success that we have achieved with the 24 regional insurance companies that cooperate via a strong financial hub in the form of Länsförsäkringar AB. Continued success counteracts any doubts on the model that we have chosen

and that we, in actual fact, intend to consolidate.

Yet growth is also needed to develop and create the preconditions for the future. By seeking growth, we generate challenges for the organization and the employees who drive the operations forward and who encourage creativity and innovation. Growth and skills development are inherently linked and one is a prerequisite for the other and vice versa.

As a logical consequence of the local well-defined geographic area that each regional insurance company has in close relation to its customers, the companies have always had organic growth as a key target and their greatest focus. The addition of such product areas and market segments as health insurance, banking, life assurance and pensions should be viewed in this light. And not forgetting the most recent addition, namely the establishment of a real-estate brokerage under the name Länshem.

However, the local growth rate would not have been possible without the combined strength of Länsförsäkringar AB. Both major investments and structural growth require joint action between the companies. The launch of banking, life assurance and pensions as activities to broaden the product offering or the acquisition of Wasa would not have been possible without the regional insurance companies jointly creating these strong resources.

In the next few years, growth will be sought in areas that previously may have perhaps been deemed to be unorthodox for Länsförsäkringar.

#### **Establishment internationally – a possible route for growth**

The most extensive and broadest competencies in Länsförsäkringar remain in non-life insurance, which comes as no surprise given that we have conducted life assurance and pension operations for around 20 years and banking operations under the current specialization since 2001. Our non-

life insurance competence can be utilized outside Sweden to generate additional economies of scale for the Länsförsäkringar Alliance in its entirety. Combined with a clear growth strategy, establishing operations abroad would strengthen our attractiveness as an employee and our image as a modern company with ambitions and confidence in the future.

Establishing operations abroad is now a potential alternative for Länsförsäkringar to accelerate the rate of growth as we deem necessary. We intend to announce a decision in this matter in spring 2007.

Nevertheless, establishing the company outside Sweden is not the sole element of the growth strategy that the Länsförsäkringar Alliance has agreed on to develop the customer-owned companies, the regional insurance companies and the jointly owned financial hub, Länsförsäkringar AB.

Based on the financial strength found in the Alliance, structural growth shall not be excluded, nor shall the use of our financial strength in a more clear or aggressive manner to strengthen our offering to existing non-life insurance, life assurance and banking customers as a method of enhancing our organic growth.

Stockholm, March 16

On behalf of the 24 regional insurance companies



*Tommy Persson*

Managing Director, Länsförsäkringar AB



# Vision, business concept and success factors

## Structures and approaches

The Länsförsäkringar Alliance has a unique position in the Swedish bank and insurance market. Since the regional insurance companies are customer-owned, there are no other specific ownership interests to be considered beyond that of own customers. Everything that is developed in the form of products, concepts or system support must be based on pure customer needs. Non-life insurance, life assurance and banking are the core operations and our task is to offer total solutions based on different combinations of non-life insurance, medical and accident policies, life assurance, pension-saving plans, fund savings and various banking services.

**COOPERATION IN** the Länsförsäkringar Alliance has gradually evolved from an exchange of experience to today's comprehensive joint business operations. The basic concepts that have been developed over two centuries and adapted to our times are still valid today. The passing of time has merely demonstrated the strength of an organization and business model that are based on local, independent and customer-owned regional insurance companies cooperating on a voluntary basis. There is consensus within the Länsförsäkringar Alliance that local proximity and independence have been decisive factors in the Alliance's major successes. Decisions that are important for the customer are made close to the customer. The Annual General Meeting and Board of Directors of each regional insurance company are the highest decision-making authorities on matters that pertain to the particular company's operations. Thus, all cooperation among regional insurance companies is voluntary and it is this independence that forms the basis of the federative form of organization.

Cooperation among the 24 regional insurance companies takes place through the jointly owned Länsförsäkringar AB and its subsidiaries. The company was founded in 1936 to meet the regional insurance companies' need for reinsurance. Responsibility for the internal reinsurance system is still an important task, although a growing stock of joint resources has been built up over the years. Länsförsäkringar AB's task is to create prerequisites for the regional insurance companies to be successful in their respective markets by providing service and developing the operations. Länsförsäkringar AB provides the regional companies with products and conducts commercial activities in life assurance and banking services under its own concession/charter. Based on these activities, the company conducts joint development projects and possesses and specialist knowledge in such areas as insurance, financial services, IT and market communications. Länsförsäkringar AB is the Parent Company of all subsidiaries in the jointly owned Group, with operations in life assurance, banking, non-life insurance, run-

off operations, development, and animal and crop insurance through Agria. A specialist function in Länsförsäkringar AB is responsible for asset management, while the ongoing management has been transferred to an external manager. The regional insurance companies determine from time to time what the joint operations in Länsförsäkringar AB should include. This is formalized in an Owners Consortium and explained in more detail in the operational guidelines adopted by the Board of Länsförsäkringar AB. This focus can be changed over time in accordance with the wishes of the owners, the regional insurance companies.

### Local and joint

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



sion for life assurance and certain non-life insurance operations as well as the charter for banking operations are held by the jointly owned Länsförsäkringar AB. For example, strictly speaking, there are not 24 banks across Sweden. From the customer's perspective, however, this is how it appears to be. The basic idea of the Länsförsäkringar concept is that Sweden's inhabitants and companies should be able to obtain all types of insurance and banking services through their local company.

### Decisions based on consensus

The Länsförsäkringar concept – that local, independent and customer-owned insurance companies cooperate voluntarily – also imposes rigorous demands on the acceptance of joint decisions. The independence of the regional insurance companies means that all decisions that apply to or affect all companies in the Länsförsäkringar Alliance must be based on consensus. This imposes special demands on decision-making in joint operations and also on the regional insurance companies that have voluntarily agreed to participate in a federation. Even voluntary cooperation unavoidably involves a certain yielding of independence. This principle involves a commitment on the part of each of the regional insurance companies to seek to find common solutions even in cases where opinions in the Länsförsäkringar Alliance are divided.

### A broad offering

Customers are offered a combined range of banking and insurance services under the same brand through the 24 regional insurance companies. During 2006, the offering of products and services under the "Banking & Insurance" banner was further enhanced and promoted, focusing on the pension area and the advantages of combining all banking and insurance transactions in Länsförsäkringar. A broadening of the Länsförsäkringar brand is under way, with

the objective of making the Alliance as strong in the areas of savings and lending in the next few years as it currently is within non-life insurance. One position is not to be abandoned to assume another. The simplicity, proximity and local decision-making authority upon which successes in non-life insurance were built are being transferred to financial services.

Länsförsäkringar's position as the leader in the non-life insurance market has been consolidated and the focus of the life-assurance operations on growth and enhancing efficiency have yielded favorable results. The banking operations are growing in both volume and profitability and Länsförsäkringar remains an important price-pressure force in the Swedish bank market.

However, more than attractive products are required in order to measure up to the customer-oriented concept that forms the foundation of the Länsförsäkringar Alliance's operations. Customers must perceive it as being natural and beneficial to concentrate their banking and insurance business in its regional insurance company. This approach characterizes the entire business. Higher priority is attached to the development of beneficial total solutions for customers than product development in isolated areas. Another distinct customer benefit is the "totality" of customer meetings. All meetings with customers, whether they be face-to-face or via

### Vision

- Länsförsäkringar is the customer's natural choice within non-life insurance, life assurance and banking services.
- Länsförsäkringar's financial position enables sustainability, development and value for money.
- Länsförsäkringar is widely trusted in Swedish society.

### Business concept

- The Länsförsäkringar Alliance offers private individuals, companies and farmers value-for-money services within non-life insurance, life assurance and banking. Guiding principles for operations are customer-owned, local, available and personal attention.

### Market objectives

- Continued profitable growth in all sub-markets and product areas, primarily through increased customer commitment.
- Sweden's most satisfied banking and insurance customers.

### Market principles

- The customer's overall situation is the basis of the customer meeting.
- The overall offer includes life-assurance, non-life insurance and banking products.
- Communication and customer dialogue coordinated between product areas.
- Value for money regardless of product area.



the Internet, must be based on the customer's needs and the comprehensiveness of Länsförsäkringar's offering.

### Satisfied customer and owners

Each regional insurance company is owned by its non-life policyholders. In purely practical terms, this means that the company's capital belongs to the customers and that no profits are distributed to shareholders in the same way as in a limited liability company. The regional insurance company's profits accrue in their entirety to the customers through the bonus and establishing credit. Länsförsäkringar's life-assurance company is owned by the non-life operations and operated in accordance with mutual principles, whereby all returns are repaid to the policyholders.

The highest rating a customer-owned company can receive is an award based on the opinions of its customers. Länsförsäkringar has highly satisfied customers

among both companies and private individuals. These are the results of the 2006 survey conducted by the Swedish Quality Index (SKI), compiled by the Stockholm School of Economics.

For the first time in 15 years, Länsförsäkringar has not been ranked number one in SKI's survey of private non-life insurance customers, where niche players have advanced their ranking. This is a challenge for a group of companies that has customer satisfaction as a goal. Our rating is naturally an incentive that will lead to greater focus on further developing our customer orientation. Satisfaction in the business sector is very positive compared with the industry as a whole and Länsförsäkringar's remains at the top in the important areas of mortgage loans and life assurance.

### Customer meeting

The success of Länsförsäkringar is based on the personal meetings, value for money and proximity to customers. Proximity permeates our values and is ensured through our local presence with sales organizations at all 24 customer-owned and independent companies. Combined, the companies have more than 140 offices throughout Sweden, supplemented with Internet services adapted to the needs of the local markets. In addition, local representatives are in place at locations where there are no actual offices, and the banking operations are supplemented with Svensk Kassaservice's (Swedish Cashier Service) offices across Sweden. Independent franchisers and established freelance insurance brokers work with business customers as a complement to Länsförsäkringar's own sales force.

### Länshem

Länshem Fastighetsförmedling AB that was founded in 2006 is Länsförsäkringar's real-estate brokerage. Länshem is a development company that provides a concept



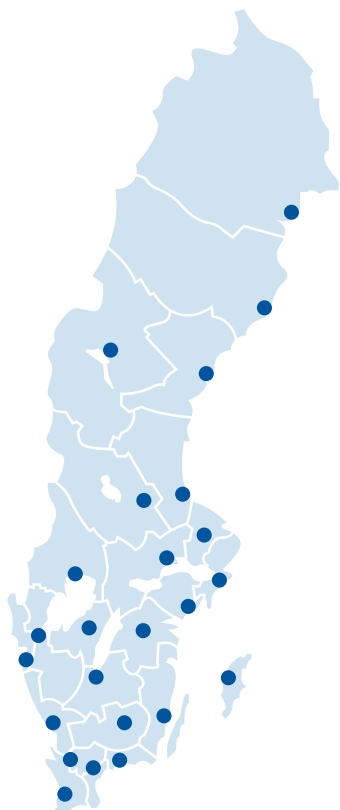
for the regional insurance companies that wish to broaden their brand by becoming associated with a real-estate broker. Expansion is based on a concept whereby "housing stores" are opened by franchisees.

Real-estate brokerage operations are currently conducted through 27 "housing stores" in eight counties, in which Länsförsäkringar Bergslagen, Gävleborg, Göteborg och Bohuslän, Skaraborg, Jönköping, Skåne, Uppsala and Östgöta Brandstodsbolag are also franchisees.

Länshem Fastighetsförmedling in Skåne was founded by Länsförsäkringar Skåne in 2001 and with its 15 housing stores and annual sales closed, of 1,200 homes, leisure homes and tenant-owned apartments, Länshem is one of the leading real-estate brokerages in Skåne.

The customer value of the business concept is to offer total solutions in conjunction with mortgage transactions and acquiring new homes. This means that customers have access to a complete range of financial and insurance services related to their mortgage transaction.

In addition to traditional real-estate brokerage services, Länshem Fastighetsförmedling will also offer services associated with the entire private-finance chain: mortgage loans, savings, non-life insurance, pensions, investments, advisory services and expert assistance with taxes and legal matters.





## Broker market

Through Länsförsäkringar Mäklarservice, Länsförsäkringar reaches the customers that choose to be represented by a broker when purchasing insurance. On behalf of a client, Mäklarservice brokered a non-life insurance premium of SEK 1,331 M (1,414) at the end of 2006. The brokered sale of life-assurance and pension products amounted to SEK 6,853 M (5,618) in sales value. The broker channel now accounts for more than half of sales to the corporate sector.

Mäklarservice methodically develops partnerships with brokers and develops digi-

tal solutions to enhance the efficiency of meetings and to facilitate transactions. Personal contact and high trust also characterize our relationship with our brokers as they do for all other business in Länsförsäkringar.

Länsförsäkringar's brokered life-assurance business performed positively in 2006. After a weak beginning, sales escalated when Länsförsäkringar adapted its health insurance premiums and Friplan fees to better meet competition. The launch of directed brokerage funds also had a positive impact. The non-life insurance market was temperate

with relatively few purchases and premium pressure in business. The differences regarding commission management in our chosen model proved to be decisive to the choice of insurer.

The brokered market continues to have extensive development potential in non-life insurance and life assurance. Having the ability to react to new business arrangement and methods of packaging offerings will be a success factor. Through brokerage partnerships, Länsförsäkringar is also improving its development skills in its direct offerings.

### Development of the Internet channel

Länsförsäkringar's goal is to offer the market's best Internet services. Customers shall be able to purchase the most common bank and insurance products on the Internet, and also through this service obtain an overview of their commitments and make adjustments exactly as they would with direct contact with their regional insurance company. Länsförsäkringar shall be equally as strongly skilled in its customer meetings via the Internet as in other types of meetings.

The number of visitors and purchases via the Internet continued to rise substantially in 2006. More than 20 million visits were made to Länsförsäkringar's website during the year. In addition to the increase in information, sales via the Internet have also grown. Sales of motor vehicle and private home insurance via the Internet rose but slightly less than 40% in 2006 and the Internet channel now represents an increasingly large percentage of the total sales of these products. In the banking operations, the number of credit applications via the Internet is rising.

An overall aim with Länsförsäkringar's ongoing Internet developments is to create an attractive meeting place in which the customer can carry out a higher number of transactions. The website is to become a business side rather than an information site. It should be straight-forward to purchase the most common products here. A coherent online customer meeting will be developed here. Cross-sales can be generated through these meetings. It will be important to strengthen the local experience on the Internet.

# Joint decision-making and consultation bodies

## **Decision-making and joint-consultation process**

The Owners Consortium between the regional insurance companies regulates the procedures for common decision-making. The consortium resolves matters concerning share ownership in Länsförsäkringar AB and the regional insurance companies' mandate to Länsförsäkringar AB. Since 2002, the consortium has also been responsible for addressing and, where necessary, following up on matters concerning internal affairs within the regional insurance companies and common obligations.

## **Interaction at the strategic level**

At the overall strategic level, interaction occurs between the regional insurance companies and Länsförsäkringar AB in the consortium, through the Meeting of the Chairmen of the regional insurance companies, and through the Joint Council of the Managing Directors in the regional insurance companies. Issues are addressed formally in the consortium. The Joint Council and the Meeting of the Chairmen are not formal

decision-making forums but play an important role in securing support for forthcoming decisions, both jointly in the consortium, in the individual boardrooms of the regional insurance companies and within the Boards of the Länsförsäkringar AB Group.

## **Interaction at the operational level**

The operations of Länsförsäkringar AB are governed by the mandate determined jointly by the regional insurance companies. The regional insurance companies interact closely with Länsförsäkringar AB to ensure that the latter's business plan truly mirrors the wishes communicated in the mandate. Close collaboration is also maintained in terms of Länsförsäkringar AB's performance of its tasks. This cooperation is important to ensure correct delivery but also to confirm the receiving capacity of the regional insurance companies. The products and services that Länsförsäkringar AB develops and delivers normally require measures and activity to be undertaken in the regional insurance companies to derive maximum benefit from the investment.

## **Owners Consortium**

The consortium addresses matters relating to share ownership in Länsförsäkringar AB as well as internal affairs and common obligations in the regional insurance companies. In the case of the latter, all decisions are reached by consensus. The consortium also acts as the strategic discussion forum for the regional insurance companies. The strategic platform and other common strategies are determined in the consortium, and also the regional insurance companies' mandate for Länsförsäkringar AB. Significant structural matters and other issues of strategic importance to the regional insurance companies are also addressed in the consortium. All of the 24 regional insurance companies are represented in the Owners Consortium, which convenes at least once per year.

## **Association of Regional Insurance Companies**

The members of the Association of Regional Insurance Companies comprise the 24 regional insurance companies and 14 local





insurance companies. Most of the duties of the Association were taken over by the Consortium and the Board of Länsförsäkringar AB from the 2002 General Meeting.

### **General Meeting of Länsförsäkringar AB**

The General Meeting is Länsförsäkringar AB's highest decision-making body with a number of formal duties governed by legislation and the company's Articles of Association. The General Meeting's foremost tasks are to adopt the Articles of Association for Länsförsäkringar AB, appoint the Board, adopt the income statement and balance sheet, and discharge the members of the Board from liability. The Ordinary General Meeting is held once per year.

### **Board of Directors of Länsförsäkringar AB**

The Board of Directors is responsible for Länsförsäkringar AB's organization and administration. This responsibility includes adopting organization, goals and strategies, and establishing guidelines for corporate governance. The Board of Directors must ensure that the goals and strategies established by the Boards of the subsidiaries are coordinated and make optimal use of Group's resources. The Board of Directors of Länsförsäkringar AB can also make recommendations on issues relating to the operations of the regional insurance companies.

### **Boards of divisions/subsidiaries in the Länsförsäkringar AB Group**

Certain divisions within the Länsförsäkringar AB Group are individual companies while others encompass several companies. Unless he specifically decides otherwise, the CEO also serves as the Board Chairman in each of the divisions and in the legal entities included in each division. The purpose of this is to prevent the occurrence of divisional goals that are in conflict with the Group's goals. The divisional Boards are responsible for their division's



operations and also have a statutory responsibility for the companies included in their particular division.

### **Meeting of the Chairmen**

The Meeting of the Chairmen is a forum for discussions and exchanging experiences between the regional insurance companies in operations-related issues at the Board-Chairman level. The Meeting of the Chairmen is not formal decision-making forum but plays an important role in securing support in the Länsförsäkringar Alliance.

### **Joint Council of the Managing Directors**

The Joint Council of the Managing Directors is a forum for consultation between the Managing Directors of the regional insurance companies and the Managing Director of Länsförsäkringar AB in operational issues. Länsförsäkringar's Joint Council of the Managing Directors is not formal decision-making forum but plays an important role in securing support for forthcoming

decisions in the regional insurance companies and Länsförsäkringar AB. The Joint Council is utilized as a preliminary body in strategic matters when the Consortium so desires. The Joint Council of the Managing Directors includes all of the Managing Director's of the regional insurance companies, the CEO of Länsförsäkringar AB, the Managing Director's of the Non-life, Life and Bank divisions in Länsförsäkringar AB and the Managing Director of Mäklarservice AB.

### **Other joint councils**

A number of joint councils have been formed to ensure efficient interaction between the regional insurance companies and Länsförsäkringar AB. These councils are as follows: budget council, market council, IT/development council, and a life assurance council. The councils are not decision forums and can only issue recommendations for decisions in the relevant formal decision-making bodies.

# Banking operations

## A new bank is emerging

Volumes continued to grow and both earnings and profitability improved during the year. Länsförsäkringar continued to challenge a market in which competition from Swedish and international players is constantly rising and the migration between banking and insurance became increasingly strong. Fiscal 2006 was a year of deliveries for the banking operations.



**LÄNSFÖRSÄKRINGAR** IS A full-service bank that has a total of more than 90 offices providing advisory services throughout Sweden. This creates a unique local presence and market knowledge. Customers can also conduct their banking business via the Internet, by telephone and via Svensk Kassaservice (Swedish Cashier Service), pay for their purchases with bank and credit/debit cards, withdraw cash from the country's ICA supermarkets and use ATMs in Sweden and abroad.

Länsförsäkringar directs its services primarily to private individuals and farmers offering a full range of banking services. The many different service locations give customers substantial freedom to deal with and use the bank on their own terms. Customer contact always takes place with the regional insurance company. From the customer's perspective, the regional insurance companies serve as local banks in the same manner as for non-life and life assurance.

The joint banking operations are conducted through the Parent Company, Länsförsäkringar Bank, and the three subsidiaries Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondförvaltning. The assignment includes leading and driving developments in the banking operations, providing service and bank services to the regional insurance companies and serving as the Länsförsäkringar Alliance's bank.

Deposits, borrowing and some lending are conducted within the Parent Company. The card and payment operations are also located here. Länsförsäkringar Hypotek is the bank's mortgage institution that finances lending to private homes, tenant-

owned apartments and leisure homes. Wasa Kredit is a finance company that conducts leasing and financing operations as well as unsecured lending in the Swedish market. Länsförsäkringar Fondförvaltning manages SEK 62 billion (54) in 30 (32) mutual funds with different investment orientations.

During the year, business volumes increased by almost SEK 140 billion and operating income rose by 30% to SEK 201 M. The total lending grew by 14% and deposits by 15%.

### Strategic target groups for the banking operations

The strategic target groups are selected based on their strong need of products from the entire product portfolio, making them particularly attractive as potential regular customers.

#### The strategic target groups are

- Homeowners – private individuals in Sweden who own a private home or tenant-owned apartment, and their families.
- Farmers – all agricultural operations in Sweden.

### Bank market

Länsförsäkringar is a full-service bank whose task is to act as a challenger in the Swedish bank market. Länsförsäkringar directs its services primarily to private individuals and farmers. The most important markets are the savings market and the mortgage market.

#### Savings market

The net wealth of Swedish households amounted to SEK 6,403 billion in 2006.

Länsförsäkringar's market share was almost 5%.

Fund saving in 2006 compared with the preceding year displayed low interest in long-term fixed-income funds and greater interest in, for example, hedge funds. Interest in short-term fixed-income funds increased while savings in equity funds declined.

#### **Mortgage market**

Slightly less than 90% of lending to Swedish households refers to mortgages loans. Loans increased by SEK 91 billion in 2006. The market for mortgage loans was characterized by intensified competition and pricing pressure. Since the foundation of its own mortgage-loan operations in 2001, Länsförsäkringar has been an important player who has contributed to today's competitive situation.

#### **Digital deliveries strengthen customer meetings**

Länsförsäkringar must be equally strong in all customer meetings. It is not sufficient to focus solely on the customer meeting. Consequently, in 2006, full Internet sales functionality was implemented. These services enable the customer to borrow money, manage their savings and make payments, round the clock, seven days a week. This entails an efficiency enhancement and increase in availability of up to 100%, in comparison with the previous manual processing of these customers and products.

During the year, the customer meeting at the bank was also made more efficient. In an initial estimate, the enhancement of efficiency in the customer meeting at the regional insurance companies amounts to

50%. In other words, it is considerably simpler to help the customer switch banks. This efficiency enhancement creates opportunities for wider sales, primarily of borrowing, savings and payment products all during the same meeting. It also frees up time that can be used to reinforce sales efforts.

#### **Swedish masters of customer satisfaction**

The results of the Swedish Quality Index for the banking industry were announced on October 2, 2006. The survey measures customers' satisfaction with their banks. Once again, Länsförsäkringar Bank was among the top-ranked contenders in 2006. Customer satisfaction among Länsförsäkringar's bank customers is 4.6 units better than the industry average.

Länsförsäkringar is at the top in all categories, which include image, expectations, product quality, service quality and value for money.

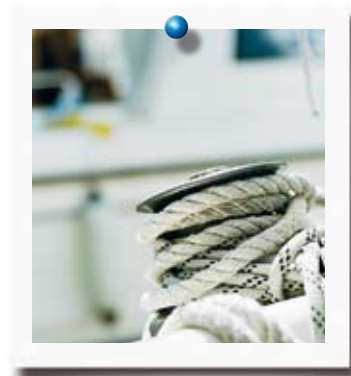
For the second consecutive year, the Swedish Quality Index has also shown that Länsförsäkringar's mortgage customers are more satisfied than the customers of other mortgage institutions in the private market.

#### **Diversified funding**

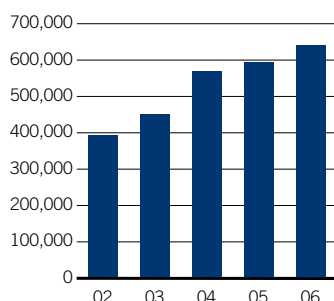
The aim is to continuously have access to refinancing programs that are adapted to different geographical markets and different investor groups, although deposits remain highly significant to the operations. Compared with its competitors, Länsförsäkringar also has a higher percentage of deposits. Länsförsäkringar will continue to strive to achieve a suitable diversification in its sources of refinancing.

#### **2006 in brief**

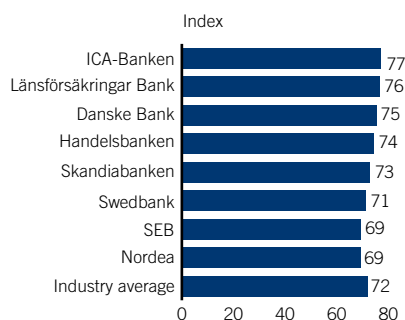
- Operating income before loan losses amounted to SEK 238 M (203) and SEK 201 M (154) after loan losses.
- Revenue rose 6% to SEK 1,025 M (971) and administration expenses rose 2% to SEK 787 M (769).
- Net interest income rose 6% and amounted to SEK 922 M (873).
- Lending to the public increased by 14% to SEK 54 billion (47) and deposits from the public rose by 15% to SEK 24 billion (21). Fund volumes increased by 15% to SEK 62 billion (54).
- The number of customers increased from 593,000 to 640,000.
- Länsförsäkringar continues to have the market's most satisfied bank and mortgage customers according to the Swedish Quality Index 2006.



**Number of customers**



**Customer satisfaction (SKI), banks**



In recent years, Länsskåringar has to a significant extent continued to develop, change and clarify the role of the finance function. These measures have taken place as a result of the conversion of the previous deposit surplus into a deficit and the need for funding possibilities has risen. The previous gap between deposits and funding is now covered primarily by funding from various commercial paper and bond programs.

Länsskåringar constantly endeavors, in the first instance, to match interest-rate risks in the bank's borrowing by fixing interest rates at the same terms that arise in lending. The bank utilizes interest-rate derivatives to achieve this in the second instance. The aim is to continuously maintain risks in refinancing at a low level. The same goal applies to currency risks that are immediately hedged in foreign currencies.

### Strong rating

Standard & Poor's and Moody's continuously monitor the banking operations and make annual updates to the bank's credit rating. As for all banks, the rating institutes' assessments are very important to funding operations for Länsskåringar. In February 2007, Standard & Poor's raised Länsskåringar Bank's credit rat-

ing from A- to A. Accordingly, the rating for long-term borrowing is A (stable).

The rating for short-term borrowing was raised from A-2 to A-1. Standard & Poor's referred to the strategic significance of the banking operations for the entire Länsskåringar Alliance and to the involvement of the owner. They also referred to the high capital adequacy, the high loan quality and the continued positive improvements in the performance of the banking operations. Despite intensified competition with pressed margins, Länsskåringar continues to increase its share of the Swedish private market while simultaneously improving underlying profitability.

In February 2007, Moody's upgraded Länsskåringar Bank's credit rating from A3 (stable) to A2 (stable). The rating for short-term borrowing was raised from P-2 to P-1. This upgrade is the result of Moody's implementing a new rating method for financial institutions and publishing new results for the Swedish banks.

Länsskåringar maintains a continuous and stable relationship with the institutions, for example, by holding regular meetings and will continue to work on improving its credit rating.





# Lending

## Continued strong demand

The market was characterized by intense competition. Despite increased uncertainty in the interest-rate market, demand remained strong. Customers took loans primarily for residential properties, although the proportion of consumption credits also increased. Länsförsäkringar's growth was healthy and the market share for lending to private homes and tenant-owned apartments increased by 3.0% during the year.

## Offering

Länsförsäkringar offers mortgage loans for private homes, tenant-owned apartments and leisure homes, overdraft facilities and loans to farmers. Up to 75% of the sales value of residential properties is carried by the subsidiary Länsförsäkringar Hypotek and the remainder by the bank. Efficient processing of loans ensures that

### Three parts comprise the total offering

Länsförsäkringar offers a complete range of services in lending, savings and payments. Together, these parts form the total offering with competitive prices and attractive terms and conditions. From a bank perspective, this total offering is the foundation on which other parts of the offering can be built.

the bank remains successful and competitive. The work with improving the loan application process continued during the year. In June 2006, a new service was launched, Loans via the Internet, by which customers can apply for loans and receive swift feedback. A total of 30% of the total number of loan applications are made via the Internet.

## Growth and loan quality

Total lending rose by 14% and amounted to SEK 54 billion. The market share of lending to households rose to 2.3%. Mortgage lending increased from SEK 31 billion to SEK 37 billion and the market share for private homes and tenant-owned apartments rose from 2.9% to 3.0%. The number of customers increased to 90,500.

Loan quality remained high in 2006. Loans losses were low and amounted to SEK 39 M. High loan quality is based on a careful risk assessment of each loan application. Two thirds of lending to private individuals refers to mortgage loans. Unsecured lending to private individuals accounted for 6% of lending. A total of 5% of the loan stock comprised loans to farmers. In terms of the total number of loans, almost 90% are less than SEK 500,000. The loan stock has a very broad geographical spread.



## Internal capital assessment

The new capital adequacy regulations came into force on February 1, 2007. The bank focused in 2006 on developing and systematizing an internal capital-assessment process. This involves a process that is based on assessing and compiling a complete and overall profile of the risks in the entire operations. This applies to both measurable risks and those that cannot be measured. The process shall also include an understanding on existing risk levels, how such risks are to be managed, the effects associated with these risks and the costs of managing such risks. This overall assessment serves as the basis for capital planning. Furthermore, it is important that the internal capital-assessment

process is well integrated and can be applied by the business operations. It should be possible for operational targets and return measurements to be related to the risk and the internal capital planning. Based on a profitability calculation, the bank's internal capital assessment process will improve the company's ability to attract the types of customers permitted by the risk profiles and business strategy. It will also be possible for the bank to set prices based on this knowledge.

In accordance with the applicable transition regulations, the adaptation of the capital requirements to the new set of regulations will take place over a three-year period. After this period of transition, the Group's risk-weighted assets will substan-

tially decrease. The rate at which capital will be released depends on the company's total risk exposure, consideration of the credit rating and the Swedish Financial Supervisory Authority's (Finansinspektionen) assessments. The capital adequacy targets will be continuously assessed within the framework of the internal capital assessment process. The company shall endeavor to retain an adequate level of capital, relative to comparable banks.

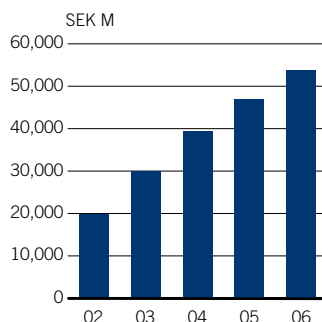
In addition, the internal capital assessment process (ICA) will, together with the Internal Ratings-based Approach (IRB-approach), further develop the possibilities of utilizing profitability calculations, pricing and control of risk and capital in 2007.



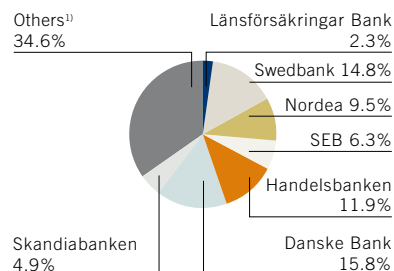
### Facts Lending

- Total lending increased by 14% to SEK 54 billion.
- Mortgage lending increased from SEK 31 billion to SEK 37 billion.
- The market share of lending to private homes and tenant-owned apartments rose to 3%.
- Two thirds of lending to private individuals pertains to mortgage loans.

### Lending to the public



### Market share, bank lending to households



<sup>1)</sup> of which 21.0% refers to independent savings banks

# Payments

## Percentage of Internet payments continues to grow

Giro forms, checks and cashier payments have been replaced by different forms of electronic payments over the past decade. The use of cards has increased at the same time as the number of withdrawals from ATMs have fallen. For Länsförsäkringar, 2006 signaled a continued increase in the percentage of Internet payments. Of the total number of payments, 76% are made via the Internet.

## Offering

Länsförsäkringar has a well-functioning network of payment services that comprises an important basis in the relationship between customers and the bank. Despite the fact that the use of cards and the percentage of electronic payments have increased significantly, Länsförsäkringar's customers still have a need to deposit and withdraw cash at bank cashiers. Therefore, the agreement with Svensk Kassaservice was renewed during the year. Bank customers also have access to all ATMs in Sweden and can make withdrawals in all ICA supermarkets.

In 2007, focus will primarily be directed toward increasing the percentage of electronic payments and increasing both the num-

ber of bank cards and the use of such cards.

A well-functioning network of payment services is the core of the relationship between customers and the bank. Customers usually regard the bank at which they have their household financing as their main bank, regardless of whether loans or savings are with other players. There is also a direct link between customer satisfaction and the number of household financing services regularly used by a customer. Customers are often extremely loyal to a bank with which they are satisfied.

## Growing payment business

The trend in 2006 remained positive. An increasing number of customers selected Länsförsäkringar Bank as their main bank. Länsförsäkringar has a total of 127,000 card customers who make an average of 11 purchases per month. The number of cards rose by 19% in 2006. The percentage of electronic payments increased from 71% to 76%. An area that experienced substantial growth during the year was foreign payments. In Länsförsäkringar's total flow of payment transactions, foreign payments increased from 29 million to 39 million.

## Cash withdrawals in ICA supermarkets

Since June 2006, Länsförsäkringar's more than 100,000 bank card customers have been able to make cash withdrawals in ICA's 1,400 supermarkets throughout the country. This was the result of a partnership that was signed on April 3. Based on this partnership, bank card customers can withdraw a maximum of SEK 2,000 in one single transaction without making any purchases at the ICA store. Withdrawals are free of charge for customers.

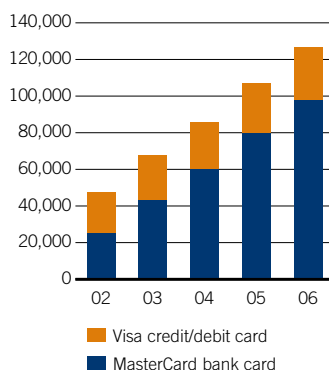
## Lower costs and improved customer offering with new card supplier

In October, Länsförsäkringar entered into a new agreement for services for card handling and collating card transactions.

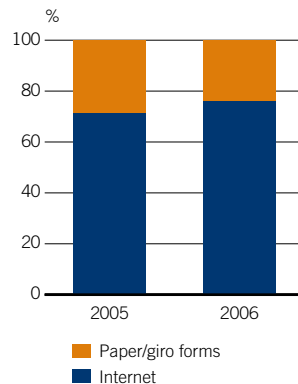
This agreement enhances cost efficiency and the flexibility of the bank's card process. The new platform also makes it simpler to develop new customer offerings, which creates greater flexibility for continued product development.

The agreement, which comes into effect in 2007, will also contribute to greater protection for customers by EMV increasing the security of the card. EMV is a standard for chip cards.

Number of cards specified by Visa credit/debit card and MasterCard bank card



Percentage of electronically transmitted and paper-based payments



## Facts Payments

- Länsförsäkringar has a total of 127,000 card customers who make an average of 11 purchases per month.
- The percentage of payments made via the Internet is 76%.
- The total number of payment transactions rose from 29 million to 39 million.



# Savings

## Substantial volume increase

Savings, both in the long term and short term, are becoming increasingly important to Swedish households. Länsförsäkringar's volumes continued to increase during the year. Deposits rose by 15% to SEK 24 billion.

## Länsförsäkringar's offering

The savings offering focuses on the short and medium-term perspective, that is to say fixed-income, equity and fund savings. These areas can then be supplemented with long-term pension savings.

The product offering comprises deposit products such as savings accounts, personal accounts and fixed-interest accounts with different terms, and share trading via the Internet. Stock index bonds were also launched in the autumn. Customers in the agricultural sector also have access to saving products such as a business account, an investment account, a forestry account, and a forest damage account, of which the two latter accounts are also available as fixed-interest accounts.

## Rising volumes

Growth in volumes remained favorable in 2006. Deposits increased by 15% to SEK 24 billion and the market share, measured

in deposits from households, amounted to 3.0%. The number of accounts continued to increase and it is clear that more and more customers are choosing Länsförsäkringar as their main bank. During the year, 22,000 new salary accounts, 13,000 new savings accounts, 11,000 fixed-interest accounts and 3,500 securities deposits were opened.

## New stock index bonds

Since September 2006, Länsförsäkringar has been able to continuously offer stock index bonds to its customers. The stock index bonds are sold through the 24 regional insurance companies. Three share issues, with varying targets, were implemented during the year.

## Internet provides greater access

In 2006, Internet services were further developed to increase access and purchase functionality. Today, customers themselves can open savings accounts, for example, via the Internet. Länsförsäkringar will continuously enhance services and options offered by its Internet bank; an example of a welcomed service is share trading via the Internet.

The main priorities for 2007 are to ad-

ditionally enhance the possibility of self-services via the Internet and increase savings in general. This will take place by creating a variety of new, attractive savings products and services.

## Mutual funds

Fiscal 2006 was a positive year for Swedish fund savers. The net flow to funds amounted to SEK 85 billion for the total market in Sweden in 2006. Net flow into Länsförsäkringar's funds during 2006 amounted to SEK 3 billion and assets under management to SEK 62 billion at year-end, corresponding to a market share of 3.6%. Accordingly, Länsförsäkringar is one of the largest companies in the Swedish fund market.

Länsförsäkringar's ambition is to always have the best asset managers in each market. In 2006 Carnegie took over responsibility for the management of Länsförsäkringar's Sweden and Mega Sweden Funds. In addition to Carnegie, Länsförsäkringar's mutual funds were also managed by ABN Amro and Goldman Sachs.

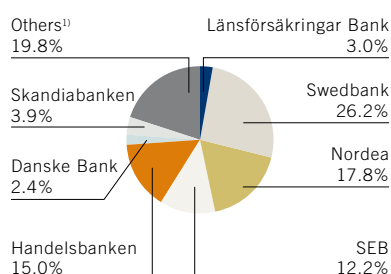
## Higher Morningstar rating

During the year, Morningstar upgraded the ratings of seven Länsförsäkringar funds, with an average rating increase from

### Facts Savings

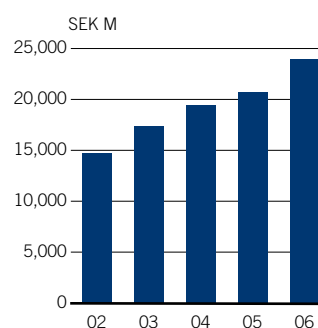
- Deposits from the public increased by 15% to SEK 24 billion.
- The market share measured in deposits from households amounted to 3.0%.
- A total of 3,500 securities deposits were opened during the year.
- During the year, Morningstar upgraded seven Länsförsäkringar funds, with an average rating increase from three to four stars.

Market share, deposits from households



<sup>1)</sup> of which 14.7% refers to independent savings banks

Deposits from the public





three to four stars. The funds that were upgraded were as follows Pension 2020, Pension 2025 and Pension 2033, that were upgraded from four to five stars, while Pension 2010 and the Total Fund were upgraded from three to four stars. The Europe Fund was upgraded from two to three stars, while Fund-in-fund Low Risk was upgraded from one to two stars. As a result, Länsförsäkringar has a top ranking among the market's largest players.



#### LÄNSFÖRSÄKRINGAR BANK

##### INCOME STATEMENT

SEK M	2006	2005
Net interest income	921.8	873.4
Net commission income	-12.2	-69.8
Other revenue	115.7	149.7
Total revenue	1,025.3	953.3
Personnel costs	-273.2	-244.2
Other expenses	-514.0	-506.5
Total expenses	-787.2	-750.7
<b>Income before loan losses</b>	<b>238.1</b>	<b>202.6</b>
Loan losses, net	-37.2	-48.6
<b>Income, banking operations</b>	<b>200.9</b>	<b>154.0</b>
Tax	-60.1	-44.7
<b>Net profit for the year</b>	<b>140.8</b>	<b>109.3</b>

##### BALANCE SHEET

SEK M	Dec. 31, 2006	Dec. 31, 2005
<b>Assets</b>		
Lending to the public	53,884	47,094
Bonds	5,630	2,603
Tangible and intangible assets	151	114
Other assets	2,791	1,850
<b>Total assets</b>	<b>62,456</b>	<b>51,661</b>
<b>Liabilities, provisions and shareholders' equity</b>		
Deposits and borrowing from the public	24,380	21,535
Securities issued	31,922	24,850
Other liabilities	1,932	1,375
Debenture loan	1,050	1,050
Shareholders' equity	3,172	2,851
<b>Total liabilities, provisions and shareholders' equity</b>	<b>62,456</b>	<b>51,661</b>

#### Earnings

Operating income before loan losses amounted to SEK 238 M (203) and SEK 201 M (154) after loan losses. Income includes a nonrecurring item of SEK 23 M pertaining to the sale of previously amortized receivables in Wasa Kredit.

Revenue rose 6% to SEK 1,025 M (971) and administration expenses rose 2% to SEK 787 M (769). The expenses include a nonrecurring item of SEK 13 M pertaining to pension provisions.

Net interest income rose 6% and amounted to SEK 922 M (873).

Return on equity after standard tax was 4.6% (4.1).

Lending to the public increased by 14% to SEK 54 billion (47) and deposits from the public increased by 15% to SEK 24 billion (21).

Fund volumes rose by 15% to SEK 62 billion (54).

# Life assurance and pension insurance

## Another positive year for Länsförsäkringar's life-assurance and pension savers

The total return on investment assets for the traditional life assurance operations amounted to 8.3% (14.9). The average annual bonus since 1985 when Länsförsäkringar's operations were founded is 9.5%.



**THROUGH THE 24 REGIONAL INSURANCE COMPANIES**, Länsförsäkringar offers insurance solutions that combine long-term savings with insurance protection, for companies, private customers and farmers. Most people require such solutions, especially as Sweden's welfare system has undergone a fundamental change in the past 10–15 years. Sweden has gained a new pension system that, for most people, will probably mean that the gap between their final salary and pension will increase.

### Pension from three sources

The national pension from the state forms the broad base layer of a person's total pension. The next layer comprises an occupational pension, which most people have through their employment. Pension can also be supplemented with savings in private pension plans. In the new pension system, it is much harder for individuals to predict the size of their future pension. At the same time, the new system entails more possibilities to affect the size of the pen-

sion by making various pension choices. The changes have resulted in an increased need for saving in private pension schemes and a growing number of people are being forced to assume greater responsibility for their future pension.

### Management forms

Länsförsäkringar offers life assurance and pension insurance with three different management forms: traditional management, New World management and unit-linked insurance. The new guarantee product Insured Pension was also launched during the year. These various alternatives have both advantages and disadvantages depending on the objective of the savings and the level of risk one is willing to take.

### Traditional management

Traditional management has a guaranteed interest rate of 3% before fees and taxes. When the return is higher than the guaranteed return, the bonus is preliminarily distributed and when the return is lower, the

### 2006 in brief

- The Swedish Quality Index showed for the second consecutive year that Länsförsäkringar has Sweden's most satisfied life-assurance and pension insurance customers.
- Key ratios were strengthened. Collective consolidation amounted to 114%, the solvency ratio increased by 10 percentage points to 136% and the administration result improved by SEK 109 M.
- The focus on growth is beginning to generate results. The market share measured in sales value increased from 8.4% to 9.8%.
- In 2006, Länsförsäkringar continued its strong position in the pension-insurance market by launching an entirely new pension savings form, Insured Pension and new life-assurance protection, Insured Family.

preliminary distribution of the bonus is re-distributed. The long-term bonus amount depends on the level of return on the assets. Capital is invested primarily in listed shares and interest-bearing securities as well as in property and Alternative Investments. Alternative Investments primarily comprise investments in funds that purchase, develop and sell unlisted companies.

### New World management

New World management is only available at Länsförsäkringar. This management form combines the safety of traditional management with the option of unit-linked insurance. A total of 70% of pension and savings capital is invested in shares and 30% in interest-bearing securities. The higher equities portion increases the possibilities of generating high returns in the long term. The New World guarantee entails that even if the development of the financial market is negative after five years, or in the case of death, a repayment of paid premiums with deductions for fees and taxes is always guaranteed.

### Unit-linked insurance

For unit-linked insurance, customers themselves choose the object of investment and level of risk. Customers can choose between equity funds and fixed-income funds and it is the customers themselves

assume the risk for the trend in the value of the funds. Unit-linked insurance involves a possibility of high returns but also a higher level of risk than traditional management. Länsförsäkringar provides funds not only for Länsförsäkringar's product lines but also for a number of well renowned players such as ABN Amro, Carlson, SEB, Fidelity, Lannebo, Société Générale, FIM, Catella and Skagen.

### Insured Pension

In 2006, Länsförsäkringar launched Insured Pension, a new private saving. This is a simple and secure pension saving that enables customers to take advantage of the possibilities in the stock market at the

same time as a floor is in place to protect against stock market falls. Based on guidance provided via the Internet, customers themselves can gain an idea of their future pension and can also begin saving directly. Those who began saving in Insured Pension in June can look forward to a return amounting to an average of 15%. The mix between equity and bond investments varies for different ages and therefore returns can vary somewhat depending on the age of the customer.

### The Swedish life assurance market

Growth in the Swedish life assurance and pension insurance market declined in 2006 compared with the substantial upswing in



Henrik Larsson, Mats Wester and Felix Herngren in one of the autumn's advertising films for Insured Pension.

- Customers saving in pension insurance and life assurance are offered one of the highest bonuses in the industry. After the negative trend in the financial markets in the summer months, the stock exchanges recovered in the autumn and on December 2006, Länsförsäkringar raised its bonus rate to 8% before fees and taxes.
- The total return on investment assets in traditional management amounted to 8.3% (14.9) and New World's return amounted to 11.1% (17.1). The average growth in value for Insured Pension was 15% from June.
- During the year, a new total unit-linked insurance offering was launched. This means that Länsförsäkringar can offer a range of products that suit all types of mutual fund savers, with an attractive base range for savers who do not need to change funds often, supplemented with alternatives for more active savers.

the preceding year. Measured in sales value, the market declined by 7% compared with the year-earlier period and amounted to SEK 125 billion.

The life assurance and pension insurance market can be divided into the occupational pensions market, the savings market and private pensions. The occupational pension market is the largest of the three sub-markets. The sales value of the occupational pension market was SEK 86 billion, which is a decrease of 8%. The private pension sub-market with a sales value of SEK 7.4 billion, increased by 34%. The savings sub-market decreased by 12% and had a sales value of SEK 31.0 billion.

#### Occupational pension market

Länsförsäkringar's largest drive is in the occupational pension market, which also includes the collective pension agreement market. In recent years, the occupational pension market has remained relatively unchanged, and is characterized by the entry of new players, further intensifying competition. Measured by premium income, Länsförsäkringar's market share for new sales in the occupational pension market grew slightly from 10.3% to 11.7% in 2006. Small and medium-sized companies are an important target group although Länsförsäkringar also sees growth potential with large companies. Two thirds of all employees work for companies with more than 50 employees. Länsförsäkringar aims to be the insurance company that also meets these individuals in their workplaces. Occupational pension plans have traditionally been regulated by collective labor market agreements. Over the past decade, however, employees have been given extended freedom of choice regarding their occupational pension plans and how they wish to invest a portion of their pension savings. To satisfy the needs of large companies, Länsförsäkringar employs special advisors who specialize in occupational pension solutions for these companies.

#### Collective agreement pensions

By far the majority of employed persons have an occupational pension through a collective agreement. Contributions to this pension are paid by the employer, while the employee has the right to choose how all or parts of this insurance saving should be invested. Many of the large collective agreement pensions have increased the portion of the total pension premium controlled by the employee in recent years, contributing positively to the competitive section of the occupational pension market. There has been greater activity among employees with the opportunity to make individual pension choices in recent years, both by more people changing their choice of pension and by the number of people who had previously refrained from making a choice now becoming more active in selecting pensions.

In spring 2006, the Confederation of Swedish Enterprise and PTK (Council for Negotiation and Cooperation) agreed on a new pension agreement for around 600,000 private-sector salaried employees. This new defined-contribution based agreement will successively replace the former defined-benefit agreement. Under the defined-benefit agreement, a certain percentage of the employee's salary was guaranteed when the employee retired. In a defined-benefit system, an amount is reserved that is invested with different managers until retirement. Accordingly, the amount of the pension is partly controlled by how successful these managers have been in their investment orientations. In the future, the new ITP plan will affect a large section of the occupational pension market that is exposed to competition in terms of volumes,





distribution and cost structure. Under the new ITP agreement, half of the pension contribution will be placed in a guaranteed savings scheme, while other contributions can have a more free investment orientation in funds. A number of insurance companies will be potential alternatives to the future pension choices or salaried employees. In autumn 2006, Collectum, which will serve as the central general ITP administrator, began a procurement process of those companies that wish to be future insurance suppliers to the ITP plan. In February 2007, the ITP Board decided to appoint eight companies of the 20 applicants as insurance suppliers of the ITP plan. Only two companies, one of which is Länsförsäkringar Liv, were selected as managers for both traditional insurance and unit-linked insurance.

#### **Private pension market**

The private pension sub-market, with a sales value of SEK 7.4 billion, accounted for the largest increase of 34%. Länsförsäkringar's focus on pensions was seen, among other measures, in the launch of the new product Insured Pension. As a result of the launch, sales of private pension solutions tripled in 2006 and the market share rose from 6.5% to 6.9%.

#### **Satisfied customers and several awards**

For the second consecutive year, Länsförsäkringar was the most successful company according to the Swedish Quality Index and has the most satisfied customers in the life assurance and pension insurance. With the exception of only one year, Länsförsäkringar has had Sweden's most satisfied customers for the past ten years in the

private market for life-assurance and pension-insurance.

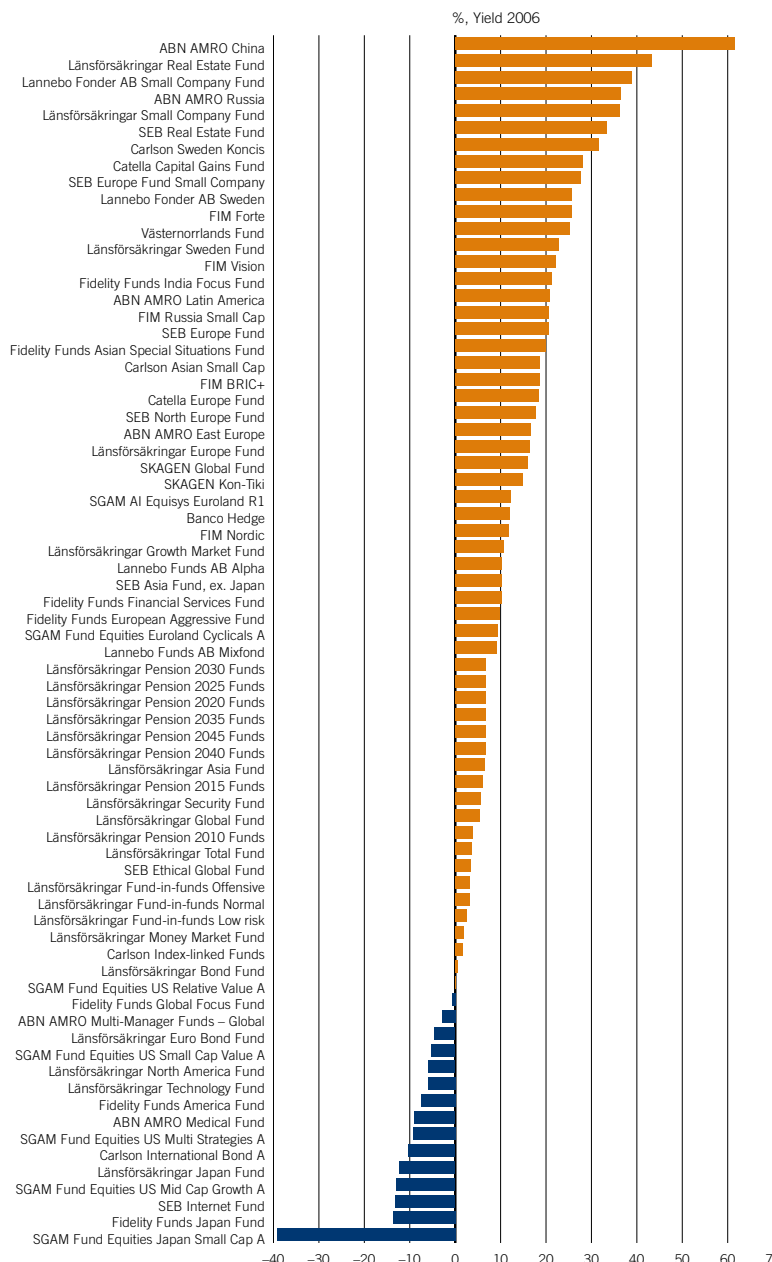
Three funds in Länsförsäkringar's unit-linked insurance offering received accolades in the Star Asset Manager of the Year 2006 awards, winning two gold and one silver. Morningstar and Swedish financial daily *Dagens Industri* are the arrangers of these awards.

#### **Return and bonus**

Länsförsäkringar Liv's key figures are strong and customers with pension and life-assurance savings are offered the highest bonus rate in the industry. The focus on a large equities portion in investments, both listed and unlisted, has been favorable for returns since the stock markets have generally improved. After the negative trend in the financial markets in the summer



### Yield 2006, unit-linked insurance



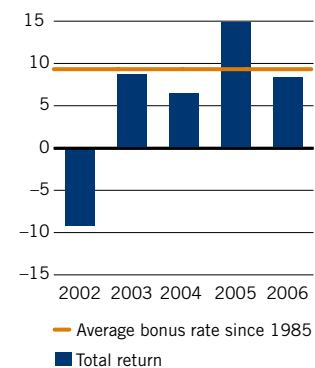
months, the stock exchanges recovered in the autumn and on December 1, Länsförsäkringar raised its bonus rate to 8% before fees and taxes. The average annual bonus rate since 1985 when the life-assurance operations were founded is 9.5%.

The total return on investment assets in traditional management amounted to 8.3% (14.9) in 2006. The return on Insured Pension amounted to 15% calculated from June 2006.

In order to have a large equities portion at a limited risk, hedge strategies are applied in the form of equity and interest-rate hedges. Based on these strategies, savers' funds are protected against stock market falls or increases in interest rates.

Returns in the New World management alternative, with a higher equities portion than traditional management, amounted to 11.1% (17.1). Since it was started in 1996, New World has generated an average annual return of 8.2%. Those who began saving in Insured Pension in June can look forward to a favorable return for 2006. The mix between equity and bond investments varies for different ages and therefore returns can vary somewhat depending on the age of the customer.

### Total return, traditional management



## Unit-linked insurance

Four fifths of Länsförsäkringar mutual fund offering generated positive returns in 2006. The favorable trend in the stock markets in the autumn had a positive impact on both equity funds and mixed funds, many of which recovered from the downturn in the summer. However, returns in many foreign funds were driven down by the strengthening of the Swedish krona (SEK) against the dollar (USD), primarily affecting funds investing globally in North America, Asia and in the growth markets. Some of the funds that performed the best were those investing in growth markets in China, Russia and India. Funds with investments in Sweden and mainly in small companies and real estate also displayed a strong trend.

## Solvency and collective consolidation

High returns in recent years have strengthened Länsförsäkringar Liv's finances. As a result, favorable prerequisites for stable pension savings with solid growth are in place for customers saving or considering starting pension savings with Länsförsäkringar. Collective consolidation amounted to

114%. The solvency ratio rose by 10-percentage points to 136%.

## Earnings

Net profit for the year in the Life Assurance Group amounted to SEK 7,644 M (4,584). Improvements in profit are primarily attributable to lower technical reserves for insurance classed as occupational pension and also to an improved administration result. This was the result of the EU's new

directive regarding occupational pensions. Investment income, net, amounted to SEK 11,638 M in 2006 compared with SEK 20,165 M in the preceding year. Costs declined by 4% to SEK 1,317 M (1,379).

### KEY FIGURES

	2006	2005
Premium income, net	10,020	9,472
Total assets	153,255	140,681
Return, New World, %	11.1	17.1
Total return, traditional management, %	8.3	14.9

### INCOME STATEMENT SEK M

	2006	2005
Premium income, gross	10,155	9,609
Premium income, net	10,020	9,472
Investment income, net	11,638	20,165
Claims payments	-5,329	-5,291
Change in life-assurance reserves	-6,441	-17,527
Operating expenses	-1,317	-1,379
Other technical revenues	0	-
<b>Technical result, life assurance operations</b>	<b>8,571</b>	<b>5,440</b>
Non-technical items	-194	-177
Income before tax	8,377	5,263
Tax	-733	-679
<b>Net profit for the year</b>	<b>7,644</b>	<b>4,584</b>

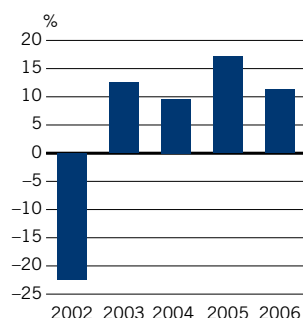
### BALANCE SHEET SEK M

	Dec.31 2006	Dec. 31 2005
<b>Assets</b>		
Intangible assets	1,643	1,822
Investment assets	107,210	100,817
Investment assets for which policyholders bear the investment risk	36,884	31,033
Reinsurers' portion of technical reserves	683	730
Receivables	408	401
Other assets	3,904	2,917
Prepaid expenses and accrued income	2,523	2,961
<b>Total assets</b>	<b>153,255</b>	<b>140,681</b>

### Shareholders' equity, provisions and liabilities

Share capital	8	8
Other shareholders' equity	26,824	18,777
Technical reserves	85,761	87,053
Reserves for life assurance for which policyholders bear the investment risk	36,885	31,034
Provisions for other risks and expenses	59	93
Deposits from reinsurers	713	750
Liabilities	2,540	2,508
Accrued expenses and deferred income	465	458
<b>Total shareholders' equity, provisions and liabilities</b>	<b>153,255</b>	<b>140,681</b>

Return, New World



## Asset management

# High long-term return to life assurance savers

Länsförsäkringar Liv shall generate high and competitive returns on savings capital for its customers. Consideration is given to risk levels, market risks and management model.

Länsförsäkringar Liv has assigned the Asset Management unit with the task of optimally conducting the management of investment assets within the limits set by Länsförsäkringar Liv.

### Determining risk level

The task of asset management is to achieve as high a return as possible with respect to Länsförsäkringar Liv's willingness to take risks and its financial strength. For this purpose, the level of risk that can be taken in asset management is determined first of all by performing an ALM (Asset Liability Management) analysis or a balance sheet analysis. The analysis studies the life assurance company's liabilities to policyholders and the assets that exist. Risks and uncertainties are identified and the consequences of a variety of plausible events are tested. The purpose is to obtain an optimal risk level for the asset portfolio that gives a

competitive return and that balances the liability with future incoming and outgoing payments to insurance savers.

### Asset allocation

The allocation of assets between different types of assets and markets is then determined. This is called allocation of market risk and is the single most important aspect for controlling the development of the portfolio. As a result, large sections of analyses and major resources are invested in this area. Asset allocation is also subject to legal restrictions and supervisory tools, such as the recently introduced traffic-light method.

Long-term asset allocation is summarized in a reference portfolio. This indicates a percentage of the allocation between shares and interest rates and other types of assets such as Private Equity (unlisted companies), property and absolute return investments. Sometimes it is not possible, or the most effective choice, to make investments based on the reference portfolio. This could be due to risks in the balance sheet or in the financial markets, for example the risk of a major decline in the stock market. In these cases, a so-called normal portfolio is produced. At year-end 2006, 84% of this portfolio comprised shares and interest-bearing securities, and 16% comprised Private Equity, property and absolute return investments. Investments shall be of a long-term nature although extreme valuation rates are utilized to create value in the portfolio or to protect it.

### Active risk

Once the asset allocation has been decided, if and how active risk is to be taken is de-

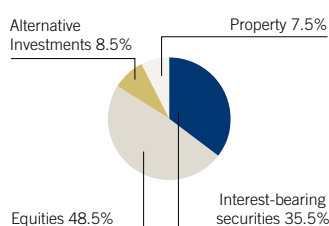
termined, that is, to permit an asset manager to deviate from a market index. Active risk is taken on the markets in which there are deemed to be excellent opportunities to generate excess returns. Länsförsäkringar strives for active management based on the fundamental analysis of less effective markets. It is easier to create added value relative to the index on small companies, property and unlisted companies than, for example, on shares in large companies in the US and Europe.

### External management

Länsförsäkringar has chosen to allow a number of external asset managers to conduct the daily management of listed assets and properties. Unlisted shares and absolute returns strategies are managed internally. The next stage concerns identifying the correct asset manager. The purpose of the asset manager analysis is to assess and procure new asset managers, and to control and follow up management assignments.

The assessment of asset managers is based primarily on qualitative factors, for example the assessment of the asset manager team, the process and the construction of the portfolio. Naturally, historical performance is also important and provides support to the asset manager analysis. ABN Amro handles the management of the larger part of shares and interest-bearing securities. To expose ABN Amro to competition, one additional asset management companies, ING Investment Management, has been selected to manage a small percentage of the equity portfolio. The property portfolio is managed by the Humlegården real estate company.

Normal portfolio, December 31, 2006





## Assessment and evaluation

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

The outsourced management assignments are continually evaluated by Länsförsäkringar, which regularly analyzes the asset managers and management results. This includes continually monitoring changes to ensure that the frameworks prescribed for each management assignment are relevant and that they are complied with.

In time the allocation of the portfolio will be changed since the assets generate different levels of returns. If there is an upturn in the stock exchanges, for example, the share portion of the portfolio will grow larger than the portion in the normal portfolio, with the result that the portfolio will need to be rebalanced. Länsförsäkringar does not believe it to be effective to make adjustments too often, instead the policy allows certain deviations from the allocation of the normal portfolio.

Länsförsäkringar's work methodology has proven to be successful in recent years. For three consecutive years, Länsförsäkringar has been named "Best Pension Fund in Sweden" by leading industry magazine Investment & Pensions Europe (IPE).

## Traditional management

Traditional management has a guarantee interest rate of 3%, meaning that assets must be managed in such a manner that the guarantee is fulfilled. The ambition is that management shall generate a higher return than 3% and that savers will receive a bonus that exceeds the guarantee. Such a target requires a sophisticated asset management strategy and a well-defined working methodology.

## Insured Pension

The new product Insured Pension is a modern and customer-adapted pension product.

The management model can be compared to a stock index bond. However, the model has a high degree of flexibility through such features as the model "guaranteeing" the customer capital at a pre-determined year. Based on this solution, customers can choose a time depending on when the customer requires this "guarantee," usually upon retirement. The investment in the bond builds up the customer's insured value and entails that the customer does not risk losing saved capital. When customers saving in Insured Pension, one portion of the savings are utilized to purchase zero coupon bonds, and the other portion is invested in equity derivatives. The percentage of savings dividend between such bonds and equities depends on a number of factors including the general interest-rate level and the remaining savings period.

## New World

In Länsförsäkringar's alternative New World, 70% is invested in equities and 30% in interest-bearing securities. Shareholdings in New World are spread throughout the world to minimize the dependence on individual markets as far as possible. There is no active redistribution between the various sub-portfolios. The daily management is administered by ABN Amro and Goldman Sachs. This management is continually assessed by Länsförsäkringar in the same manner as in Länsförsäkringar Liv's traditional management.

## Real estate investments

The property holdings in Länsförsäkringar Liv are managed by the property company, Humlegården. The portfolio comprises primarily office properties in central Stockholm and shopping centers in the form of the partnership in Kista Galleria.

## EXTERNAL ASSET MANAGERS

### ABN Amro Asset Management

ABN Amro Asset Management is Länsförsäkringar's primary asset manager and manages the larger part of Länsförsäkringar's portfolio. ABN Amro Asset Management, a separate division of the Dutch ABN Amro, manages assets on behalf of institutional investors and private investors. ABN Amro Asset Management is based in London and Amsterdam but also has large offices in Atlanta, Chicago, Hong Kong and Singapore. Asset Management is also represented through local offices on all continents, and also in Stockholm.

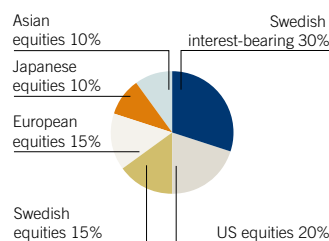
### ING Investment Management

ING Investment Management handles the daily management of a portion of Länsförsäkringar Liv's equity portfolio. ING Investment Management is part of the ING Group, a Dutch company specializing in banking, insurance and asset management.

### Other managers

Goldman Sachs Asset Management has managed Länsförsäkringar's Europe Funds and Länsförsäkringar's Asia Fund since 2005. Carnegie has conducted the daily management of Länsförsäkringar's Sweden Fund since December 2006.

Asset allocation, New World



# Non-life insurance

## Strong results and consolidated position as market leader

Despite intensified competition in the market, the Länsförsäkringar Alliance generated healthy profits in 2006. The technical result amounted to SEK 2,114 M and the market share, measured in premiums paid, was 29.3% (29.9). For a fourth consecutive year, Länsförsäkringar was named “Non-life Insurance Company of the Year” in the Finansbarometer survey of managers at more than 600 of Sweden’s largest companies and organizations.

**SIMILAR TO THE NON-LIFE INSURANCE MARKET** as a whole, the Länsförsäkringar Alliance had stable earnings and the technical result amounted to SEK 2,114 M (2,515). The combined ratio rose in 2006 from 89 to 93%, due to nonrecurring costs and pressed price levels. Operating income amounted to SEK 4,545 M (7,075), of which investment income was SEK 4,664 M (6,480). Again in 2006, the trend in the financial markets was positive, although investment income did not reach last year’s level.

The total non-insurance market, measured as premium payments received, rose slightly in 2006, but had significantly lower growth than previously. The total non-insurance market, measured as premium payments received, is now SEK 56,709 M, an increase of SEK 916 M since 2005. The number of insurance policies rose compared with the year-earlier period and mobility in the market also increased. There is greater competition compared with previous years, from small traditional non-life insurance companies, banks commencing non-life insurance operations, entirely new players and foreign companies.

The many years of healthy profitability in non-life insurance have led to an in-

crease in the number of players in the Swedish non-life insurance market. In addition to the establishment of more players, sales channels are developing and both the Internet and broker channels are growing in importance. Insurance solutions in the form of group insurance agreements, the packaging of bank and insurance products and insurance linked to consumer products such as white goods and electronics are also increasing.

### FACTS ABOUT THE SWEDISH NON-LIFE INSURANCE MARKET

SEK M	2006
Premiums paid, total	56,709
Commercial and property insurance	13,474
Household and private home insurance	11,432
Third-party liability insurance	10,881
Motor vehicle insurance	11,971
Medical and accident insurance	4,661
Marine and cargo insurance	1,113

Source: Swedish Insurance Federation

However, the Länsförsäkringar Alliance’s total premium income remained stable in 2006. The market share reduced slightly from 29.9% to 29.3%, which is largely due to the fact that the highest growth was in areas in which the Länsförsäkringar Alliance has a minor market share. Growth



was encouraging in household insurance and the portfolio and market shares also increased in motor-vehicle insurance. In commercial insurance, the Länsförsäkringar Alliance has a dominating position that it has retained in recent years despite increasing competition.

The regional insurance companies' customer relations within non-life insurance operations serve as a platform for growth also within life assurance and banking operations. The organization of the Länsförsäkringar Alliance, with local and independent companies, has once again proved a winning concept. Despite increased competition, the Swedish Quality Index survey shows that Länsförsäkringar continues to be one of the top insurance companies with the most satisfied customers within non-life insurance.

The main reason why Länsförsäkringar retained a top ranking again in 2006 is that customers continue to award the company high marks for service. Part of the success is attributable to proximity to the customer, the ability to find flexible solutions and the swift, non-bureaucratic claims adjustment process. Customers also remain very loyal to Länsförsäkringar. In the growth market comprising healthcare insurance, an internal customer survey shows that as many as 98% of Länsförsäkringar's customers are satisfied or very satisfied with the service they receive. The fact that Länsförsäkringar is the only player to offer a total solution encompassing banking, life assurance and non-life insurance under one brand is a further explanation for its satisfied customers.

## Growing areas in the non-life insurance market

### Extended responsibility in third party liability insurance

In 2006, the issue of extended responsibility in third-party liability insurance was presented in several proposals from Sweden's governing alliance of parties. The Budget Bill contains a proposal for ex-

tended responsibility, entailing that the third-party liability insurance policy will assume all costs for professional rehabilitation and future losses of income. This proposal requires extensive investigation and decision data will not be available until at least the latter part of 2007 meaning that the earliest date for introducing such a change would be 2008/2009.

In addition, the Swedish Government has proposed an excise duty on third-party liability insurance premiums from July 1, 2007. The purpose of this duty is to cover society's costs for incurred traffic claims and claim occurring until the extended responsibility comes into effect. It has been proposed that insurance companies shall receive compensation for this tax levy by raising third-party liability insurance premiums even for ongoing insurance agreements. Länsförsäkringar is positive to the extended responsibility in third-party liability insurance, but rejects the proposal regarding excise duty, a view also shared by the Swedish Insurance Federation among others. Since this duty is to finance the costs for such items as sickness allowance and rehabilitation – costs that are already financed by the employer – the result of this duty will be double taxation. Länsförsäkringar's other reasons for rejecting the proposal are as follows:

- It is wrong to move costs that have already occurred to a new collective that did not give rise to such costs and which cannot affect them. This will be a form of retroactive legislation.
- The proposal has no incentive for traffic safety. If claims costs are lowered and companies receive lower premiums, tax rates will rise since the companies together shall always pay the same amount (SEK 3.9 billion) in excise tax.
- There are shortcomings in the financial calculations in the proposal, which applies assumptions that are pure guesses. A better basis and coordination with "Extended responsibility in third party liability insurance" are required.

### 2006 in brief

- Due to the favorable earnings in non-life insurance, the 17 regional insurance companies are paying bonuses and discounts to their customers totaling SEK 1 billion.
- The technical result remained strong at SEK 2,114 M (2, 515). The financial operations also generated strong earnings but were lower than the record level of the preceding year. The total operating profit amounted to SEK 4,545 M (7,075).
- The solvency margin increased to 195% (169).
- Continued market-leading position with a market share of 29.3% (29.9).
- Länsförsäkringar was named "Non-life Insurance Company of the Year" for the fourth consecutive year.
- The focus on the health area is continuing and Länsförsäkringar has a strong position in healthcare insurance in a growing market.
- Länsförsäkringar has received the highest customer satisfaction rating from private customers since 2001. With a strong increase since 2005, Länsförsäkringar is consolidating its position as the player with the most satisfied non-life insurance customers in the corporate market.
- An entirely new model for exercise tax creates many problems and doubts. Administration and bureaucracy will increase and affect vehicle owners with higher costs. The number of write-offs of cars will probably increase markedly, which will entail more work for the Swedish Road Administration and lower tax revenues.

Länsförsäkringar has been very active in the Swedish Insurance Federation's work with providing comments on the proposal. Agreement between the companies involved is unanimous and each company firmly support's the Federation's statement. Länsförsäkringar is closely following developments. Such a reform would lead to adjustments in the operations of the insurance companies and it is important that Länsförsäkringar, together with the other players in the industry, participates in formulating adjustments and in decisions on the date of implementation in order to identify the best possible solution for customers.

#### Major focus on health

Demand in the private healthcare market continued to increase during 2006. This has led to a 14% increase in the total number of Swedes with healthcare insurance, compared with 2005. Changes to legislation, the social security system and general opinion also affect the private healthcare and medical insurance policies. In 2006, the Social Security Investigation (Swedish Government Official Reports, SOU 2006:26) and the Rehabilitation Investigation (SOU 2006:107) were published with

proposals on changes to the social security system. The governing alliance of parties has begun reviewing the current legislation in this area and removed co-financing of sickness allowance by companies from January 1, 2007. The proposal on abolishing the "stop" act, pertaining to the transfer of pension insurance, in healthcare has been circulated for comment and the Government is expected to present a bill at the beginning of 2007.

In 2006, Länsförsäkringar Alliance continued its drive in the health area and product development was directed toward product developments to meet companies' anxiety over high sick leave figures and expensive co-financing costs for ill employees. Companies wish to ensure that their employees return to work as soon as possible and Länsförsäkringar launched a rehabilitation insurance policy in the first quarter of 2006 in order to meet this requirement. Customers' increasingly extensive needs for insurance solutions in healthcare, medical care and rehabilitation continue to make the health market a highly attractive development area.

#### Environmental insurance

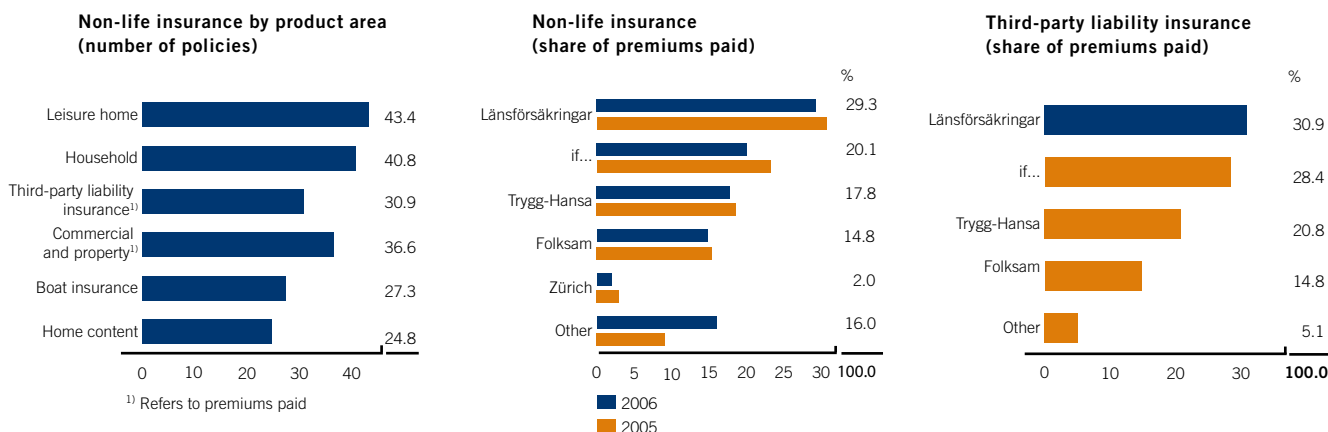
The market for recycling insurance is driven by the fact that legislation imposes

increasingly rigorous and clearer demands on manufacturers of different products and that companies seen a market interest in demonstrating that they are taking long-term responsibility for their products. Länsförsäkringar Alliance is the leading player in terms of developing insurance solutions that ensure financial and environmental guarantees relating to the recycling of various product types.

Since 1998, Länsförsäkringar has offered recycling insurance for cars and heavy vehicles, forest machinery and construction equipment, and for technical installations in properties. In January 2007, seven regional insurance companies launched an extended agriculture insurance policy that includes recycling insurance. Agriculture customers are offered a solution that is simple, cost-efficient and in environmental terms helps solve an important problem in the form of waste products in farming.

The Länsförsäkringar Alliance feels a responsibility to lead developments in the environment area in the insurance industry. The environmental certification of the regional insurance companies, the unique recycling insurance and economic support to research projects in this area are clear examples of this responsibility.

#### Market shares





# Reinsurance

## A positive year for the reinsurance market

The reinsurance market was highly favorable in 2006 without any particularly large damage claims. Accordingly, the reinsurance market reported healthy earnings.

Several new companies were established in Bermuda during the year after the hurricanes in the US in 2005. Swiss Re's purchase of GE Insurance Solutions was approved and completed. Due to the high earnings, some companies may have their credit rating upgraded by the institutions in 2007.

As a result of the high profitability, the price level in the market declined although not to any great extent. Transactions generating health profits secured certain price reductions in 2007.

The Länsförsäkringar Alliance was not affected by any major damage claims and the external reinsurance program therefore contains practically no claims. During the year, the total claims cost for Hurricane Gudrun, that occurred in 2005, rose to SEK 3,036 M, of which a minor portion remained unpaid although a provision has been established for this

amount. The cash flow between the regional insurance companies, Länsförsäkringar Sak and the reinsurance market function very successfully.

Hurricane Per blew across Sweden on January 14, 2007. Counties in southern and central Sweden were worst affected by damage caused by the hurricane. Forests were primarily affected although water damage also occurred. The Swedish Forest Agency estimates that approximately 12 million cubic meters of forest were destroyed by Hurricane Per, corresponding to approximately 15% of the devastation caused by Hurricane Gudrun. Länsförsäkringar Alliance's emergency management plan was activated to efficiently deal with claims.

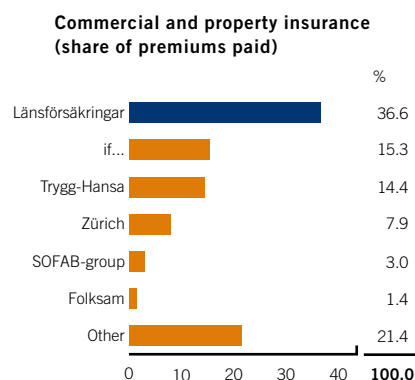
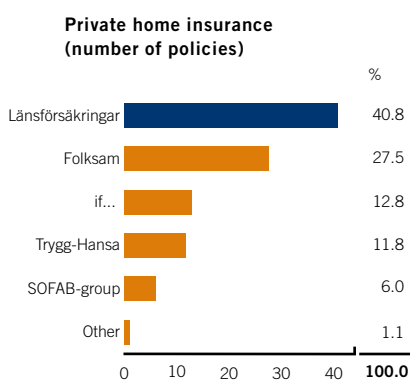
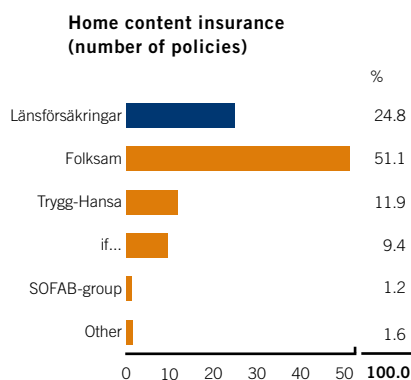
The international assumed reinsurance policy that was underwritten by Länsförsäkringar Sak had a favorable year of claims and earnings were the highest in many years. After several years of encouraging growth in assumed reinsurance, the rate of increase will be lower in the future.

## Run-Off

Prior to 1993, both Länsförsäkringar and Wasa conducted extensive reinsurance and international direct insurance business in a number of different companies. Run-off of this business is being managed within Wasa Försäkring Run-Off AB in the Länsförsäkringar AB Group. The task of Wasa Run-Off is to buy its way out of its commitments in the most cost-efficient manner. External customers are also offered run-off solutions in the form of consultancy services, reinsurance administration and purchase of run-off transactions.

Run-off work in 2006 resulted in the provision decreasing from SEK 496 M to SEK 384 M for future claims payments. The insurance portfolios are subject to continual analysis, with priority given to business associated with the highest risk. Special emphasis is placed on claims related to asbestos. Intensive run-off activities were conducted in 2006 leading to favorable results.

Wasa Försäkring Run-Off strengthened its position on the international run-off market in which external customers are offered consultancy services, administration/outsourcing and purchasing/sales. Assignments include advisory services, investigations, inspections, negotiations and administration.



## Motor vehicle

### Expanded portfolio and increased market share

The number of new car registrations in 2006 was around 280,000, an increase of 3.1% since 2005. The number of cars on the road in Sweden was around 4.1 million at year-end 2006.

Price competition in passenger-car insurance has increased with the competitors' marketing of car make insurance and "try-us-out" insurance. In spite of this, the Länsförsäkringar Alliance increased its market share in motor-vehicle insurance in 2006 and, according to the Swedish Insurance Federation, is now 36.7% (36.5). For the largest vehicle class, cars, the trend has turned upward after a slump in 2005. The portfolio increased by around 16,000 cars in 2006 and the market share increased to 30.2% (30.1). Earnings for motor-vehicle insurance were stable and claims costs re-



mained generally unchanged compared with 2005.

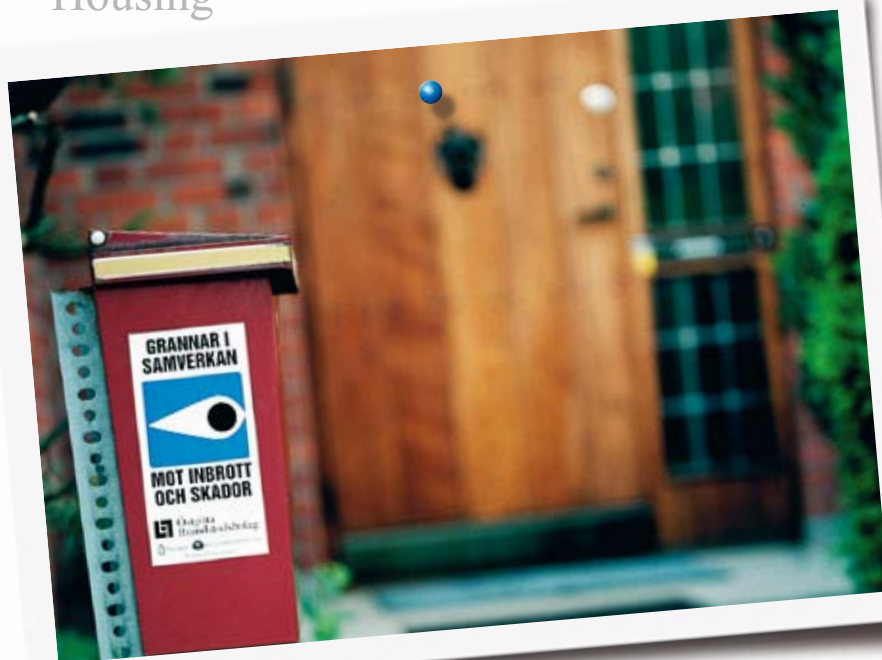
The commercial motor-vehicle market was characterized by increasingly intense competition in 2006. Despite new sales leveling off, the regional insurance companies retained that portfolio and position in the market, with a market share at 40.6% (41.3). Claims prevention work focused on individual customers and also included campaigns directed toward commercial

traffic and agriculture. The campaign against driving fatigue while driving, [www.somnante.nu](http://www.somnante.nu), received widespread attention.

Also in 2006, the Länsförsäkringar Alliance introduced its new system for motor-vehicle insurance. This new system will lead to enhance efficiency in customer meetings and improved functions for price inquiries via the Internet.

The change of government in Sweden

## Housing



### Solid growth in household insurance

The production of new housing in 2006 is estimated at 44,000 units, of which 30% are private homes. Despite a strong upswing, the construction of apartment buildings was deemed to have culminated in 2006 and is likely to level out in 2007. Primarily the number of rented apartments will decrease. A large part of increased construction in recent years has not yet reached the market. As a result, the offering of residential properties in certain areas may be significantly large in 2007 than previously.

Profitability in household insurance has been encouraging and has fueled competition. This is manifested in the use of discounts for new policyholders and "try-us-out" policies among insurance companies. A rising number of players are also realizing the advantages of offering both

in autumn 2006 rendered the issue of reforms to third-party liability insurance highly relevant. The new Government announced in its Budget Bill a tax on third-party liability insurance premiums from July 1, 2007. The purpose of this tax is to have vehicle owners pay a larger portion of costs for traffic accidents. In addition, the issue of transferring costs for traffic accidents to the insurance companies will be further investigated. The Länsförsäkringar Alliance is well prepared for the work involve with this transition.

Motor vehicle insurance	2006	2005
Gross premiums earned, SEK M	6,767	6,728
Passenger cars, number of policies	1,519,400	1,503,400
Motorcycles, number of policies	114,100	99,300
Market share, number of vehicles insured, %	36.7	36.5

bank and non-life insurance and customers are attracted by increasing their commitments by grouping their mortgage loans and household insurance with the same company. The Länsförsäkringar Alliance increased its percentage of customers with both mortgage loans and household insurance to 5.5% in 2006. However, the total percentage of customers with both non-life insurance and banking commitment remains relatively low.

In 2006, the Länsförsäkringar Alliance had encouraging growth in household insurance. The portfolio in private home insurance, home content and leisure home insurance increased and this increase was also seen in the larger market share in private and leisure home insurance where Länsförsäkringar is the market leader. For private home insurance, the percentage is 40.8% and for leisure home insurance is

## Commercial

### Substantial decline in number of claims

Competition in the commercial insurance market remained intense during 2006. Measured in premiums paid, the market share for the Länsförsäkringar Alliance's commercial insurance increased from 36.1% to 36.6%

The number of insurance policies declines at the beginning of 2006 by 0.4% but gradually climbed again during the year and amounted to 229,000 at year-end, corresponding to an increase of 0.9%. Premiums earned also decreased at the beginning of the year but the trend dissipated and the decrease was 2% compared with the year-earlier period. This was primarily due to the fact that the increasingly intense competition forced premium levels to be lowed.

Fiscal 2006 was a favorable year for claims in commercial insurance and claims costs declined during the year by 18%. The lower claims outcome applies to both major and minor claims and was considerably more substantial than the decrease in premiums. As a result, the claims percent fell by 10%.

Several development projects were conducted during the year, one of the most important was making the insurance system more user-friendly to improve service to customers.

Commercial	2006	2005
Gross premiums earned, SEK M	3,893	3,980
Market share, commercial and property, %	36.6	36.1
Number of policies	229,000	227,000

43.4%. The growth is a result of more intense focus on sales and more advantageous premiums situation.

During the year, Länsförsäkringar Alliance began the introduction of a new pricing system for private home insurance. This new systems involves the customer being offered a more fair premium rate and making insuring a home more straightforward and efficient. With a long-term pricing strategy and the new premium levels, the Länsförsäkringar Alliance has created a favorable situation compared with its competitors.

Household insurance	2006	2005
Gross premiums earned, SEK M	3,185	3,185
Home content, number of policies	720,800	716,900
Homeowner, number of policies	681,000	678,000
Leisure homes, number of policies	251,900	251,300





## Agriculture

### New forest insurance in the wake of Hurricane Gudrun

The restructuring of Swedish agriculture from numerous small units to fewer, larger agricultural enterprises that has been underway for several years is continuing. Swedish farmers are also exposed to greater competition and margins are reducing. The Länsförsäkringar Alliance's agriculture products are being modernized, including making adaptations to the agriculture market.

Länsförsäkringar retained its leading market position and the market share for 2006 is estimated at approximately 75%. The number of insurance policies provided and the premium stock held even increased somewhat during the year.

A new and more modern forest insurance policy was produced in 2006. The improvements and new features of the policy are largely a direct consequence of Hurricane Gudrun that

hit Sweden in 2005. During the claims process in the wake of the hurricane, several areas were discovered in which farmers did not have protection and improvement areas were also identified. An example is that the insurance amount is now determined in the insurance policy, meaning that it is more straight-forward for forest owners to ascertain the amount of compensation if their forest were to be damaged. The new insurance policy was launched on January 1, 2007.

The claims trend from 2005 has prevailed with continued, low claims costs for fires in 2006. The decrease amounts to SEK 90 M and consequently claims costs are now at the same level as at the beginning of the 2000s.

Agriculture	2006	2005
Gross premiums earned, SEK M	1,165	1,141
Agricultural insurance, number of policies	192,400	191,400
Tractor insurance, number of policies	265,200	265,000



## Boats



### Strengthened position as market leader

Sales of leisure boats have increased for many years and in 2006 the number of boats increased by approximately 3,700, corresponding to 1.5%. The Länsförsäkringar Alliance had a successful year and the portfolio amounted to 77,300 leisure boats, corresponding to an increase of 2.7%. Thereby, Länsförsäkringar retained its position as market leader with a market share of 27.3%.

Despite a boating season with high levels of sea damage, insurance transactions remained positive with generally unchanged claims costs.

In the spring, Boat on the Internet was launched where boat insurance can be taken out directly via Länsförsäkringar's website. The service became an immediate success and a steady number of new boat insurance





policies are now underwritten via the Internet.

In autumn 2006, the Länsförsäkringar Alliance became involved in the two largest industry organizations for leisure boats: Sweboat and West Sweden Boat industry. Membership of these organizations enhances Länsförsäkringar's influence, offers opportunity for industry-wide environmental activities and a large network of contacts with bona fide repairers and traders.

Boat	2006	2005
Gross premiums earned, SEK M	118	115
Leisure boats, number of policies	77,300	75,100
Market share, %	27.3	26.8

## Health

### An increasing number of companies insure their employees

Poor health continues to be a major problem in society. Ten people in the 20–29 age bracket currently retire every day, a figure which is three times as many as a decade ago. Society's costs for sick leave and early retirement are enormous. In the Swedish Government's Budget Bill for 2006, SEK 120 billion was allocated to such costs.

The Swedish county councils continue to operate on tight budgets and are struggling to deal with healthcare waiting lists. The majority of county councils are having difficulties meeting the health-care guarantee. The design of the healthcare guarantee is such that even if the guarantee is fulfilled, waiting times can be very long, in the worst case more than a year.

A rising number of employers are working actively with health issues. The main reason is that the companies' operations become heavily disrupted when employees go on sick leave. Healthy employees increase profitability. Accordingly, demand for insurance solutions among companies has increased dramatically in the areas of healthcare, rehabilitation, preventive healthcare, and other supplementary solutions to protect the public.

More than 11,000 companies in Sweden have purchased healthcare insurance

from Länsförsäkringar for their employees. Healthcare insurance implies that employees who fall ill receive medical care faster, and this has been shown to reduce the length of periods of absence due to illness. Rehabilitation insurance entails that the rehabilitation process can begin soon and the suitable measures can be implemented. This is of central importance for employees to return to work after a period of absence due to illness.

Some 95,000 persons have healthcare insurance provided by Länsförsäkringar, representing a market share of approximately 40%. The customer surveys that have been conducted revealed that customers are very satisfied with the entire delivery of products and services: the meeting, appointment time and actual treatment.

In 2007, the development of activities to prevent and limit healthcare-related claims will be intensified. Länsförsäkringar is well on its way to becoming a significant player in creating healthy employees, which is a precondition for profitable companies.

Medical and accident	2006	2005
Gross premiums earned, SEK M	630	580
Market share, premiums payments received, %	13.6	13.3
Healthcare insurance, number of insured	95,000	85,000
Estimated market share, healthcare insurance, %	39	40



## Agria Djurförsäkring (animal and crop insurance)

### Agria Djurförsäkring

#### surpasses one billion

Agria Djurförsäkring is a wholly owned subsidiary of Länsförsäkringar AB and is the Länsförsäkringar Alliance's specialist company in animal and crop insurance.

In December 2006, Agria's total business in Sweden and Norway surpassed SEK 1 billion in premium income. Premiums earned in animal and crop insurance increased to a total of SEK 948 M (844). This is an increase of SEK 105 M of which the Swedish market accounts for SEK 84 M and the Norwegian market for the remaining SEK 21 M.

The large increase in Sweden is explained by the substantial rise in the number of animals insured and the fact that customers have chosen insurance policies containing a higher number of features and higher premiums. The new insurance policies for horses, dogs and cats were introduced between 2005 and 2006 and provide animal owners with greater freedom of choice, which in turn has led to many animals obtaining better insurance protection. Around 66% of premiums are paid back to customers in the form of claims payments. Veterinary care has become an increasingly large portion of payments.

#### Considerable volume growth

Insurance policies for small animals, primarily insurance for dogs and cats, surpassed SEK 500 M in premiums earned during the year. The number of insured dogs rose by 5% to 260,000, while the number of cats in the portfolio surpassed 200,000 after an increase of 8%. One reason for the considerable growth in volumes is the increasingly efficient customer sales activities conducted by field sales personnel and Agria's Customer Center.

A customer-oriented approach and a market mix including television commercials created a solid platform for sales. An-

other feature is Agria's website on which an increasing number of customers are taking out insurance or improving their knowledge as animal owners. During the year, agria.se received the Web Service Award for the second time. Further evidence of agria.se providing added value for its customers is that the site is receiving a greater number of visitors. In October, agria.se reached an all-time high with 80,000 unique visitors.

Despite intense competition, the horse business area enjoyed favorable volume growth with increased annual premiums of almost 10% or SEK 30 M. The main reason for this is the new insurance policies. However, life-assurance compensation rose more than expected. Claims costs for veterinary care were also high. The desires of animal owners to have their animal treated combined with the rise in veterinary surgeons' rates were unexpectedly high and were not considered to an adequate extent when premium levels were determined.

The Agriculture business area was also favorable in terms of both insurance and claims. At the end of the year, a hatchery for broiler chickens suffered a salmonella outbreak which may lead to net costs after reinsurance of SEK 6-7 M. In addition, one of Sweden's larger dairy herds suffered an outbreak of the same disease, the costs for which are likely to run to millions.

The performance of Agria's Norwegian branch, Agria Dyreforsikring, surpassed all expectation. In 2006, premiums earned increased by a factor of slightly less than four in the first year. This indicates an extensive need for a specialized animal insurance company in Norway. The company has gone from zero to 17,000 customers in less than two years.

The number of calls to Agria's Customer Center totaled 315,000 for the Swedish operations during the year, an increase of 5% compared with 2005. For the Nor-

wegian operations, whose calls are also handled by the Customer Center in Stockholm, 28,000 calls were received. Around 30% of calls are sales calls and 70% are for service. The Customer Center sold a total of 83,000 insurance policies in 2006. One of Agria's major projects is to enhance the efficiency of customer communication based on customer needs. The first stage is expected to be completed by mid-May 2007.

Agria's quality activities are continuing with the EFQM tool which is relatively new to the company. Agria's operations are evaluated by an international quality inspector. After this evaluation, Agria was recognized with a place in the finals of the European Quality Award.

The technical result was SEK 45.2 M (60.8). Premiums earned after ceded reinsurance increased by 12%, substantially higher than in previous years. In 2006, investment income in the investment portfolio was 7.7% or SEK 92.4 M (152.4). Shares generated returns of 13.7%. Interest income was 0.9% and property management generated a return of 3.5%. The value of the investment portfolio was SEK 1,271 M. Income before appropriations and tax amounted to SEK 121.5 M (196.9).

Key figures	2006	2005
Premiums earned after ceded reinsurance, SEK M	948.5	843.8
Income before appropriations and tax, SEK M	121.5	196.9
Technical result from insurance operations, SEK M	45.2	60.8
Solvency margin, %	88	97
Expense ratio	29.6	30.0
Combined ratio	96.0	94.0



## Claims adjustment

### Claims service focusing on customers

Each individual regional insurance company offers agricultural, private and commercial customers a wide range of non-life insurance products. The company also has its own claims expertise that offers a claims service close to customers. Local strength combined with the possibility to tie together resources and shared expertise results in a first-class service for all types of claims. The local concept ensures swift processing with skilled employees located close to customers. Approximately 1,000 people work with claims adjustment within the Länsförsäkringar Alliance, and Länsförsäkringar's international network of partners guarantees service also outside Sweden.

Claims adjustment entails an important delivery of the product purchased by the customer. It involves providing an active service to Länsförsäkringar's customers. A claim is adjusted in cooperation with the customer as quickly as possible after the claim has arisen so as to ensure that the details surrounding the claim are as complete as possible. A guiding rule is that the adjustment of claims must be consistent, uniform and fair. For example, language difficulties or disabilities may affect the customer's comprehension or ability to take action, which is why it is important that Länsförsäkringar provides individually

adapted service. The goal is that Länsförsäkringar's claims service be perceived as flexible and adapted to customers' individual needs. Länsförsäkringar always strives to take measures and decisions to inform customers of their rights and obligations.

In 2006, Länsförsäkringar Alliance adjusted approximately 500,000 claims – almost half of these related to damage to motor vehicles. Another major claims area pertained to household insurance with 175,000 claims and where water damage accounted for nearly 15% of claims.

	Number of claims	Cost (SEK M)
Commercial	32,600	1,850
Civil	190,000	1,950
Agriculture	22,000	660
Accident	17,000	366
Boat	2,600	56
Private motor vehicle	167,000	2,772
Commercial motor	53,000	1,245
<b>Total</b>	<b>484,200</b>	<b>8,899</b>

### Insurance fraud a growing problem

Insurance fraud is a major and steadily growing problem in the insurance industry. It is a problem because by extension it affects the customer's costs for insurance and it is also important that the customer is treated fairly in claims adjustment matters. In response to this, a team of 36 investigators at Länsförsäkringar Alliance currently

work on investigating suspicious claims. In 2006, their efforts resulted in the non-payment of insurance claims worth slightly more than SEK 77 M. More than 25% of these related to personal injury. In terms of returned property, that is items that have been returned to their owner, the figure was SEK 16.4 M for 2006, while the figure was only SEK 3.6 M in 2005. However, since many cases of insurance fraud remain undetected, efforts in this area will be intensified.

### Extensive claims-prevention activities

Extensive claims-prevention activities were conducted within the Länsförsäkringar Alliance in 2006. Advice and guidelines are provided to customers both as a preventive measure and after damage has occurred. This type of information is provided in a manner that is as easily understandable as possible to limited to limit the extent of the damage.

Successful work with this type of issue leads to a reduction in environmental impact as well as a decrease in the number of claims. For example, fewer fires contribute to a decrease in carbon dioxide emissions. Calculations indicate that a fire in a private home will lead to emissions of around 25 tons of gases, dust and waste products.

The regional insurance companies also impose demands on the quality and envi-

### The cost of claims affects the price

The price Länsförsäkringar charges for its products is based on the number of claims and the average cost of claims, operating expenses for administering insurance and adjusting claims, and on the investment income obtained on the premium during the period from when the premium is paid to when claims are paid out. When evaluating the various parameters, Länsförsäkringar

firstly looks at the confirmed past history and then makes an estimate of future changes that may affect the cost of claims. Such changes may, for example, involve changes in claims risk and future inflation as well as changes in legislation and legal practice. An estimate is also made of the factors affecting operating expenses and investment income. Based on these parameters, the average price required to conduct

healthy and financially sound insurance business is calculated. Finally, the total premium withdrawal is divided between various types of insurance according to their risk exposure. This involves taking differences in risk in account, for example between models of cars, types of housing, mileage and geographical locations.

ronmental work of its claims contractors. It is important that damage is repaired with a high level of quality to avoid damage re-occurring. The contractors are offered further training by the Länsförsäkringar Alliance to maintain a high level and feedback is given on new experiences.

The Länsförsäkringar Alliance's claims-prevention work had a broad focus. In 2006, brochure material and information on the Internet was expanded with additional subject areas. A webshop was opened where customers can purchase attractive claims-prevention product for the home or the car at very advantageous prices. In addition, many well-attended local claims-prevention activities were organized, focusing on such issues as water damage, fire damage, burglary prevention, safe handling of electricity, motor vehicle damage and traffic safety.

#### **Major claims require special resources**

A case of major damage is an event that threatens large values or many policyholders and that requires rapid decisions and concentrated efforts. Examples of such events are fires in apartment buildings or factories, natural disasters on a massive scale and epidemics. Decisive action and rapid decisions are required when extreme events occur to reduce the extent of the damage as far as possible and assist customers who have been affected.

The Länsförsäkringar Alliance has prepared an emergency plan for managing major claims and the regional insurance companies also continuously map the risks that exist in their local area. As part of this work, the competencies in specific subject fields and the requirements arising in conjunction with mass-claims handling are catalogued. The primary purpose of the emergency plan is to create a state of preparedness in the regional insurance com-

pany, and also to coordinate the resources found in the Länsförsäkringar Alliance. Local cataloguing speeds up the process of organizing assistance from other regional insurance companies.

The results are documented and the emergency plans that are drawn up contain checklists, descriptions of procedures and the divisions of responsibilities in the work related to major claims. Due to all of the preparations, the Länsförsäkringar Alliance is well-equipped and prepared for any major claim that may occur. The emergency plans were very beneficial to the regional insurance companies in the claims work following the Asian tsunami, Hurricane Gudrun and other cases of extensive damage in Sweden. The plans are continuously developed and improved by adding experiences.

#### **Meeting customer needs across borders**

Increased travel requires that claims adjustment services are expanded to be able to provide rapid assistance for travelers and vehicles involved in accidents in other countries. For emergency situations, special resources are required. Since 2003, Länsförsäkringar has been a major shareholder in SOS International, with a 12% interest. The ability to provide service to customers suffering damage or injury whilst abroad was demonstrated in the face of great adversity in conjunction with the tragic tsunami disaster in 2004. In 2006, SOS International was voted Best Assistance/Claims Handler of the year.

#### **Simpler claims adjustment for traffic accidents abroad**

The provisions of the Fourth Motor Insurance Directive require all issuers of motor insurance within the EU, the EEA and Switzerland to protect their customers' in-

terests. For example, a person who is hit by a car and injured in another EU/EEA country may now travel home and have his claim adjusted in his home country and in his native language via a representative of the foreign insurance company. Through a well-functioning network of insurance companies, the regional insurance companies are able to provide a high quality service for customers who have suffered damage or injury abroad.

#### **Insuring companies abroad**

Insuring a company's operations outside Sweden is often subject to other regulations than those that apply in Sweden. The package solutions for commercial customers in Sweden are generally very different from those abroad. Insurance regulations in different countries – even between EU countries – are far from harmonized. Through the International Network of Insurance (INI), Länsförsäkringar is able to arrange local non-life insurance in almost all parts of the world. Assistance is received from 60 insurance companies with operations in a total of 80 countries through the INI, giving customers the same level of cover as in Sweden. Through the EurAPCo (European Alliance Partners Company), the regional insurance companies can also assist commercial customers who plan to send employees to work abroad for shorter or extended periods.



## Comments on financial results

The Länsförsäkringar Alliance's earnings and key figures for non-life insurance consist of the sum of the earnings of the 24 regional insurance companies and the Länsförsäkringar AB Group.

The non-life insurance business has had healthy profitability for many years. The combined ratio increased in 2006 and amounted to 93% (89), due to nonrecurring costs and pressed price levels. The initial price competition in the corporate market combined with the modest rise in the private insurance portfolio generated a total increase premiums earned of 1%, amounting to SEK 16,362 M (16,216).

Claims costs had a stable trend based on the increase in the number of insurance policies in the insurance portfolio and amounted to SEK 11,883 M (11,542). The claims ratio was 73% (71). The Länsförsäkringar Alliance has worked with profitability improvement measures for many years in the form of claims-prevention activities.

Claims adjustments for damage caused by Hurricane Gudrun in January 2005 continued in 2006, and now only a small number remain to be settled. The total claims cost for Hurricane Gudrun is SEK 3 billion gross. On January 14, 2007, Hurricane Per blew over Sweden, although significantly less damage was caused. Due to

strong reinsurance protection in the Länsförsäkringar Alliance and toward the international reinsurance market, these hurricanes had a minor impact on net claims cost. However, in the long term the major claims burden in the reinsurance program will lead to a high level of reinsurance premiums.

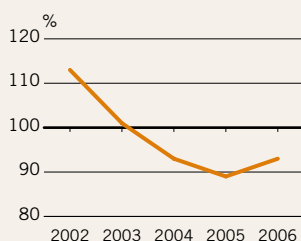
The expense ratio was 20 (18) and was affected by provisions for future pensions. A new motor vehicle insurance system for the Länsförsäkringar Alliance was put into operation in 2006 and approximately 2.5 million insurance policies and historical data were transferred from the old system. The new motor vehicle insurance system replaces a mainframe computer system that originated from the 1960s with limited potential for further development. Modern IT design and functionality mean that the new system has excellent potential for adaptations to work procedures, which will have a positive effect on the level of operation expenses. The system also generates opportunities for the further development for services and the product range.

The technical result amounted to SEK 2,114 M (2,515). Trends in the financial markets were positive also in 2006, although financial returns did not reach last year's record profit levels. Interest rates rose during the year, which had a negative

impact on the value of the bond portfolio and returns. The overall view of the stock exchanges is that they performed positively toward the end of the year but generated lower returns than in the preceding year. Operating income amounted to SEK 4,545 M (7,075). As a result of the encouraging profit, bonuses and discounts will be paid to the Länsförsäkringar Alliance's customers in the total amount of approximately SEK 1 billion.



Combined ratio



Key figures	2006	2005
Premiums earned after ceded reinsurance, SEK M	16,362	16,216
Technical result before bonus, SEK M	2,114	2,515
Operating income, SEK M	4,545	7,075
Expense ratio	20	18
Claims ratio	73	71
Combined ratio	93	89
Technical result as a percentage of premiums earned after ceded reinsurance	13	16
Solvency capital, SEK M	32,098	27,745
Solvency margin, %	195	169

## THE LÄNSFÖRSÄKRINGAR ALLIANCE

	Norrbotten	Västerbotten	Jämtland	Västernorrland	Gävleborg	Dalarna	Värmland	Uppsala	Bergslagen	Stockholm	Södermanland
<b>NON-LIFE INSURANCE, SEK M</b>											
<b>Income after ceded reinsurance 2006</b>											
Premiums earned	238	512	345	387	383	905	433	569	736	1,574	446
Investment income transferred from financial operations	8	19	11	20	15	24	13	22	27	57	13
Claims payments	-171	-342	-250	-316	-246	-663	-287	-449	-571	-1,238	-313
Operating expenses	-50	-86	-72	-76	-80	-138	-74	-115	-125	-350	-105
Other revenue/expenses											
<b>Technical result from non-life insurance operations before bonuses and discounts</b>	<b>24</b>	<b>103</b>	<b>34</b>	<b>14</b>	<b>72</b>	<b>128</b>	<b>86</b>	<b>27</b>	<b>67</b>	<b>43</b>	<b>40</b>
Bonuses and discounts		-71			-25	-175		-28			-35
<b>Technical result from non-life insurance operations</b>	<b>24</b>	<b>33</b>	<b>34</b>	<b>14</b>	<b>47</b>	<b>-46</b>	<b>86</b>	<b>-1</b>	<b>67</b>	<b>43</b>	<b>5</b>
Total investment income	68	177	69	65	75	447	52	176	211	275	159
Investment income transferred to insurance operations	-8	-19	-11	-20	-15	-24	-14	-22	-27	-57	-13
Other revenue/expenses	-3	-9	2	-5	-7	1	-3	-9	-2	-53	
<b>Operating income</b>	<b>81</b>	<b>181</b>	<b>94</b>	<b>54</b>	<b>101</b>	<b>378</b>	<b>121</b>	<b>144</b>	<b>249</b>	<b>209</b>	<b>152</b>
<b>Balance sheet, December 31, 2006</b>											
<b>ASSETS</b>											
<b>Investment assets</b>											
Shares and participations <sup>1)</sup>	304	1,015	503	535	367	2,927	370	1,009	1,541	1,992	1,067
Bonds and other interest-bearing securities	237	313	283	218	460	866	581	662	512	1,955	506
Other investment assets	73	633	101	98	174	134	221	184	528	62	27
<b>Total investment assets</b>	<b>615</b>	<b>1,961</b>	<b>887</b>	<b>851</b>	<b>1,000</b>	<b>3,928</b>	<b>1,171</b>	<b>1,856</b>	<b>2,581</b>	<b>4,009</b>	<b>1,600</b>
Reinsurers' portion of technical reserves	97	109	118	93	76	324	90	110	80	228	129
Receivables and other assets	84	155	125	143	141	333	130	244	206	388	135
Cash and bank balances	40	101	187	53	31	232	57	44	99	47	28
Prepaid expenses and accrued income	5	30	21	23	9	11	13	15	11	42	13
<b>Total assets</b>	<b>841</b>	<b>2,356</b>	<b>1,338</b>	<b>1,163</b>	<b>1,257</b>	<b>4,828</b>	<b>1,461</b>	<b>2,268</b>	<b>2,976</b>	<b>4,714</b>	<b>1,904</b>
<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>											
Shareholders' equity	184	646	288	379	259	2,232	517	912	1,253	1,446	768
Untaxed reserves	148	525	339		328						
Technical reserves (before ceded reinsurance)	396	784	549	565	529	1,812	600	870	991	2,385	748
Other provisions and liabilities	80	332	116	202	134	666	276	415	634	688	333
Accrued expenses and deferred income	32	70	45	16	7	118	69	71	99	195	56
<b>Total shareholders' equity, provisions and liabilities</b>	<b>841</b>	<b>2,356</b>	<b>1,338</b>	<b>1,163</b>	<b>1,257</b>	<b>4,828</b>	<b>1,461</b>	<b>2,268</b>	<b>2,976</b>	<b>4,714</b>	<b>1,904</b>
<sup>1)</sup> Of which, the value of shares in Länsförsäkringar AB	166	345	241	303	341	576	216	462	508	891	354
<b>Solvency capital</b>	<b>399</b>	<b>1,629</b>	<b>935</b>	<b>734</b>	<b>783</b>	<b>2,784</b>	<b>694</b>	<b>1,218</b>	<b>1,634</b>	<b>1,982</b>	<b>1,014</b>
<b>Solvency margin, %</b>	<b>165</b>	<b>313</b>	<b>269</b>	<b>188</b>	<b>206</b>	<b>305</b>	<b>159</b>	<b>216</b>	<b>221</b>	<b>129</b>	<b>232</b>

Göteborg och Bohuslän	Skaraborg	Östergöt	Älvsborg	Gotland	Jönköping	Halland	Kronoberg	Kalmar	Blekinge	Göinge	Kristianstad	Skåne	The Länsförsäkringar AB Group excluding Bank	The Länsförsäkringar Alliance
1,053	511	951	814	152	760	511	337	528	237	192	203	1,477	2,106	16,362
30	13	29	35	6	67	26	9	14	7	5	5	61	392	927
-771	-378	-695	-522	-107	-549	-395	-241	-362	-149	-117	-134	-1,041	-1,578	-11,883
-231	-78	-200	-147	-34	-98	-97	-70	-106	-51	-38	-29	-222	-640	-3,314
	-10				10								24	24
<b>82</b>	<b>57</b>	<b>84</b>	<b>180</b>	<b>18</b>	<b>191</b>	<b>45</b>	<b>35</b>	<b>74</b>	<b>44</b>	<b>42</b>	<b>45</b>	<b>275</b>	<b>304</b>	<b>2,114</b>
-59	-55	-148	-41	-13	-65	2	-32	-57	-23	-23	-43	-131		-1,020
<b>23</b>	<b>2</b>	<b>-64</b>	<b>139</b>	<b>5</b>	<b>126</b>	<b>47</b>	<b>3</b>	<b>17</b>	<b>20</b>	<b>19</b>	<b>2</b>	<b>145</b>	<b>304</b>	<b>1,095</b>
374	148	298	379	57	188	191	93	205	62	73	61	475	1,078	4,664
-30	-13	-29	-35	-6	-67	-26	-9	-14	-7	-5	-5	-61	-392	-928
-42	-5	2	8	8	-15	1	1	2	-4	-4	-2	-15	-131	-285
<b>325</b>	<b>133</b>	<b>207</b>	<b>491</b>	<b>63</b>	<b>232</b>	<b>213</b>	<b>87</b>	<b>210</b>	<b>71</b>	<b>84</b>	<b>57</b>	<b>544</b>	<b>859</b>	<b>4,545</b>
2,316	707	2,194	2,245	413	1,261	1,313	529	1,064	465	397	411	2,260	7,634	25,286
653	574	923	798	86	341	311	319	400	358	206	200	1,583	9,817	23,047
220	629	742	92	37	311	285	172	325	17	127	52	405	6,730	12,381
<b>3,188</b>	<b>1,910</b>	<b>3,859</b>	<b>3,136</b>	<b>537</b>	<b>1,913</b>	<b>1,909</b>	<b>1,020</b>	<b>1,790</b>	<b>840</b>	<b>730</b>	<b>664</b>	<b>4,247</b>	<b>24,181</b>	<b>60,714</b>
196	133	240	151	25	138	196	115	80	38	65	101	252	4,595	757
314	184	331	316	57	238	138	106	189	66	65	73	420	1,264	5,843
107	48	62	194	182	477	75	67	184	18	64	88	215	1,774	4,474
34	18	32	9	14	14	31	6	14	3	11	4	45	217	644
<b>3,839</b>	<b>2,293</b>	<b>4,524</b>	<b>3,805</b>	<b>815</b>	<b>2,780</b>	<b>2,349</b>	<b>1,315</b>	<b>2,257</b>	<b>965</b>	<b>935</b>	<b>930</b>	<b>5,179</b>	<b>32,030</b>	<b>72,433</b>
1,438	752	1,992	1,889	436	1,161	1,035	528	1,080	447	423	395	1,866	9,435	22,207
														1,341
1,608	820	1,558	1,289	248	1,108	870	556	709	347	331	382	2,280	17,860	33,176
726	276	940	516	127	455	375	225	445	142	176	150	970	4,176	13,575
67	446	35	111	3	57	69	5	22	29	5	3	62	445	2,133
<b>3,839</b>	<b>2,293</b>	<b>4,524</b>	<b>3,805</b>	<b>815</b>	<b>2,780</b>	<b>2,349</b>	<b>1,315</b>	<b>2,257</b>	<b>965</b>	<b>935</b>	<b>930</b>	<b>5,179</b>	<b>32,030</b>	<b>72,433</b>
568	433	645	632	84	517	334	223	328	134	166	178	908		
<b>1,973</b>	<b>1,009</b>	<b>2,566</b>	<b>2,319</b>	<b>525</b>	<b>1,411</b>	<b>1,331</b>	<b>700</b>	<b>1,402</b>	<b>574</b>	<b>557</b>	<b>514</b>	<b>2,534</b>	<b>10,545</b>	<b>32,098</b>
<b>185</b>	<b>198</b>	<b>268</b>	<b>279</b>	<b>340</b>	<b>184</b>	<b>260</b>	<b>207</b>	<b>259</b>	<b>239</b>	<b>286</b>	<b>251</b>	<b>170</b>	<b>490</b>	<b>195</b>

## Länsförsäkringar Norrbotten

### MANAGING DIRECTOR

Kjell Lindfors

### BOARD CHAIRMAN

Lars Karbin



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	81	150
Total assets, SEK M	841	698
Solvency margin, %	165	189
Number of employees	52	54
<b>Bank</b>		
Deposits, SEK M	179	152
Lending, SEK M	115	112
Mortgage lending, SEK M	470	418
Fund volumes managed, SEK M	36	33
Number of customers	5,300	4,500 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	107	96
Total insurance capital, SEK M	1,718	1,602
Number of customers	16,400	16,300
<b>Non-life insurance</b>		
Premiums earned, SEK M	238	163
Technical result, insurance operations, SEK M	24	44
Combined ratio after ceded reinsurance, %	93	76
Total yield on asset management, %	12	26
Number of customers	45,300	45,900

## Länsförsäkringar Västerbotten

### MANAGING DIRECTOR

Ylva Thunqvist

### BOARD CHAIRMAN

Conny Sandström



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	252	309
Total assets, SEK M	2,356	2,101
Solvency margin, %	313	266
Number of employees	142	138
<b>Bank</b>		
Deposits, SEK M	871	766
Lending, SEK M	304	299
Mortgage lending, SEK M	1,317	1,159
Fund volumes managed, SEK M	178	160
Number of customers	15,800	13,500 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	256	244
Total insurance capital, SEK M	3,241	3,012
Number of customers	28,900	28,800
<b>Non-life insurance</b>		
Premiums earned, SEK M	512	510
Technical result, insurance operations, SEK M	103	83
Bonuses and discounts, SEK M	-70	-56
Combined ratio after ceded reinsurance, %	84	86
Total yield on asset management, %	10	18
Number of customers	95,000	94,700

## Länsförsäkringar Jämtland

### MANAGING DIRECTOR

Sören Westin

### BOARD CHAIRMAN

Jan Holmberg



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	94	149
Total assets, SEK M	1,338	1,164
Solvency margin, %	269	223
Number of employees	90	86
<b>Bank</b>		
Deposits, SEK M	441	383
Lending, SEK M	295	284
Mortgage lending, SEK M	916	800
Fund volumes managed, SEK M	50	44
Number of customers	8,800	8,000 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	112	109
Total insurance capital, SEK M	1,653	1,524
Number of customers	15,600	15,400
<b>Non-life insurance</b>		
Premiums earned, SEK M	345	339
Technical result, insurance operations, SEK M	34	25
Bonuses and discounts, SEK M	-	-30
Combined ratio after ceded reinsurance, %	93	95
Total yield on asset management, %	12	28
Number of customers	55,800	56,000



## Länsförsäkringar Västernorrland

### MANAGING DIRECTOR

Leif Johanson

### BOARD CHAIRMAN

Anders Källström

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	54	85
Total assets, SEK M	1,163	1,103
Solvency margin, %	188	156
Number of employees	98	98
<b>Bank</b>		
Deposits, SEK M	466	418
Lending, SEK M	159	138
Mortgage lending, SEK M	519	405
Fund volumes managed, SEK M	77	76
Number of customers	21,500	8,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	175	176
Total insurance capital, SEK M	2,958	2,741
Number of customers	23,900	23,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	387	393
Technical result, insurance operations, SEK M	14	6
Combined ratio after ceded reinsurance, %	101	105
Total yield on asset management, %	7	16
Number of customers	64,700	65,800

## Länsförsäkringar Gävleborg

### MANAGING DIRECTOR

Birger Lövgren

### BOARD CHAIRMAN

Kjell Stafström

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	126	216
Total assets, SEK M	1,257	1,104
Solvency margin, %	206	169
Number of employees	120	112
<b>Bank</b>		
Deposits, SEK M	591	474
Lending, SEK M	235	183
Mortgage lending, SEK M	1,003	834
Fund volumes managed, SEK M	76	79
Number of customers	11,100	9,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	206	205
Total insurance capital, SEK M	2,670	2,439
Number of customers	26,100	25,800
<b>Non-life insurance</b>		
Premiums earned, SEK M	383	381
Technical result, insurance operations, SEK M	72	83
Bonuses and discounts, SEK M	-25	-
Combined ratio after ceded reinsurance, %	85	81
Total yield on asset management, %	7	18
Number of customers	72,300	73,400

## Dalarnas Försäkringsbolag

### MANAGING DIRECTOR

Anders Stigers

### BOARD CHAIRMAN

Thomas Gustafsson

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	552	700
Total assets, SEK M	4,828	4,365
Solvency margin, %	305	265
Number of employees	205	205
<b>Bank</b>		
Deposits, SEK M	1,029	915
Lending, SEK M	568	513
Mortgage lending, SEK M	2,285	2,008
Fund volumes managed, SEK M	144	138
Number of customers	22,200	18,800 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	352	338
Total insurance capital, SEK M	4,494	4,044
Number of customers	39,500	39,200
<b>Non-life insurance</b>		
Premiums earned, SEK M	905	903
Technical result, insurance operations, SEK M	128	118
Bonuses and discounts, SEK M	-175	-174
Combined ratio after ceded reinsurance, %	89	89
Total yield on asset management, %	12	19
Number of customers	140,400	141,200

## Länsförsäkringar Värmland

### MANAGING DIRECTOR

Ulf W Eriksson

### BOARD CHAIRMAN

Patrik Sandin

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	121	133
Total assets, SEK M	1,461	1,265
Solvency margin, %	159	127
Number of employees	91	88

#### Bank

Deposits, SEK M	356	293
Lending, SEK M	160	139
Mortgage lending, SEK M	431	366
Fund volumes managed, SEK M	52	60
Number of customers	7,100	6,000 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	153	155
Total insurance capital, SEK M	2,363	2,184
Number of customers	23,800	23,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	433	455
Technical result, insurance operations, SEK M	86	62
Combined ratio after ceded reinsurance, %	83	89
Total yield on asset management, %	5	8
Number of customers	72,500	74,400

## Länsförsäkringar Uppsala

### MANAGING DIRECTOR

Ann-Christin Norrström

### BOARD CHAIRMAN

Björn Sundell

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	172	321
Total assets, SEK M	2,268	2,008
Solvency margin, %	216	185
Number of employees	155	150

#### Bank

Deposits, SEK M	992	838
Lending, SEK M	314	285
Mortgage lending, SEK M	1,883	1,498
Fund volumes managed, SEK M	159	147
Number of customers	17,200	13,400 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	321	327
Total insurance capital, SEK M	4,914	4,519
Number of customers	41,000	40,400
<b>Non-life insurance</b>		
Premiums earned, SEK M	569	578
Technical result, insurance operations, SEK M	27	85
Bonuses and discounts, SEK M	-28	-35
Combined ratio after ceded reinsurance, %	99	86
Total yield on asset management, %	10	19
Number of customers	93,400	93,600

## Länsförsäkringar Bergslagen

### MANAGING DIRECTOR

Jan Karlsson

### BOARD CHAIRMAN

Frans-Henrik Schartau

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	249	324
Total assets, SEK M	2,976	2,401
Solvency margin, %	221	190
Number of employees	215	210

#### Bank

Deposits, SEK M	999	826
Lending, SEK M	523	478
Mortgage lending, SEK M	1,823	1,582
Fund volumes managed, SEK M	153	155
Number of customers	18,900	15,700 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	467	446
Total insurance capital, SEK M	6,104	5,599
Number of customers	48,800	47,900
<b>Non-life insurance</b>		
Premiums earned, SEK M	736	737
Technical result, insurance operations, SEK M	67	40
Combined ratio after ceded reinsurance, %	95	97
Total yield on asset management, %	10	17
Number of customers	128,100	127,600

## Länsförsäkringar Stockholm

### MANAGING DIRECTOR

Hans Benndorf

### BOARD CHAIRMAN

Bengt Ljungqvist

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	209	665
Total assets, SEK M	4,714	4,155
Solvency margin, %	129	107
Number of employees	456	451

#### Bank

Deposits, SEK M	3,778	3,908
Lending, SEK M	926	953
Mortgage lending, SEK M	5,498	4,874
Fund volumes managed, SEK M	726	708
Number of customers	64,200	56,500 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	2,404	2,303
Total insurance capital, SEK M	35,162	32,307
Number of customers	193,600	189,500
<b>Non-life insurance</b>		
Premiums earned, SEK M	1,574	1,693
Technical result, insurance operations, SEK M	43	311
Bonuses and discounts, SEK M	–	–40
Combined ratio after ceded reinsurance, %	101	85
Total yield on asset management, %	7	14
Number of customers	225,800	228,800

## Länsförsäkringar Södermanland

### MANAGING DIRECTOR

Anna-Greta Lundh

### BOARD CHAIRMAN

Axel von Stockenström

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	187	227
Total assets, SEK M	1,904	1,615
Solvency margin, %	232	189
Number of employees	109	108

#### Bank

Deposits, SEK M	569	486
Lending, SEK M	217	210
Mortgage lending, SEK M	1,380	1,248
Fund volumes managed, SEK M	80	78
Number of customers	11,600	9,800 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	193	202
Total insurance capital, SEK M	2,910	2,628
Number of customers	26,500	26,200
<b>Non-life insurance</b>		
Premiums earned, SEK M	446	456
Technical result, insurance operations, SEK M	40	46
Bonuses and discounts, SEK M	–35	–25
Combined ratio after ceded reinsurance, %	94	92
Total yield on asset management, %	11	16
Number of customers	74,400	74,600

## Länsförsäkringar Göteborg och Bohuslän

### MANAGING DIRECTOR

Ingemar Larsson

### BOARD CHAIRMAN

Bengt Wolfram

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	384	574
Total assets, SEK M	3,839	3,215
Solvency margin, %	185	154
Number of employees	264	257

#### Bank

Deposits, SEK M	1,277	1,140
Lending, SEK M	353	272
Mortgage lending, SEK M	2,234	1,856
Fund volumes managed, SEK M	243	266
Number of customers	28,200	20,400 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	1,281	1,070
Total insurance capital, SEK M	12,532	11,162
Number of customers	75,800	73,100
<b>Non-life insurance</b>		
Premiums earned, SEK M	1,053	1,057
Technical result, insurance operations, SEK M	82	105
Bonuses and discounts, SEK M	–59	–
Combined ratio after ceded reinsurance, %	95	92
Total yield on asset management, %	13	24
Number of customers	173,500	173,100

## Länsförsäkringar Skaraborg

### MANAGING DIRECTOR

Carl Henrik Ohlsson

### BOARD CHAIRMAN

Hans Jonsson

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	188	304
Total assets, SEK M	2,293	1,964
Solvency margin, %	198	171
Number of employees	119	124
<b>Bank</b>		
Deposits, SEK M	651	535
Lending, SEK M	393	348
Mortgage lending, SEK M	893	748
Fund volumes managed, SEK M	176	165
Number of customers	27,000	11,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	200	203
Total insurance capital, SEK M	3,529	3,274
Number of customers	28,900	28,300
<b>Non-life insurance</b>		
Premiums earned, SEK M	511	512
Technical result, insurance operations, SEK M	57	73
Bonuses and discounts, SEK M	-55	-
Combined ratio after ceded reinsurance, %	89	85
Total yield on asset management, %	10	22
Number of customers	78,200	78,900

## Östgöta Brandstodsbolag

### MANAGING DIRECTOR

Anders Östryd

### BOARD CHAIRMAN

Lars-Eric Åström

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	354	617
Total assets, SEK M	4,524	4,079
Solvency margin, %	268	247
Number of employees	272	269
<b>Bank</b>		
Deposits, SEK M	2,204	1,851
Lending, SEK M	799	677
Mortgage lending, SEK M	2,336	1,914
Fund volumes managed, SEK M	185	180
Number of customers	35,300	32,200 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	596	543
Total insurance capital, SEK M	5,927	5,298
Number of customers	54,900	53,900
<b>Non-life insurance</b>		
Premiums earned, SEK M	951	935
Technical result, insurance operations, SEK M	84	121
Bonuses and discounts, SEK M	-148	-146
Combined ratio after ceded reinsurance, %	94	89
Total yield on asset management, %	9	19
Number of customers	162,800	163,300

## Länsförsäkringar Älvsborg

### MANAGING DIRECTOR

Sten Lundqvist

### BOARD CHAIRMAN

Fredrik Waern

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	532	521
Total assets, SEK M	3,805	3,281
Solvency margin, %	279	232
Number of employees	219	219
<b>Bank</b>		
Deposits, SEK M	1,242	1,094
Lending, SEK M	498	444
Mortgage lending, SEK M	2,356	1,987
Fund volumes managed, SEK M	214	205
Number of customers	56,200	21,600 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	376	370
Total insurance capital, SEK M	5,588	5,152
Number of customers	50,800	49,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	814	822
Technical result, insurance operations, SEK M	180	137
Bonuses and discounts, SEK M	-40	-46
Combined ratio after ceded reinsurance, %	82	86
Total yield on asset management, %	14	17
Number of customers	140,200	140,400



## Länsförsäkringar Gotland

### MANAGING DIRECTOR

Peter Lindvall

### BOARD CHAIRMAN

Gösta af Petersens



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	76	126
Total assets, SEK M	815	714
Solvency margin, %	340	306
Number of employees	42	36

#### Bank

Deposits, SEK M	301	234
Lending, SEK M	294	279
Mortgage lending, SEK M	646	503
Fund volumes managed, SEK M	28	19
Number of customers	6,000	5,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	57	42
Total insurance capital, SEK M	574	500
Number of customers	7,400	7,100
<b>Non-life insurance</b>		
Premiums earned, SEK M	152	151
Technical result, insurance operations, SEK M	18	36
Bonuses and discounts, SEK M	-13	-20
Combined ratio after ceded reinsurance, %	92	78
Total yield on asset management, %	10	17
Number of customers	26,700	26,300

## Länsförsäkringar Jönköping

### MANAGING DIRECTOR

Anders Lofthammar

### BOARD CHAIRMAN

Evert Svensson



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	297	406
Total assets, SEK M	2,780	2,643
Solvency margin, %	184	163
Number of employees	169	163

#### Bank

Deposits, SEK M	1,063	923
Lending, SEK M	559	477
Mortgage lending, SEK M	1,333	1,139
Fund volumes managed, SEK M	126	115
Number of customers	17,400	16,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	339	331
Total insurance capital, SEK M	4,947	4,516
Number of customers	37,500	37,300
<b>Non-life insurance</b>		
Premiums earned, SEK M	760	743
Technical result, insurance operations, SEK M	191	172
Bonuses and discounts, SEK M	-65	-55
Combined ratio after ceded reinsurance, %	85	82
Total yield on asset management, %	11	20
Number of customers	113,000	113,400

## Länsförsäkringar Halland

### MANAGING DIRECTOR

Mats Ericsson

### BOARD CHAIRMAN

Karin Starrin



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	211	337
Total assets, SEK M	2,349	2,074
Solvency margin, %	260	224
Number of employees	140	136

#### Bank

Deposits, SEK M	1,336	1,135
Lending, SEK M	1,028	946
Mortgage lending, SEK M	2,385	2,010
Fund volumes managed, SEK M	144	140
Number of customers	33,100	18,300 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	264	262
Total insurance capital, SEK M	4,356	3,997
Number of customers	35,800	34,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	511	527
Technical result, insurance operations, SEK M	45	98
Bonuses and discounts, SEK M	-	-34
Combined ratio after ceded reinsurance, %	96	84
Total yield on asset management, %	10	18
Number of customers	82,200	82,500

## Länsförsäkring Kronoberg

### MANAGING DIRECTOR

Fredrik Daveby

### BOARD CHAIRMAN

Per-Åke Holgersson

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	119	211
Total assets, SEK M	1,315	1,258
Solvency margin, %	207	175
Number of employees	82	77

#### Bank

Deposits, SEK M	639	563
Lending, SEK M	161	136
Mortgage lending, SEK M	552	446
Fund volumes managed, SEK M	61	57
Number of customers	8,700	7,300 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	192	184
Total insurance capital, SEK M	2,946	2,742
Number of customers	19,900	19,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	337	345
Technical result, insurance operations, SEK M	35	83
Bonuses and discounts, SEK M	-32	-
Combined ratio after ceded reinsurance, %	92	78
Total yield on asset management, %	10	19
Number of customers	52,600	53,100

## Länsförsäkringar Kalmar län

### MANAGING DIRECTOR

Lars B Danielsson

### BOARD CHAIRMAN

Christer Olander

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	267	321
Total assets, SEK M	2,257	1,908
Solvency margin, %	259	228
Number of employees	137	131

#### Bank

Deposits, SEK M	484	406
Lending, SEK M	179	166
Mortgage lending, SEK M	652	575
Fund volumes managed, SEK M	96	100
Number of customers	9,700	7,900 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	238	225
Total insurance capital, SEK M	3,515	3,229
Number of customers	26,400	26,200
<b>Non-life insurance</b>		
Premiums earned, SEK M	528	518
Technical result, insurance operations, SEK M	74	92
Bonuses and discounts, SEK M	-57	-51
Combined ratio after ceded reinsurance, %	88	84
Total yield on asset management, %	12	18
Number of customers	94,500	93,700

## Länsförsäkringar Blekinge

### MANAGING DIRECTOR

Jörgen Svensson

### BOARD CHAIRMAN

Anders Åkesson

KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	95	138
Total assets, SEK M	965	864
Solvency margin, %	239	215
Number of employees	67	63

#### Bank

Deposits, SEK M	375	329
Lending, SEK M	236	180
Mortgage lending, SEK M	670	538
Fund volumes managed, SEK M	48	40
Number of customers	7,200	6,100 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	112	102
Total insurance capital, SEK M	1,778	1,634
Number of customers	14,500	14,100
<b>Non-life insurance</b>		
Premiums earned, SEK M	237	234
Technical result, insurance operations, SEK M	44	51
Bonuses and discounts, SEK M	-23	-25
Combined ratio after ceded reinsurance, %	84	80
Total yield on asset management, %	8	11
Number of customers	47,400	47,200

## Länsförsäkringar Göinge

### MANAGING DIRECTOR

Klas von Celsing

### BOARD CHAIRMAN

Ingemar Kristiansson



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	106	123
Total assets, SEK M	935	839
Solvency margin, %	286	245
Number of employees	46	47
<b>Bank</b>		
Deposits, SEK M	256	224
Lending, SEK M	66	63
Mortgage lending, SEK M	270	237
Fund volumes managed, SEK M	34	33
Number of customers	4,500	3,600 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	80	77
Total insurance capital, SEK M	1,480	1,379
Number of customers	10,900	10,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	192	187
Technical result, insurance operations, SEK M	42	35
Bonuses and discounts, SEK M	-23	-20
Combined ratio after ceded reinsurance, %	81	84
Total yield on asset management, %	11	17
Number of customers	32,100	32,300

## Länsförsäkringar Kristianstad

### MANAGING DIRECTOR

Conny Famm

### BOARD CHAIRMAN

Göran Trobro



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	99	114
Total assets, SEK M	930	843
Solvency margin, %	251	222
Number of employees	52	51
<b>Bank</b>		
Deposits, SEK M	357	308
Lending, SEK M	143	129
Mortgage lending, SEK M	574	487
Fund volumes managed, SEK M	50	47
Number of customers	5,700	5,500 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	87	91
Total insurance capital, SEK M	1,271	1,155
Number of customers	10,900	10,700
<b>Non-life insurance</b>		
Premiums earned, SEK M	203	200
Technical result, insurance operations, SEK M	45	34
Bonuses and discounts, SEK M	-43	-
Combined ratio after ceded reinsurance, %	81	85
Total yield on asset management, %	9	17
Number of customers	37,000	37,600

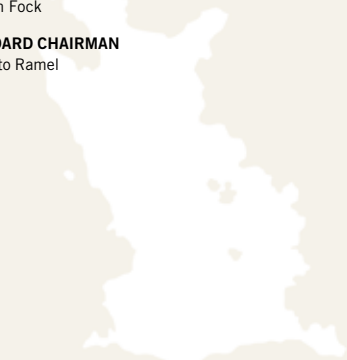
## Länsförsäkringar Skåne

### MANAGING DIRECTOR

Jan Fock

### BOARD CHAIRMAN

Otto Ramel



KEY FIGURES	2006	2005
Operating income before bonuses and discounts, SEK M	674	766
Total assets, SEK M	5,179	4,383
Solvency margin, %	170	131
Number of employees	426	408
<b>Bank</b>		
Deposits, SEK M	1,220	986
Lending, SEK M	714	611
Mortgage lending, SEK M	3,945	3,130
Fund volumes managed, SEK M	307,	287,
Number of customers	32,000	22,900 <sup>1)</sup>

<sup>1)</sup> Excluding mutual fund customers.

	2006	2005
<b>Life assurance</b>		
Premium income, SEK M	1,044	972
Total insurance capital, SEK M	14,412	13,252
Number of customers	99,800	97,900
<b>Non-life insurance</b>		
Premiums earned, SEK M	1,477	1,490
Technical result, insurance operations, SEK M	275	263
Bonuses and discounts, SEK M	-131	-171
Combined ratio after ceded reinsurance, %	86	87
Total yield on asset management, %	13	20
Number of customers	257,200	250,900

# Länsförsäkringar AB

## Cooperation which strengthens the local offering

Cooperation within the Länsförsäkringar Alliance takes place through Länsförsäkringar AB, which is jointly owned by the regional insurance companies and its subsidiaries. Länsförsäkringar AB's basic task is to conduct and coordinate the joint strategic and development process within the Länsförsäkringar Alliance and to provide service to the regional insurance companies. From here, the companies are supplied with products and the business operations are conducted under the life assurance and bank concession/license. Länsförsäkringar AB is the financial hub that makes it possible for the regional insurance companies to provide their customers with an attractive offering in the areas of non-life insurance, life assurance and banking.

**LÄNSFÖRSÄKRINGAR AB IS 100%** owned by the regional insurance companies and 14 local insurance companies. The shareholding is included in the solvency capital of the regional insurance companies and the companies impose the same yield requirements on these shares as on listed shares and other investment as-

sets. The value of the shareholding rose by 9% in 2006. The ownership of Länsförsäkringar AB by the regional insurance companies, as well as the internal obligations as owners, is handled within the framework of a consortium, regulated by a consortium agreement.

In addition to the Parent Company Länsförsäkringar AB, the Group encompasses Länsförsäkringar Sak Försäkringsaktiebolag, Länsförsäkringar Bank AB, Försäkringsaktiebolaget Agria, Wasa Försäkring Run-Off AB, Länsförsäkringar Liv Försäkringsaktiebolag and the subsidiaries of these companies. The sub-group with Länsförsäkringar Liv Försäkringsaktiebolag as the Parent Company, which includes Länsförsäkringar Fondliv Försäkringsaktiebolag, is not consolidated in the consolidated accounts since the company's results accrue in their entirety to the policyholders.

Länsförsäkringar AB is one of Sweden's largest financial groups. By encompassing non-life insurance and life assurance as well as banking operations, it has no specific Swedish equivalent. The business operations in the three core areas are one task, but far from the only one. Länsförsäkringar AB shall also provide service to the 24 regional insurance companies within the areas where evident economies of scale are to be found. The third task is to

develop the Länsförsäkringar Alliance's joint strategies and methods to more effectively meet with customers. The fourth task is development of businesses aimed at transferring these to the regional insurance companies when having matured. The need for reinsurance was what had originally brought about a concrete business-like cooperation between the regional insurance companies in 1936. Today, reinsurance operations have continued to be of considerable strategic importance.

### Considerable importance to each regional insurance company

The operations within Länsförsäkringar AB are of considerable importance to all 24 of the regional insurance companies. Within, for example, IT, product development, brand communication and methods for developing and strengthening customer relations, the regional insurance companies can assume the costs jointly. The cooperation between the three core operations also creates economies of scale through the costs being borne jointly for such activities as safety platforms, payment handling and output-data platforms. By such means, resources are freed up enabling the regional insurance companies to develop their own local market know-how and to enhance the personal customer relations.

**SHARE TREND, LÄNSFÖRSÄKRINGAR AB**  
Net worth of Class A share

Year	2002	2003	2004	2005	2006
SEK	876	966	1,114	1,410	1,535

The regional insurance companies are shareholders in the jointly owned company Länsförsäkringar AB. It is one of the cornerstones of the federation. Simultaneously, the regional insurance companies impose the same return requirements as they do for listed shares and other investment assets.



This division of work duties among the 24 regional insurance companies and Länsförsäkringar AB creates a clear focus for all. Länsförsäkringar AB shall create the prerequisites for the regional insurance companies to be more effective in their primary roles: to cultivate the local markets and to create and promote customer relations. A basic precondition for this to be possible is economic efficiency. This is the reason why life assurance and banking operations are conducted jointly. This interface shall not affect, nor does it affect, customer relations which always develop through the respective regional insurance company, as if it were a local bank or life assurance company. The division of work duties remains in place over time and is itself the basis for the Länsförsäkringar concept. Business operations within Läns-

försäkringar AB are to be conducted for profit motive to provide returns to the owners. There is also the possibility of providing a dividend to the owners.

### Earnings

The Länsförsäkringar AB Group reported a profit of SEK 1,059 M (2,100) before tax and SEK 789 M (1,861) after tax. Net profit for the year is primarily attributable to the favorable technical result in the insurance operations and the recurrence of healthy asset management results in 2006. The technical result for the non-life insurance operations totaled SEK 304 M (310).

Total investment income in 2006 amounted to SEK 1,078 M (2,183). Länsförsäkringar Bank generated a net profit of SEK 201 M (154) for 2006, up 30%. Länsförsäkringar Liv is not consolidated in the

Group since the company operates in accordance with mutual principles.

### Consolidation

The solvency capital increased in 2006 by SEK 1,089 M to SEK 10,792 M. The solvency margin for the Länsförsäkringar AB Group rose to 502% (497), primarily due to the favorable earnings.

#### KEY FIGURES

(The Länsförsäkringar AB Group excluding life assurance operations)

SEK M	2006	2005
Premiums earned for own account	2,106	1,889
Investment income transferred to financial operations	392	422
Claims payments for own account	-1,578	-1,504
Operating expenses	-640	-514
Other revenues	24	18
Technical result, non-life insurance operations	304	310
Investment income, gross	1,078	2,183
Profit before appropriations and tax	1,059	2,100



# Sustainability

## Confidence and trust – the foundation for Länsförsäkringar's operations and success

An increasing number of people are volunteering to become involved in issues relating to the development of a better society. There are many reasons for this but the fundamental driver is that important issues pertaining to the future cannot be solved by the efforts of the state alone. There are higher expectations among customers that companies should represent something worthwhile and responsible. Consequently, more and more companies are striving to strengthen this aspect of their operations. It is no longer sufficient to merely supply an affordable product: a company has to generate greater confidence in its operations.

AS A RESULT OF THIS TREND, formal and informal demands on companies have increased. Companies have more frameworks of regulations and codes which they must follow. Voluntary environmental certification is now considered by many to be something obvious and more certification areas are in the pipeline. From having previously been a society controlled by the authorities, a society is emerging in which the customer sets the requirements for ethical behavior and actions to benefit society. No company wishes to be inferior to an-

### Four good examples

Below are some examples of activities carried out by regional insurance companies in different parts of Sweden. The format and content of the activities may differ, yet a common theme is that these activities are held not only for the benefit of Länsförsäkringar's own customers but also for society as a whole.

#### Committed to climate issues

The predicted climate change is an issue that will affect all of society in the foreseeable future. Länsförsäkringar has chosen to involve itself in this matter since there is concern about heightened risks in both the short and long term. Even today, society is becoming increasingly damage sensitive. In the future, the effects of climate change will alter risks differently in different parts of Sweden. These effects will gradually manifest themselves as soon as in the next decades and are already imposing demands on construction planning in municipalities.

Länsförsäkringar has a desire to increase awareness and incentives to make society less damage sensitive. The Future flood

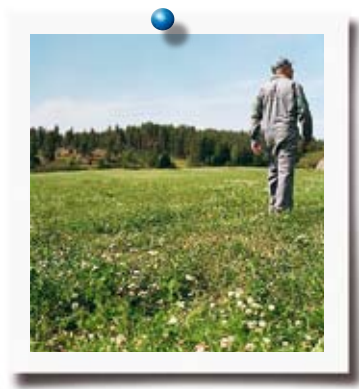
risks research report was financed by the regional insurance companies and presented in June 2006. The report focuses on the altered risks arising as a result of climate change. This is an area in which the regional insurance companies can contribute both their knowledge and actively by increasing awareness. A number of local seminars were held and more are planned.

Over the past four years, Länsförsäkringar Jämtland has, for example, arranged seminars on the climate, consumption and renewable energy. The number of participants has constantly increased and amounted to almost 500 in 2006. One of the comments from the company was as follows: "Länsförsäkringar has a leading market position and therefore has extensive opportunities to affect its surroundings and influence its customers. This entails a responsibility for issues related to the development of society, for example, giving consideration to environmental consequences."

Together with local and regional authorities and businesses, Länsförsäkringar has the possibility to prevent and assess risks. Based on local cooperation, interest can be generated in claims-prevention activities

and knowledge about local changes due to global warming can be spread. Länsförsäkringar's role as the host of such information spreading is part of our corporate social responsibility. Company management considered it to be perfectly natural that we would be one of the organizers.

Länsförsäkringar Jönköping also took the initiative in environmental activities at an early stage. Management felt convinced that active environment work would benefit the company. It was also established that such work would strengthen the brand by working locally with environment issues, otherwise there is the risk that future customers would not choose Länsförsäkringar. The company works actively with environment efforts and received ISO 14001 certification early on (which the other regional insurance companies and Länsförsäkringar AB also have). In accordance with its policy, the company took the initiative to arrange a climate seminar by forming a climate group comprising the County Administrative Board, the County Council, The Swedish National Road Administration, Jönköping University and the Municipality of Jönköping. Together this group has arranged three conferences and is



and soon the Corporate Social Responsibility standard will have established itself at a new level in the business sector.

Issues generally discussed under the term Corporate Social Responsibility include ethics, morals and responsibility – to customers, owners, suppliers, employees and the society in which the company operates. Companies that contravene these expectations risk losses of both prestige and

profits. But more than simply campaigns and short-term image drives must be behind confidence-enhancing measures. Sustainable confidence requires a long-term approach and ensuring that values are embodied in the entire operations. The saying ‘live as you learn’ is just as relevant today.

The regional insurance companies have social responsibility in their “genes”. The companies were founded and subsequently developed to satisfy customers’ and society’s need for protection and security. The companies have always been important players and conscious of their responsibility as local, customer-owned companies without high profit demands.

The regional insurance companies’ contact with customers is based on trust:

that a claim can be handled efficiently, that pensions are managed optimally, and that banking errands are solved simply. Fulfilling these expectations is facilitated by close, local customer contact and by the fact that the companies are controlled by elected policyholder representatives. Since the regional insurance companies offer protection and security, these products and services are continuously developed. There is also strong involvement in the development of the local community. Many regional insurance companies support and work together with organizations, clubs, associations and sports clubs as well as the business sector.

planning a fourth in 2007. Länsförsäkringar Jönköping received the Municipality of Jönköping’s Environment Award 2006, for the following reason:

“Länsförsäkringar Jönköping was awarded the Environment Award 2006 for its sustained active environmental efforts for which environmental certification and diplomas provide structure and continuous improvements to environmental activities. Länsförsäkringar Jönköping continuously communicates environmental issues to its customers and in this manner spreads knowledge and insight.”

#### **Awareness of fatigue when driving**

More than 20% of all traffic accidents that occur in Sweden are related to fatigue. At least 50 people die in such accidents while many more are seriously injured. The claims-prevention brochure “Awareness of fatigue when driving” was produced at Länsförsäkringar’s initiative in cooperation with the National Institute for Psychosocial Medicine at the Karolinska Institute and the Swedish National Road and Transport Research Institute, VTI, in Linköping. The intention was that the information contained

in the printed brochure would offer guidance on the risk of driving when fatigued and reduced the number of fatigue-related road accidents, all part of the Vision Zero, the Swedish government’s target to have zero deaths or serious injuries in traffic accidents in Sweden.

#### **Research on trust**

Confidence and trust are not only important in customer relationships. It is also a significant factor to how the local community functions as a whole. Since January 1, 2006, Länsförsäkringar AB has contributed financing to a research project on trust at Ersta Sköndal University College. The aim of this research is to investigate the mechanisms that lead to trust being built up or collapsing in local communities. The research group is headed by Professor Lars Svedberg and includes participants with research expertise in such fields as history, political science, ethnogeography and sociology. Another internationally active researcher and research group are associated with the project.

#### **Cooperation agreement with emergency services**

As part of its claims-prevention activities, Länsförsäkringar Gotland signed a cooperation agreement with the emergency services in the Municipality of Gotland in autumn 2005.

“We were initially hesitant as to whether it was right for a private company to sponsor municipal operations, but we concluded that the partnership would benefit both our core operations and our customers,” says Peter Lindvall, Managing Director of Länsförsäkringar Gotland. “Over three years, the financially strained emergency services organization received a contribution of SEK 1.5 M. It appears both logical and straightforward to work together with the local emergency services. We have a common interest in preventing damage and accidents. The emergency services work actively with informing authorities, organizations, companies and private individuals of how they can prevent fires and other near-accidents. Their efforts complement our own claims-prevention work.”

# Environment work at the Länsförsäkringar Alliance

In 2006, environmental activities in the Länsförsäkringar Alliance were intensified. Länsförsäkringar Alliance has both an indirect and direct impact on the environment. The direct environmental impact is primarily from business travel and the consumption of electricity, heating and paper. The indirect impact arises mainly from water and fire damage.

**IN ORDER TO REDUCE THE** direct environmental impact, trains are being increasingly used in business travel. During the year, the use of biofuel cars as company cars increased. A rising number of meetings take place in the form of telephone, video or web meetings to reduce total accumulated travel. A large portion of purchased electricity is eco-labeled, the form of heating is district heating and many energy-saving measures have been implemented in the Länsförsäkringar Alliance's properties. One of the targets of the developments driven in the Länsförsäkringar Alliance is to reduce the flow of paper both within the company and to customers. To reduce the consumption of paper, digital solutions and efficient printing and copying solutions are being developed. The expansion of the Internet channel offers more opportunities to reduce sending paper to customers. For example, all conditions in commercial insurance are now found in digital form on the Internet and are no longer sent to customers. Customers are also offered the choice of receiving account statements and loan notices on the Internet instead of being sent home. As many paper dispatches to customers as possible are packaged together to reduce the flow of paper.

## Important claims-prevention work

Damage suffered by the regional insurance companies' customers is a highly interesting area from an environmental perspec-

tive. Energy consumption, sanitation, transportation and the use of materials are the results of damage that affect the home environment, work environment and external environment. Accordingly, claims-prevention work is an important part of environmental activities. Every case of damage that can be avoided is a saving in terms of impact on the environment. When damage does occur, it is important that the regional insurance companies impose demands on the quality and environmental work of the claims contractors. It is also vital damage is repaired with a high level of quality to avoid damage reoccurring.

For this reason, the regional insurance companies offer the contractors further training and feedback is given so that the contractors remain highly skilled. To enhance the competencies of contractors, it is important that Länsförsäkringar has knowledge of, for example, building materials. As a result, on Länsförsäkringar's behalf, the Technical Research Institute of Sweden (SP) performed tests on mould growth on the most common sheet materials in a wet room. SP's tests revealed that both common plasterboard and chipboard, as well as wet-room board, have mold growth that is hazardous to health and the environment and is therefore unsuitable to use in a wet room. Therefore, research into the suitability of different materials for different uses is highly interesting. The Bygga-Bo-Dialogen project (Building, Living and Property Management for the Future), a

cooperation between the Government, municipalities and companies with the purpose of achieving a development of a sustainable building and property sector in Sweden, is also very important to the Länsförsäkringar Alliance.

In 2006, the Länsförsäkringar Alliance produced a new environment product, recycling insurance for agriculture. This recycling insurance policy covers the costs for annual transportation and recycling of scrap and environmentally hazardous waste from agriculture. The launch of the recycling insurance indicates that Länsförsäkringar is assuming a firm environmental responsibility in the market and is contributing to keeping agriculture clean.

## Joint environmental policy

Environmental work within Länsförsäkringar Alliance is based on a joint environmental policy. According to this policy, consideration shall be given to the environment in decisions made and actions carried out so that the Alliance's impact on the environment is reduced through continuous improvements. Furthermore, the environmental policy underlines the importance of skills development and the contribution of customers and suppliers to the sustainable development of society.

All regional insurance companies and Länsförsäkringar AB have environment management systems certified in accordance with ISO 14001. This entails a guarantee for systematic environment work whereby the impact on the environment must be continuously reduced and imposes rigorous demands on exchanging experiences and further training within the Alliance. Certification is maintained through regular examinations by the certification company SP, the Technical Research Institute of Sweden.



# Employees

## Preparing for a generation shift

The Länsförsäkringar Alliance is facing a generation shift. Both short and long-term measures are being planned under the key phrase “attractive employer.”

**A STUDY WAS PERFORMED IN 2006** to ascertain which occupational groups will have the highest number of retirees within the next ten years. Key positions were also identified in which different roles have special requirements for unique expertise for the individual regional insurance company; skills that are business critical, highly important to today’s operations and likely to remain important in the future. One measure taken is the model that is beginning to be formed and providing structure for transferring skills when generations change. The model is based on older employees acting as mentors for younger employees, where skills such as values, attitudes, culture, expertise and personal knowledge about the customer are guiding principles.

### Leadership

Länsförsäkringar’s management supply model begins with an annual survey. This survey identifies employees who have:

- the capacity and desire to advance to managerial positions and in the long term reach a company management level, and who are between 25 and 35 years of age.
- a high capacity and desire to advance to company management level within the next two to five years.
- high specialist expertise, skills that are very important today and for the future.

The purpose of these surveys is to offer attractive development potential and provide

the necessary preconditions for the employees that the company wishes to retain as managers in the Länsförsäkringar Alliance. The surveys are also used as a basis for planning successors, and in this structured manner a number of managers were recruited internally at Länsförsäkringar Alliance during the year.

### Importance of internal mobility

Various efforts are made to increase internal mobility in the Länsförsäkringar Alliance, both among employees and managers. Job vacancies are always advertised internally in the Länsförsäkringar Alliance first

and during the year a model was trialed for exchange internships and project work. Internal mobility is particularly important to managerial positions, since in the long term this strengthens the shared view of what constitutes successful management. To further consolidate this view, work on a shared management philosophy has commenced based in the unique aspects of Länsförsäkringar’s managers. Proximity to customers, the federal corporate structure and strong drive for development of products, employees and managers are areas that create unique leadership in the Länsförsäkringar Alliance.

### Skills development

#### Strategic leadership

The Länsförsäkringar Alliance is characterized by a very high rate of change. Business orientation and control requirements



are increasing and leading to a need to try new methods for working procedures, analyses and change activities. In turn, this imposes demands on leadership which requires both perseverance and the ability to motivate and develop employees. Within the framework of Länsförsäkringar's manager and leadership training courses, the Strategic leadership program was held during the year for managers from department level and up. The aim of the program is to unite insight and understanding for strategic, external and future issues with insight and understanding of oneself as an individual and leader.

#### **Business training that supports customer meetings**

For several years, Länsförsäkringar has worked to produce business training programs that efficiently support customer meetings and the market strategy. Today, training is arranged around a total approach with clear continuity and which is well adapted to the daily operations of the regional insurance companies. Länsförsäkringar's diploma training courses in the private, corporate and agriculture markets are based on the competency requirements that emerge from the regional insurance companies' business. These diploma training courses are part of the employee skills development process and contribute to providing the correct competencies in customer meetings. In addition, a developed method is in place for the regional insurance companies to perform skills inventories from factual knowledge and sales development perspective and subsequently prepare individual skills development plans for each employee.

To continue to create a sales and sales manager culture, the customized sales training courses have been further developed to provide the most modern competencies and skills in sales and entrepreneurship and thereby enhance Länsförsäkringar's competitiveness.

#### **Reward, remuneration and benefits**

Based on the "attractive employer" concept, individual and flexible solutions for remuneration forms and employee benefits are being developed. Today, employees can choose between a variety of benefits. Länsförsäkringar launched a new insurance product on the market under the name braHälsa (good health) that encompasses healthcare insurance and rehabilitation insurance. Many regional insurance companies now offer these insurance policies free of charge to their employees as a benefit. Work to visualize benefits and increase flexibility in the choice of benefits has been initiated.

#### **Broad student profiling**

Profiling the company to students takes place by participating in the various annual labor market days at universities and colleges and by advertising in various student media. Länsförsäkringar also participates in the Företagsbarometern survey conducted among university and college students. In 2006, Länsförsäkringar was voted the most attractive employer in the insurance industry for the fourth consecutive year.

We recruited eleven graduates to our trainee program. During the course of the program, trainees work with various duties or projects in the three core areas of operation, life assurance, non-life insurance and bank. Practical work experience periods are sandwiched with training blocks which include insurance expertise, product training and entrepreneurship. The program's soft values are team building, personal development and career planning. Trainees gain a detailed insight into Länsförsäkringar's history and future and also into its business operations. Toward the end of the year, a decision is made on the trainees' future position in the company depending on the trainee's development and career goals.

This year, Länsförsäkringar participated as one of the sponsors in Academic

Search's Diversity Challenge competition for university and college students. Two students with multicultural experiences will be offered a six-month internship in 2007. Ethnic diversity is an important future issue for the Länsförsäkringar Alliance since new, extensive business opportunities are to be found among these groups. From a diversity perspective, Länsförsäkringar needs to attract new and qualified employees in the future. The company's participation as a partner company in the Diversity Challenge is part of its future recruiting efforts.

#### **Long-term work reduces absence due to illness**

Länsförsäkringar's long-standing drive in the area of health and work environment is generating positive results with absence due to illness falling both in terms of gen-



der and age. Most of the regional insurance companies offer their employees health-care insurance and work professionally with rehabilitation via rehabilitation insurance or their own activities.

Absence due to illness, %	2006	2005
Total absence due to illness as a percentage of regular working hours	3.8	4.2
Absence for a continuous period of 60 days or more as a percentage of total absence due to illness	54.9	58.2
<b>Absence due to illness by gender, %</b>		
Men	2.4	2.8
Women	4.4	5.4
<b>Absence due to illness by age category, %</b>		
29 years or younger	2.2	3.0
30–49 years	3.2	3.9
50 years or older	4.5	4.8

#### EMPLOYEE STATISTICS

All statistics reported below pertain to the 24 the regional insurance companies, Länsförsäkringar AB and Mäklarservice.

Number of permanent employees, December 31	2006		2005	
	Women	Men	Women	Men
24 regional insurance companies	2,044	1,864	1,972	1,891
Länsförsäkringar AB	881	737	871	690
Mäklarservice	70	40	71	39
			2006	2005
Total number of permanent employees			5,636	5,534
Permanent employees who left during the year			438	365
Total new permanent employees			462	325
Future recruitment needs in the 24 regional insurance companies			160	150
			2006	2005
Age range			2006	2005
0 – 30 years			553	538
31 – 40 years			1,594	1,563
41 – 50 years			1,635	1,574
51 – 60 years			1,551	1,574
61 –			308	283
Average age, women			44	43
Average age, men			45	44

#### MANAGEMENT STATISTICS

MANAGEMENT STATISTICS	2006		2005	
	Female managers	Male managers	Female managers	Male managers
Age range				
0 – 30 years	4	3	8	4
31 – 40 years	70	89	70	91
41 – 50 years	95	168	80	162
51 – 60 years	55	152	53	156
61 –	4	6	4	13
Total	228	418	215	426
Total	646		641	
Average age, managers			2006	2005
Women			41	38
Men			47	46

#### POSITIONS OF TRUST

	2006		2005	
	Women	Men	Women	Men
Managing Director	6	29	5	31
Management teams	87	200	87	222
Board members	115	217	105	247
Assembly of representatives	333	1,046	313	1,071

Management team: Includes union representatives.

Board: Regular members including union representatives.

Representative: Regular members.

# Terms and expressions

## **Administration result, Life**

Fees paid by customers minus operating expenses.

## **After ceded reinsurance**

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

## **Alternative Investments**

Assets that are not currently regarded as traditional. Alternative Investments currently comprise Private Equity funds and Absolute Return. Absolute Return has, as its goal, to deliver a positive return regardless of the movements of various underlying markets. Absolute Return is based on investments in hedge funds, but has a lower correlation to underlying markets and a lower downside risk than average for hedge funds.

## **Asset allocation**

Selection of allocation between various types of assets in a portfolio, for example the desired proportion of equity and fixed-income investments.

## **Business volume, Bank**

The sum of deposits and loans.

## **Capital adequacy, Bank**

The capital base in relation to risk-weighted amount. The capital base consists of equity plus subordinated loans less goodwill and intangible assets. The risk-weighted amount is defined as the sum of assets in the balance sheet and off-balance sheet commitments valued in accordance with the Capital Adequacy and Large Exposures (Credit Institutions and Securities Companies) Act. Pursuant to the Act, capital adequacy must be at least 8%.

## **Capital base**

The group-based capital base is calculated as the sum of shareholders' equity minus shares in subsidiaries and associated companies in those insurance companies and their parent companies that are included in the Länsförsäkringar AB Group. The required solvency margin for the Länsförsäkringar Liv Group is then added to this value.

## **Claims payments**

The cost during the fiscal year of claims incurred, whether reported to the company or not. The costs also include run-off result.

## **Claims ratio**

Cost of claims as a percentage of premiums earned.

## **Collective consolidation (Life)**

The value of the company's assets in relation to the guaranteed commitments to customers and the preliminary bonus allocation.

## **Combined ratio**

Total operating expenses and claims payments as a percentage of premiums earned.

## **Direct insurance**

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

## **Direct yield**

The balance of interest income, interest expense, dividends on shares and participations, operating expenses in asset management, and the surplus (deficit) on company-owned real estate in relation to average managed assets.

## **Earnings per share**

Net profit for the year divided by the average number of shares during the year.

## **Expense ratio**

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

## **Fixed-income securities**

Loans issued in the market by a borrower (such as the government). Long-term securities are normally termed “bonds,” while short-term loans are in the form of what are commonly called “bills.”

## **Hedge fund**

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

## **Interest margin, Bank**

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

## **Investment assets**

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

## **Investment income**

The net of the following income and expenses: interest income, interest expense, dividends on shares and participations, surplus (deficit) on company-owned real estate, change in the fair value of properties, shares, interest-bearing securities and derivatives, gains (losses) on the sale of investment assets, currency exchange gains (losses), less operating expenses in asset management.



**Investment margin**

Net interest as a percentage of average total assets.

**Investment income transferred from financial operations**

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

**Loan losses, Bank**

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

**Net interest income/expense, Bank**

Interest income from lending to the public and credit institutions and revenue from interest-bearing securities minus expenses for deposits and lending from the public, credit institutions and expenses for interest-bearing securities.

**Net investment**

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

**Net worth**

Taxed equity.

**Operating expenses**

Costs of marketing, sales and administration.

**Operating profit**

Operating profit before appropriations and taxes.

**Premium income**

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

**Premiums earned**

The proportion of premium income attributable to the fiscal year.

**Private Equity fund**

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

**Reinsurance**

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

**Return on shareholders' equity**

Earnings for the period after standard tax in relation to average equity, adjusted for new share issues and dividends.

**Run-off result**

Profit or loss arising at accounting year-end in the provision for outstanding claims made in the preceding year-end accounts. The profit/loss arises since some of the claims in the provision are either settled during the fiscal year at amounts differing from those allocated or are revalued pending final settlement.

**Solvency capital**

The sum of shareholders' equity, deferred tax liability/ assets, subordinated loans, untaxed reserves and surplus/deficit values of assets.

**Solvency margin**

The lowest permitted level of the capital base for insurance companies. The required solvency margin is calculated in accordance with the rules laid down in Chapter 7, Paragraphs 22–55 of the Insurance Business Act.

**Solvency margin (Non-life)**

Solvency capital as a percentage of premium income after ceded reinsurance.

**Solvency ratio (Life)**

Value of the company's assets compared with the guaranteed commitments to customers and the preliminarily distributed bonus to customers.

**Technical reserves**

Reserves for unearned premiums and outstanding risks, life assurance reserves and reserves for unsettled claims and comparable commitment in accordance with signed insurance contracts. For life assurance, this shall correspond to the company's guaranteed insurance commitment.

**Technical result, non-life insurance operations**

Premiums earned less claims payments and operating expenses plus income from reinsurance ceded and investment income transferred from financial operations.

**Total investment income ratio**

The sum of direct yield, realized gains and losses, and unrealized changes in the value of assets in relation to the average value of investment assets.

# Financial calendar

## First quarter:

Solvency Report Life assurance	April 20, 2007
Interim Report Länsförsäkringar Bank	April 24, 2007
Interim Report Länsförsäkringar Hypotek	April 24, 2007

## Second quarter:

Solvency Report Life assurance,	August 20, 2007
Mid-year Report Länsförsäkringar Bank	August 21, 2007
Mid-year Report Länsförsäkringar Hypotek	August 21, 2007
Mid-year Report Länsförsäkringar Alliance	August 22, 2007
Mid-year Report Länsförsäkringar AB	August 22, 2007

## Third quarter:

Solvency Report Life assurance	October 19, 2007
Interim Report Länsförsäkringar Bank	October 23, 2007
Interim Report Länsförsäkringar Hypotek	October 23, 2007
Interim Report Länsförsäkringar Alliance	October 25, 2007
Interim Report Länsförsäkringar AB	October 25, 2007



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### Länsförsäkringar Mäklarservice

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ÖPPET



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