



# 2008

Länsförsäkringar  
Sak Försäkrings AB  
Annual Report



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## 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 as a whole.

## Regional insurance companies

24 independent and customer-owned regional insurance companies, each conducting banking and insurance operations in a specific geographic area and responsible for all customer contacts within their respective areas of the Länsförsäkringar Alliance.

## Länsförsäkringar AB

The regional insurance companies own Länsförsäkringar AB, which through its subsidiaries conducts operations in such areas as non-life insurance, life assurance and unit-linked insurance, banking services, fund management, reinsurance, medical and special insurance, as well as animal insurance. Another main task is to provide service to the regional insurance companies and assume responsibility for the Länsförsäkringar Alliance's joint strategic development activities.

## Länsförsäkringar Liv\*

Conducts traditional life assurance and, through Länsförsäkringar Fondliv, 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 offering private individuals and the agricultural sector reasonably priced banking services.

## Länsförsäkringar Sak\*

Conducts the Länsförsäkringar AB Group's non-life insurance operations, which include medical and accident insurance, some third-party liability insurance and liability insurance, cargo insurance, nationwide customers in the commercial automotive area and producer liability insurance. The company also handles the Länsförsäkringar Alliance's internal and external reinsurance.

## Länsförsäkringar International

Subsidiary of Länsförsäkringar Sak which is responsible for the establishment of non-life insurance operations in Latvia and Lithuania. Two branches were established in the first quarter of 2008, Nordicia Apdrošināšana in Riga and Nordica Draudimas in Vilnius. Household and homeowner insurance is initially offered. Third-party liability insurance and insurance against material damage to motor vehicles were also introduced in the first half of the year.

## Agria Djurförsäkring

Insures animals and crops.

## Länsförsäkringar Mäklarservice

Offers brokers a uniform conduct of operations and reinforced service through regional broker desks.

## Humlegården

Property company with holdings concentrated in the Stockholm market.

## Wasa Försäkring Run-Off

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

## Länshem

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

\* All customer contact takes place through the local regional insurance companies for life assurance, non-life insurance and banking services.



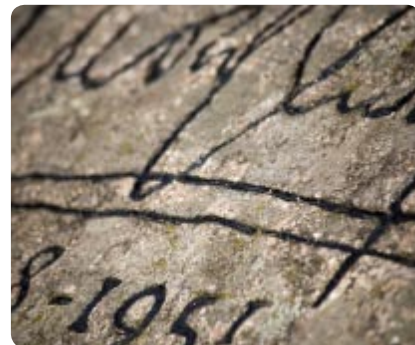
# 2008 in brief

- Net loss for the year before appropriations and tax amounted to SEK 2,807 M (1,045). The technical result for the insurance operations amounted to SEK 309 M (231).
- The total return on investment assets amounted to negative 13.3% (8.4). The average total return on investment assets for the past five years is 3.5%.
- Continued focus on the market for healthcare products. The Länsförsäkringar Alliance is also a market leader in medical insurance in Sweden, with a market share of more than 35%.
- An insurance portfolio of group medical and group accident insurance was acquired from the Federation of Swedish Farmers (LRF) during the year.
- Försäkringsaktiebolaget Agria and its subsidiaries were acquired in December from Länsförsäkringar AB.
- A concession for insurance operations in Latvia and Lithuania was obtained on January 17.

## Rating

Credit ratings affect both Länsförsäkringar Sak's ability to write assumed reinsurance and underwrite direct transactions with major companies as well as the Länsförsäkringar AB Group's costs of raising funds in the international capital market. A high rating entails lower financing costs and a greater possibility to write assumed reinsurance. A forecast is linked to each rating. The forecast states whether the rating in question is positive, stable or negative. As of October 2008, Länsförsäkringar Sak is rated A/Stable by Standard & Poor's and A2/Stable by Moody's.

# Board of Directors' Report



The Board of Directors and the President of Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corporate Registration Number 502010-9681, hereby submit the annual report for fiscal year 2008. The registered office of the company is in Stockholm.

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

## Ownership

Länsförsäkringar Sak Försäkringsaktiebolag (publ) (referred to below as Länsförsäkringar Sak) is wholly owned by Länsförsäkringar AB (publ), Corporate Registration Number 556549-7020, which is owned by 24 regional insurance companies and 14 local insurance companies.

## Organisation

Länsförsäkringar Sak is the Parent Company of Länsförsäkringar Grupp-livförsäkringsaktiebolag, Länsförsäkringar Sak Fastighets AB, the limited partnership Utile Dulci 2, Länsförsäkringar International Försäkrings AB, Länsförsäkringar International AB, Länsförsäkringar EFEL Skadeförsäkring AB, Länsförsäkringar EFEL Livförsäkrings AB and Försäkringsaktiebolaget Agria.

## Operations

Länsförsäkringar Sak conducts non-life insurance operations. The majority of non-life insurance in the Länsförsäkringar Alliance is underwritten in the local regional insurance companies with local concessions.

In 2008, business was underwritten

in the areas of medical, accident, recycling, cargo, liability and some property insurance. In addition, insurance cover is provided for nationwide customers in the commercial automotive area (third-party liability insurance and motor-vehicle insurance). The company also handles the Länsförsäkringar Alliance's internal and external reinsurance and underwrites assumed international reinsurance.

The provision for claims incurred for third-party liability insurance underwritten up to and including 2003 is run off within Länsförsäkringar Sak. As of 2004, this type of business is underwritten by the regional insurance companies.

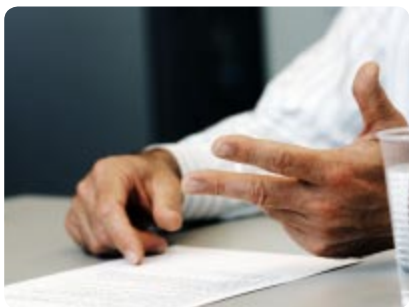
Furthermore, Länsförsäkringar Sak conducts development and service activities for the regional insurance companies in the areas of product development, IT, concepts and processes. From 2009, this area of Länsförsäkringar Sak's operations will be performed in the Parent Company Länsförsäkringar AB.

## Market trend for non-life insurance

The entire non-life insurance market in Sweden, measured in premiums

paid, declined slightly in 2008. This decrease, which was seen primarily in commercial and property insurance, is due to such factors as intense price competition during the year, and also an increasing number of groups and municipalities choosing captive solutions or insurance in foreign companies. The number of insurance policies declined slightly compared with the preceding year, which may be the result of the financial crisis and the continued high level of mobility in the market. Competition in the market increased from banks offering non-life insurance and distinct competition remains in the market from small traditional non-life insurance companies, new players and foreign companies.

The Länsförsäkringar Alliance's total market share, measured in premiums paid, remained stable in 2008, increasing somewhat from 29.4% to 29.6%. Growth was favourable in household insurance, and both the portfolio and market share increased in motor-vehicle insurance. The Länsförsäkringar Alliance also further advanced its position in commercial insurance during the year.



With a market share of slightly more than 35%, the Länsförsäkringar Alliance is also the market leader in medical and accident insurance.

Despite increased competition, the Swedish Quality Index revealed that Länsförsäkringar is still one of the top insurance companies in terms of having the most satisfied customers within non-life insurance. Länsförsäkringar's ability to maintain a top ranking in 2008 was primarily due to the continued high ranking it received from customers in the area of service. Proximity to customers, the ability to find flexible solutions and the company's fast and unbureaucratic claims adjustment were some of the reasons stated for this success.

According to the Swedish Quality Index, the Länsförsäkringar Alliance boasts the highest level of customer satisfaction in medical insurance. One of the reasons for this high customer satisfaction is that the Länsförsäkringar Alliance offers the market's largest and broadest network of caregivers, which has proven to be a strong competitive advantage. In 2008, this network was broadened and expanded to include several specialist clinics in such

areas as cancer care and back treatment. Länsförsäkringar's status as the only company that can offer a total solution of banking services, life assurance and non-life insurance under a single brand further contributes to customer satisfaction.

### Key events in 2008

#### Acquisitions

On July 1, Länsförsäkringar Sak acquired insurance operations from the Federation of Swedish Farmers (LRF) in the form of two companies, Länsförsäkringar EFEL Skadeförsäkring AB and Länsförsäkringar EFEL Livförsäkring AB. The acquired insurance operations comprise individual and group life, medical and accident insurance and the acquisition is part of the continuing growth strategy. The intensified cooperation with LRF provides greater know-how about the agricultural market in Sweden and the basis for identifying customer needs at an early stage and developing new insurance solutions.

On December 4, Länsförsäkringar Sak acquired the company Försäkringsaktiebolaget Agria and its subsidiaries from Länsförsäkringar AB. The Group was acquired at net worth.

#### Establishment of operations in Baltic States

Länsförsäkringar International Försäkringsaktiebolag obtained a concession on January 17. The first insurance policy was sold at the beginning of 2008 and now household and homeowner, personal property, leisure home and motor-vehicle insurance (third-party liability and material damage to motor vehicles) are sold to private individuals. It is expected that between 5% and 7% of the market will be captured within a five-year period.

#### Change in operations to achieve increased competitiveness

In the autumn, Länsförsäkringar AB and its subsidiaries streamlined the three tasks they perform for their owners, the 24 regional insurance companies. These tasks are to: conduct joint banking and insurance operations, pursue development activities and provide service in areas that generate economies of scale and efficiency. As a result of this change process, Länsförsäkringar AB's organisation was defined based on the company's three business units – Non-life insurance, Life assurance and Banking – and the

three support units, Development, IT and Service. The final negotiations in the staffing process for the new organisation were completed in December and entail that approximately 250 employees (of whom 73 are employees of Länsförsäkringar Sak) will no longer have a position in the new organisation. Several of these employees will receive a collective agreement pension or have opted to accept an offer to leave the company voluntarily. Other employees who have been deemed redundant have been offered positions in the specially appointed Resources organisation, where they will receive professional support in finding new jobs. Earnings for 2008 in Länsförsäkringar Sak were charged with SEK 128 M for restructuring costs.

#### Events after the balance-sheet date

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

#### Operating trends and future activities

In January 2009, Länsförsäkringar Sak's operations were changed as a result of the reorganisation described above and are now streamlined to non-life insurance and reinsurance operations. As of January 1, service and development activities are part of the Parent Company Länsförsäkringar AB's service operations.

One of the company's continuing challenges is dealing with intensifying competition, particularly from some of the major banks conducting operations in the area of non-life insurance. Maintaining a focus on full-service customers is important.

The Länsförsäkringar Alliance is a market leader in medical insurance in Sweden with a market share of more than 35% and more than 130,000 customers. This business has grown considerably in recent years as an increasing number of companies recognised the benefits of taking out medical insurance for all of their employees, thereby reducing sickness absence and improving productivity.



Sales of medical insurance remained positive in 2008 despite the decline of the stock market and the gloomier economic outlook. One factor that had a positive impact on sales was the changes made to medical insurance by the Swedish Government, which included the introduction of a "rehabilitation chain" from July 1. The new regulations imposed stricter requirements on employees and employers in connection with sickness absence. There is still a considerable lack of awareness concerning the implications of the new regulations. According to a survey performed by Länsförsäkringar in September 2007, slightly more than seven out of ten companies and nine out of ten private individuals do not understand the new rules of the rehabilitation chain. Länsförsäkringar's rehabilitation insurance supplements the company's medical insurance and the new regulations are creating an increased demand for this type of cover among employers.

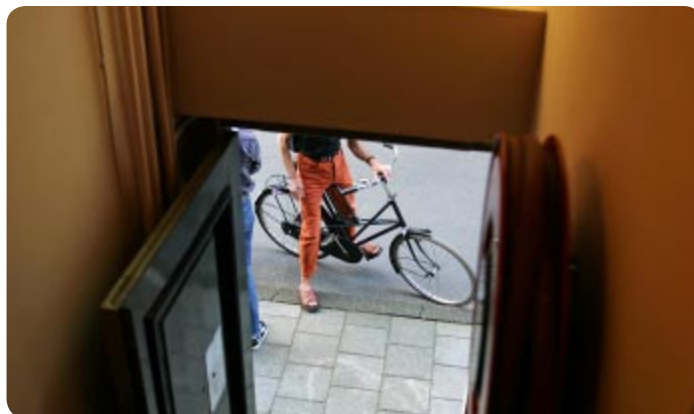
Within the environmental area, work involving recycling insurance continued during the year. Most of the regional insurance companies have now launched extended agricultural insurance that includes recycling insurance. This provides agricultural customers with a solution offering a

simple, cost-efficient and environmentally friendly way of solving the important issue of handling waste products in agriculture.

One of the major issues for the Länsförsäkringar Alliance and the insurance industry is the proposed changes to third-party liability insurance. Due to the complexity of the investigation, an extended investigation period has been requested for June 15, 2009. The Länsförsäkringar Alliance is monitoring developments to influence the outcome and find the best possible solution for its customers.

#### Significant risks and uncertainties

Länsförsäkringar Sak's largest risk exposures are considered to be its investment assets and commitments in third-party liability insurance. From 2008, the claims annuities reserve in the calculation of the present value of future payment flows will be adapted continuously to the prevailing market interest rate. Refer also to Note 2 Risks and risk management.



# Asset management in Länsförsäkringar Sak

Länsförsäkringar Sak aims to create a stable return on the investment assets in the company in order to achieve favourable profitability and to ensure that the capital base is sufficient in relation to risks.

This is important for being able to guarantee, with a high degree of reliability, the commitments made to customers and is achieved by applying an effective and competitive management model with respect to risk levels.

## Development

Länsförsäkringar Sak follows a new management model with an increased focus on total return. The company's strategy involves reducing the active management mandate in markets that are broad, transparent and efficient and instead implementing passive, simple and more cost-efficient solutions to capture market exposure. This approach is supplemented by taking active risks where it is deemed that managers have prime opportunities to generate surplus returns, in terms of both less efficient listed and unlisted markets. The management model was exposed to substantial strain in 2008 through the onslaught of the worst financial crisis experienced in several decades. The impact on the company's key financial figures necessitated a major reduction in the portfolio in 2008.

## Risk level

Länsförsäkringar Sak is exposed to many different types of risk. In the non-life insurance operations, insurance risk can be divided into three areas: premium risk, reserve risk and disaster risk. The company's earnings are largely governed by the level of return in asset management, meaning that it is important to follow and handle market risk.

For further comments concerning risk management, refer to Note 2 Risks and risk management.

## Management model

Länsförsäkringar Sak's portfolio structure regarding market exposure focuses on selecting the desired distribution of assets in the portfolios. In addition, major importance is attached to how the desired market exposure is to be

achieved. The company's Asset Management unit offers considerable expertise in employing other efficient solutions to maintain passive market exposure rather than by using traditional management mandates, such as using various derivatives that generate added value through low management costs and simplified administrative management of transactions. Active work is undertaken to protect the portfolio from different types of risk. The combination of these factors results in a portfolio structure that creates scope for action to capture the market exposure deemed suitable. This means that Länsförsäkringar Sak conducts portfolio management that creates rapid scope for action following changed market conditions at a lower management cost.

### Organisation and control

Länsförsäkringar Sak's Board of Directors adopts policies and instructions for the management of investment assets. This entails the Board continuously remaining informed of the performance of the operations and, in the event of unsatisfactory performance, deciding on corrective measures.

The task of the Group-wide Asset Management unit within Länsförsäkringar AB is to conduct asset management activities on behalf of Länsförsäkringar Sak. This mandate includes

assuming responsibility for formulating proposals for strategic allocation, proposing management structures and, after decisions are made by the Board, assuming responsibility for implementing and following up these decisions.

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

portfolio's benchmark index. A large portion of the equity portfolio is index management, which means that the manager does not deviate from a comparative index.

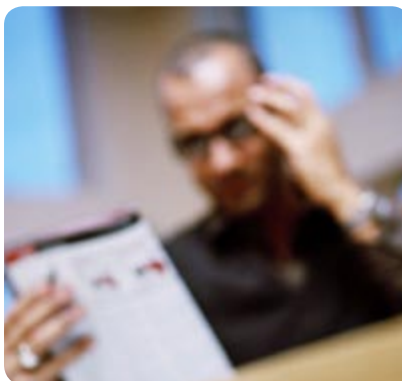
The outsourced management assignments are evaluated by Asset Management, which regularly analyses the asset managers and management results. Länsförsäkringar Sak now works with several external managers.

## Environment



Environmental work is an important part of Länsförsäkringar Sak's operations and is based on a joint environmental policy with the regional insurance companies. This policy stipulates that the environment shall be taken into consideration in all decisions made and actions undertaken in order to reduce the environmental impact through continuous improvement. The policy also emphasises the importance of skills development and influencing customers and suppliers to contribute to the sustainable development of society.

Länsförsäkringar Sak has held ISO 14001 environmental management systems certification for five years. This certification is a guarantee that systematic environmental activities are conducted with the aim of continuously reducing the impact on the environment, something that imposes rigorous demands on the exchange of experience and advanced training. This certification is maintained through continuous audits by the SP Technical Research Institute of Sweden certification company.



# Employees

The jointly owned Länsförsäkringar AB underwent an extensive change process in autumn 2008 to enhance competitiveness and reduce costs. The measures implemented are intended to strengthen the company's customer offering in order to more rapidly realise Länsförsäkringar's growth strategies. The number of personnel was reduced by approximately 20% as part of the process of reducing costs. The company's need for the right competencies was a critical factor in the appointment of the new organisation that came into effect on January 1, 2009. In tackling redundancies, Länsförsäkringar AB's basis has been to assume responsibility for and help employees find a new solution, an approach it has taken in previous personnel-reduction processes. The process comprises three parts:

1. A development programme in the Resources organisation aimed at providing support, development and possibilities for future solutions. The focus is on identifying new paths and alternatives to find new work based on employees' individual skills.
2. Financial support in the form of a volunteer offering based on length of service and age at December 31, 2008.

3. A pension offer for employees who are 60 years old or above on December 31, 2008.

At Länsförsäkringar Sak, 73 employees left the company in connection with the change process described above. A number of employees were also transferred to new positions at companies in the Länsförsäkringar AB Group.

Business planning is a process conducted each year within Länsförsäkringar Sak and involves the majority of employees. Clear, individual employee targets based on the action plans contained in the business plan are set during career-development discussions, which include annual planning and target discussions. Individual target contracts are prepared for each employee and are used as documentation during career-development discussions.

A financial stimulus in the form of target-based remuneration is paid when Länsförsäkringar Sak and the Parent Company Länsförsäkringar AB meet their overall targets and the employee's performance meets the individual goals of the target contract. The model for target-based remuneration encompasses all permanent employees not included in an individual bonus programme. The maximum

amount of target-based remuneration is decided by the Board based on Länsförsäkringar Sak's operating profit.

An annual employee survey known as the CEI (Committed Employee Index) is conducted within Länsförsäkringar Sak. The overall result of the employee survey was 77.1%, which is about the same as in the preceding year. The percentage of employees who responded to the survey was 89%. New measuring and work methods are being introduced in connection with the new organisational structure.

Sickness absence for 2008 was 2.9%, which is in line with 2007. The systematic health programme, including action plans at both the organisational and individual level based on health and work profiles, preventive rehabilitation and dialogue concerning health issues during career-development discussions, yielded such results as low sickness absence. Long-term employee health rose from 71.9% in 2007 to 73.3% in 2008.

All Länsförsäkringar Sak employees have medical insurance as a salary benefit.

# Earnings and financial position

The company's loss before appropriations and tax for 2008 amounted to SEK 2,807 M (profit: 1,045). Income from insurance operations amounted to SEK 309 M (231) and the remaining investment income to negative SEK 3,116 M (pos: 814) (refer also to "Profit from financial operations").

## Profit from insurance operations

Premiums earned after ceded reinsurance rose by 10% compared with the preceding year and amounted to SEK 1,473 M (1,340). This increase is mainly attributable to higher volumes for products within medical insurance.

In 2008, business was underwritten in the areas of medical, accident, cargo, liability and some property insurance, commercial automotive cover for national customers (third-party liability and motor-vehicle insurance), assumed reinsurance and recycling insurance.

Claims payments after ceded reinsurance amounted to SEK 1,156 M (1,094), resulting in a claims ratio of 78% (82).

As in the preceding year, the claims ratio was affected positively by the run-off profit on older year classes. The claims outcome was favourable in all areas during the year. Since 2004, most of the third-party liability policies have been underwritten by the local regional insurance companies. The provision for claims incurred for third-party liability insurance underwritten up to and including 2003 is run off within Länsförsäkringar Sak Försäkrings AB.

In December 2008, Länsförsäkringar Sak signed an agreement with 24 regional insurance companies for claims adjustment of personal injuries

in run-off third-party liability insurance.

Technical reserves, before ceded reinsurance (gross), increased by SEK 7 M, while technical reserves for own account declined by SEK 165 M. The increase in gross reserves is attributable to the development of the Länsförsäkringar Alliance's joint reinsurance solution and growing business in the healthcare area. The decline in reserves for own account is due to the run-off of the provision for claims incurred in third-party liability insurance (run-off transactions).

The reserve run-off result, which can be described as a short-term measurement of the quality of the provision for claims incurred, amounted to SEK 205 M (166), gross, or slightly more than 1% of the provision for claims incurred at the beginning of the year. This run-off profit is primarily attributable to commercial and property insurance, cargo insurance and medical and accident insurance.

Investment income transferred from financial operations amounted to SEK 464 M (383). For third-party liability insurance, which remains the line of business with the largest technical reserves and the largest investment income, an interest rate of 3.5% (3.0) was used.

The insurance operations displayed favourable profitability, although the combined ratio has historically been and remains at a high level, since the incidence of transactions of a long duration is frequent. This means that the investment income transferred to insurance operations is relatively high compared with premiums earned after ceded reinsurance.

Operating expenses increased compared with the preceding year and amounted to SEK 478 M (406). The expense ratio rose to 32% (30). Net profit for the year was charged with continued costs for the establishment of operations in Latvia and Lithuania, and costs associated with the restructuring of the Länsförsäkringar AB Group.

Third-party liability insurance also remained a major line of business, recognising a profit of SEK 239 M (150). This profit derived from the run-off transactions described above and from the national motor-vehicle insurance transactions that will partly continue to be underwritten within Länsförsäkringar Sak.

Assumed reinsurance, comprising active reinsurance business and run-off business, also generated a profit during the year. The Länsförsäkringar Alliance received very few major claims during the year. The positive claims profile strengthened the procurement of reinsurance for 2009 and the prices for external reinsurance were marginally increased.

Internationally assumed transactions reported favourable results and the market situation has improved.

All insurance classes reported positive results, with the exception of motor vehicle insurance and direct insurance for foreign risks. The motor vehicle insurance class was charged with expenses for unexpired risk reserves and direct insurance for foreign risks pertains to expense for incurred for the establishment of operations in the Baltic States.

### Profit from financial operations

The market value of investment assets (excluding shares and participations in group companies) amounted to SEK 13,384 M (18,528) at year-end. The distribution among various classes of assets is shown in the table below.

The total return for 2008 was negative 13.3% (8.4), while the five-year average was 3.5% (7.3). Interest-bearing assets provided a total return of 3.2% (4.1), while equities generated a return of negative 44.6% (16.8).

Property provided a return totalling 3.0% (8.6). The total return includes a change in the surplus values of property in Group companies. These surplus values are not included in investment income in profit and loss.

### Solvency

Solvency capital declined during the year and amounted to SEK 2,061 M

(4,852). The solvency margin declined to 129% (364).

### Personnel, salaries and remuneration

Information regarding the average number of employees, salaries and remuneration as well as details concerning salary and other remuneration to senior executives are provided in Note 34 Employees and personnel costs. Information regarding sickness absence and gender distribution in executive management is also provided in Note 34.

### Change in accounting principles

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority concerning insurance companies' selection of interest rates for the calculation of technical reserves (FFFS 2008:23), the opening balance of the

provision for claims annuities has been recalculated. Since this entails a change to the accounting principles, the effect totalling SEK 38 M has been recognised against shareholders' equity.

### Proposed appropriation of profit

The proposed appropriation of profit is presented on page 41. The result of the year's operations and the company's position at December 31, 2008 are presented in the following income statement and balance sheet and the accompanying notes.

#### DISTRIBUTION OF INVESTMENT ASSETS, LÄNSFÖRSÄKRINGAR SAK (INCLUDING PROPERTIES IN GROUP COMPANIES)

Amounts in SEK M Investments	Market value, Jan. 1, 2008	%	Market value, Dec. 31, 2008	%
Interest-bearing	7,468	40.3	10,291	76.9
Shares and change in strategic holdings	8,321	44.9	497	3.7
Property	2,739	14.8	2,601	19.4
<b>Total</b>	<b>18,528</b>	<b>100</b>	<b>13,384</b>	<b>100</b>





## Five-year summary

RESULTS, SEK M	2004	2005	2006	2007	2008
Premiums earned (after ceded reinsurance)	2,260	1,045	1158	1,340	1,473
Investment income transferred from financial operations	475	391	368	383	464
Claims payments after ceded reinsurance	-2,134	-932	-916	-1,094	-1,156
Operating expenses	-357	-233	-333	-406	-478
Other income and expenses	-	-	-	7	6
<b>Technical result for insurance operations</b>	<b>244</b>	<b>271</b>	<b>277</b>	<b>231</b>	<b>309</b>
Remaining investment income	396	1,585	314	814	-3,116
<b>Profit/loss before appropriations and tax</b>	<b>641</b>	<b>1,856</b>	<b>591</b>	<b>1,045</b>	<b>-2,807</b>
<b>Net profit/loss for the year</b>	<b>747</b>	<b>1,621</b>	<b>457</b>	<b>577</b>	<b>-1,800</b>

### Premium income (after ceded reinsurance)

Non-life insurance	1,137	1,073	1,148	1,332	1,601
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### FINANCIAL POSITION, SEK M

Investment assets	16,416	17,312	16,564	16,721	13,326
Technical reserves (after ceded reinsurance)	13,221	12,896	12,461	12,705	12,539

### Solvency capital

Shareholders' equity	1,420	2,517	1,718	2,143	406
Deferred tax	-183	1	132	128	-533
Untaxed reserves	1,229	1,229	1,229	1,479	1,139
Surplus values	633	556	811	1,102	1,049
<b>Solvency capital</b>	<b>3,100</b>	<b>4,304</b>	<b>3,890</b>	<b>4,852</b>	<b>2,061</b>
<b>Solvency margin, %</b>	<b>273</b>	<b>401</b>	<b>339</b>	<b>364</b>	<b>129</b>
<b>Capital base</b>	<b>2,257</b>	<b>2,880</b>	<b>4,060</b>	<b>4,238</b>	<b>2,513</b>
<b>Required solvency margin</b>	<b>595</b>	<b>291</b>	<b>409</b>	<b>452</b>	<b>438</b>

### KEY FIGURES

#### Insurance operations

Claims ratio	94	89	79	82	78
Expense ratio	16	22	29	30	32
Combined ratio	110	111	108	112	111

#### Asset management, %

Direct yield	3.0	3.5	3.1	3.1	3.3
Total return, including properties in Group companies	4.5	11.7	6.4	8.4	-13.3

From January 1, 2007, the company applies legally restricted IFRS.

The figures for 2006 in the five-year summary are restated in accordance with IFRS. The figures for 2004-2005 were not restated in accordance with IFRS.

#### Direct yield

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

#### Total return ratio

Total return ratio refers to the sum of direct yield and changes in the value of the investment portfolio for the assets encompassed by the investment principles, including direct transaction costs but excluding management costs, in relation to the average value of these assets during the year.

# Financial statements

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## Income statement

TECHNICAL RECOGNITION OF NON-LIFE INSURANCE OPERATIONS, SEK M		2008	2007
<b>Premiums earned (after ceded reinsurance)</b>			
Premium income	Note 3	4,000.1	3,283.7
Premiums for ceded reinsurance		-2,398.8	-1,951.6
Change in provision for unearned premiums and unexpired risks		-207.3	46.9
Reinsurers' portion of change in provision for unearned premiums and unexpired risks		79.4	-38.6
		<b>1,473.4</b>	<b>1,340.4</b>
Investment income transferred from financial operations	Note 4	463.6	383.2
Other technical revenue (after ceded reinsurance)	Note 5	6.1	11.8
<b>Claims payments (after ceded reinsurance)</b>			
<b>Claims paid</b>			
Before ceded reinsurance		-2,765.7	-2,601.6
Reinsurers' portion		1,207.2	1,207.7
	Note 6	<b>-1,558.5</b>	<b>-1,393.9</b>
<b>Change in provision for claims outstanding</b>			
Before ceded reinsurance		333.6	-867.2
Reinsurers' portion		68.8	1,167.3
		<b>402.4</b>	<b>300.1</b>
<b>Claims payments (after ceded reinsurance)</b>		<b>-1,156.1</b>	<b>-1,093.8</b>
Operating expenses	Note 7	-477.7	-406.3
Other technical expenses (after ceded reinsurance)	Note 5	-	-4.4
<b>TECHNICAL RESULT, NON-LIFE INSURANCE OPERATIONS</b>		<b>309.4</b>	<b>230.9</b>
<b>NON-TECHNICAL RECOGNITION</b>			
Technical result, non-life insurance operations		309.4	230.9
Investment income, revenue	Note 8	841.9	2,528.2
Unrealised gains on investment assets	Note 10	220.6	119.5
Investment income, expenses	Note 9	-3,001.5	-421.8
Unrealised losses on investment assets	Note 10	-713.9	-1,028.9
Investment income transferred to non-life insurance operations		-463.6	-383.2
<b>Profit/loss before appropriations and tax</b>		<b>-2,807.2</b>	<b>1,044.7</b>
Appropriations		340.6	-250.0
<b>Profit/loss before tax</b>		<b>-2,466.6</b>	<b>794.7</b>
Tax on net profit for the year	Note 11	666.3	-217.6
<b>Net profit/loss for the year</b>		<b>-1,800.3</b>	<b>577.0</b>

## Performance analysis

SEK M	Total	Medical and accident	Household and homeowner	Commercial and property	Motor vehicle	Third-party liability	Marine. air and cargo	TFA	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
<b>Technical result, non-life insurance operations</b>											
Premiums earned (after ceded reinsurance)	1,473.4	574.0	–	209.8	128.9	68.0	96.7	–	1 077.4	0.3	395.7
Investment income transferred from financial operations	463.6	50.1	0.0	38.9	4.0	325.2	7.3	–	425.6	0.0	38.1
Other technical revenue (after ceded reinsurance)	6.1	–	–	–	–	6.1	–	–	6.1	–	–
Claims payments (after ceded reinsurance)	–1,156.1	–415.4	–0.1	–118.6	–138.3	–109.0	–47.5	0.0	–828.9	–0.2	–327.0
Operating expenses	–477.7	–177.0	–	–55.8	–35.4	–51.0	–32.9	–	–352.2	–20.3	–105.2
Technical result, non-life insurance operations, 2008	309.4	31.6	0.0	74.3	–40.9	239.2	23.6	0.0	327.9	–20.2	1.6
Technical result, non-life insurance operations, 2007	230.9	–14.8	0.2	88.4	0.4	150.5	2.3	0.2	227.2	0.7	3.0
Gross run-off profit/loss, 2008	205.2	62.6	0.2	77.0	4.4	–60.4	45.2	–	128.9	–1.6	78.0
<b>Technical reserves, before ceded reinsurance</b>											
Provision for unearned premiums and unexpired risks	605.6	137.7	1.1	163.7	264.5	23.7	20.5	–	611.3	0.2	–6.0
Provision for claims outstanding	17,664.7	1,189.5	34.6	981.1	37.3	9,456.7	198.2	–	11,897.3	4.4	5,762.9
Total technical reserves, before ceded reinsurance	18,270.3	1,327.2	35.7	1,144.9	301.7	9,480.4	218.7	–	12,508.7	4.7	5,756.9
<b>Reinsurers' portion of technical reserves</b>											
Provision for unearned premiums and unexpired risks	155.1	–	–	76.9	90.5	–	1.0	–	168.4	0.1	–13.3
Provision for claims outstanding	5,575.8	18.1	0.6	62.1	4.9	473.4	46.9	–	606.0	0.4	4,969.5
Total reinsurers' portion of technical reserves	5,730.9	18.1	0.6	139.0	95.4	473.4	47.9	–	774.3	0.4	4,956.2

## Notes to performance analysis

SEK M	Total	Medical and accident	Household and homeowner	Commercial and property	Motor vehicle	Third-party liability	Marine. air and cargo	TFA	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
<b>Note A Premiums earned (after ceded reinsurance)</b>											
Premium income	4,000.1	590.3	–	379.1	351.1	84.8	103.5	–	1,508.8	0.9	2,490.5
Premiums for ceded reinsurance	2,398.8	0.0	–	–158.4	–110.6	–18.2	–6.8	–	–294.0	–0.4	–2,104.4
Change in provision for unearned premiums and unexpired risks	–207.3	–16.3	–	6.7	–202.1	1.4	0.4	–	–209.9	–0.2	2.8
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	79.4	–	–	–17.6	90.5	–	–0.5	–	72.4	0.0	6.9
<b>Note B Claims payments (after ceded reinsurance)</b>											
<b>Claims paid</b>											
Before ceded reinsurance	–2,765.7	–396.9	–1.0	–197.8	–156.6	–605.2	–55.7	0.0	–1,413.3	0.0	–1,352.3
Reinsurers' portion	1,207.2	2.1	0.1	57.8	12.6	59.6	2.1	–	134.1	0.2	1,072.8
<b>Change in provision for claims outstanding</b>											
Before ceded reinsurance	333.6	–19.3	1.1	68.7	0.8	432.2	9.6	–	493.0	–0.7	–158.7
Reinsurers' portion	68.8	–1.2	–0.2	–47.2	4.8	4.5	–3.4	–	–42.7	0.3	111.2

## Balance sheet

SEK M		Dec. 31. 2008	Dec. 31. 2007
<b>ASSETS</b>			
<b>Intangible assets</b>			
Other intangible assets	Note 12	120.4	133.8
<b>Investment assets</b>			
Land and buildings	Note 13	93.0	93.0
Investments in Group companies and associated companies			
Shares and participations in Group companies	Note 14	1,833.3	480.0
Loans to Group companies	Note 15	1,364.1	1,390.0
Shares and participations in associated companies	Note 16	18.7	19.0
Other financial investment assets			
Shares and participations	Note 17	939.8	5,325.2
Bonds and other interest-bearing securities	Note 18	8,819.5	8,857.2
Derivatives	Note 19	206.1	523.4
Deposits with companies that have ceded reinsurance		51.7	33.1
		<b>13,326.0</b>	<b>16,720.8</b>
<b>Reinsurers' portion of technical reserves</b>			
Unearned premiums and unexpired risks		155.1	75.3
Claims outstanding		5,575.8	5,482.9
	Note 25	<b>5,730.9</b>	<b>5,558.1</b>
<b>Receivables</b>			
Receivables, direct insurance	Note 20	195.9	158.8
Receivables, reinsurance		216.5	297.9
Deferred tax	Note 26	532.7	–
Other receivables	Note 21	836.6	1,400.0
		<b>1,781.7</b>	<b>1,856.6</b>
<b>Other assets</b>			
Cash and bank balances		541.6	901.4
		<b>541.6</b>	<b>901.4</b>
<b>Prepaid expenses and accrued income</b>			
Accrued interest and rental income		163.2	126.9
Prepaid acquisition costs	Note 23	14.4	10.5
Other prepaid expenses and accrued income	Note 24	39.5	94.2
		<b>217.1</b>	<b>231.7</b>
<b>TOTAL ASSETS</b>		<b>21,717.7</b>	<b>25,402.4</b>

SEK M		Dec. 31. 2008	Dec. 31. 2007
<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		200.0	200.0
Other reserves			
Statutory reserve		4.0	4.0
Profit brought forward		2,002.6	1,362.3
Net profit/loss for the year		– 1,800.3	577.0
		<b>406.3</b>	<b>2,143.4</b>
<b>Untaxed reserves</b>			
Contingency reserve		1,138.8	1,138.8
Equalisation reserve		–	90.6
Tax allocation reserve		–	250.0
		<b>1,138.8</b>	<b>1,479.4</b>
<b>Technical reserves (before ceded reinsurance)</b>			
Unearned premiums and unexpired risks		605.6	399.3
Claims outstanding		17,664.7	17,863.6
	Note 25	<b>18,270.3</b>	<b>18,262.9</b>
<b>Other provisions</b>			
Pensions and similar commitments		3.7	6.9
Current tax		–	221.8
Deferred tax	Note 26	–	127.6
Other provisions	Note 27	200.7	198.0
		<b>204.4</b>	<b>554.3</b>
<b>Deposits from reinsurers</b>		<b>46.2</b>	<b>51.9</b>
<b>Liabilities</b>			
Liabilities, direct insurance	Note 28	446.8	364.7
Liabilities, reinsurance		278.2	378.5
Derivatives	Note 19	449.6	301.6
Loans from Parent Company	Note 29	–	1,160.0
Other liabilities	Note 30	99.1	497.3
		<b>1,273.7</b>	<b>2,702.2</b>
<b>Accrued expenses and deferred income</b>			
Other accrued expenses and deferred income	Note 31	<b>378.0</b>	<b>208.3</b>
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>		<b>21,717.7</b>	<b>25,402.4</b>
<b>Memorandum items</b>			
	Note 33		
Pledged assets		13,171.5	13,816.6
Contingent liabilities		116.4	156.6

## Summary of changes in shareholders' equity

### Summary of changes in shareholders' equity

	Share capital	Statutory reserve	Profit brought forward	Net profit/loss for the year	Total shareholders' equity
<b>SEK M</b>					
Opening shareholders' equity, January 1, 2007	200.0	4.0	1,519.4		1,723.4
Adjustment for changed accounting principle			-3.6		-3.6
Adjusted shareholders' equity, January 1, 2007	200.0	4.0	1,515.8		1,719.8
Dividends to Parent Company			-150.0		-150.0
Group contributions paid/received			-3.5		-3.5
Net profit for the year				577.0	577.0
<b>Closing shareholders' equity, December 31, 2007</b>	<b>200.0</b>	<b>4.0</b>	<b>1,362.3</b>	<b>577.0</b>	<b>2,143.4</b>
Opening shareholders' equity, January 1, 2008	200.0	4.0	1,939.3		2,143.4
Adjustment for changed accounting principle			-38.5		-38.5
Dividends to Parent Company			-350.0		-350.0
Group contributions paid/received			1.7		1.7
Shareholders' contribution received			450.0		450.0
Net loss for the year				-1,800.3	-1,800.3
<b>Closing shareholders' equity, December 31, 2008</b>	<b>200.0</b>	<b>4.0</b>	<b>2,002.6</b>	<b>-1,800.3</b>	<b>406.3</b>
Number of shares at a par value of SEK 100 each	2,000,000				

## Cash-flow statement

<b>SEK M</b>	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Profit/loss before tax	-2,807.2	1,044.7
Adjustment for non-cash items	332.7	1,172.5
Tax paid	-214.1	-
<b>Cash flow from operating activities before working capital changes</b>	<b>-2,688.6</b>	<b>2,217.2</b>
<b>Cash flow from working capital changes</b>		
Investments in investment assets, net	4,228.5	-925.6
Increase(-)/Decrease(+) in operating receivables	344.4	-1,015.5
Increase(+)/Decrease(-) in operating liabilities	-1 267.3	440.5
<b>Cash flow from operating activities</b>	<b>617.0</b>	<b>716.6</b>
<b>Investing activities</b>		
Shareholders' contributions paid	-83.2	-134.0
Acquisition of subsidiaries	-964.4	-29.6
Change in loans raised	80.0	71.3
Change in holdings in associated companies	0.3	-
Investments in intangible assets	-11.2	-135.2
<b>Cash flow from investing activities</b>	<b>-978.5</b>	<b>-227.5</b>

### Cash-flow statement, cont.

<b>SEK M</b>	<b>2008</b>	<b>2007</b>
<b>Financing activities</b>		
Shareholders' contribution received	450.0	-
Dividends to Parent Company	-350.0	-150.0
Group contributions paid/received	-4.8	-
Loans raised	Note 15 -54.1	-
<b>Cash flow from financing activities</b>	<b>41.1</b>	<b>-150.0</b>
<b>Net cash flow for the year</b>	<b>-320.4</b>	<b>339.1</b>
Cash and cash equivalents, January 1	1,269.2	930.1
Cash and cash equivalents, December 31	948.8	1,269.2

### SUPPLEMENTARY INFORMATION TO CASH-FLOW STATEMENT

<b>SEK M</b>	<b>2008</b>	<b>2007</b>
<b>Interest paid and received and dividends received</b>		
Dividends received	75.2	75.2
Interest received	487.8	487.8
Interest paid	-146.7	-146.7

### Adjustment for non-cash items

Depreciation/amortisation and impairment of assets	36.7	38.3
Unrealised gains/losses on investment assets	493.3	909.4
Technical reserves after ceded reinsurance	-165.4	244.8
Pension provisions	-14.2	2.4
Other provisions	-46.1	-22.4
	<b>332.7</b>	<b>1,172.5</b>

### Cash and cash equivalents

Cash and bank balances	541.6	901.4
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### Receivables from Group companies

Länsförsäkringar Bank	211.6	120.4
Länsförsäkringar AB, Group bank account	195.6	247.4
	<b>948.8</b>	<b>1,269.2</b>

### Acquisition of subsidiaries

#### Acquired assets and liabilities

Land and buildings	197.8	-
Goodwill	369.1	-
Intangible assets	463.4	-
Tangible assets	15.4	-
Operating receivables	532.3	3.7
Investment assets	990.1	69.5
Cash and cash equivalents	274.2	0.9
<b>Total assets</b>	<b>2,644.5</b>	<b>74.1</b>

Deferred tax	-297.5	-0.9
Technical reserves	-1,164.4	-32.0
Operating liabilities	-196.8	-10.7
<b>Total liabilities and provisions</b>	<b>-1,658.7</b>	<b>-43.6</b>

Paid purchase price	1,238.6	30.5
Less acquired cash and cash equivalents	-274.2	-0.9
<b>Impact on cash and cash equivalents</b>	<b>964.4</b>	<b>29.6</b>

# Notes to the financial statements

## NOTE 1 ACCOUNTING PRINCIPLES

The Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (ÅRFL), the regulations and general advice of the Swedish Financial Supervisory Authority concerning annual reports in insurance companies (FFFS 2008:26) and reporting recommendation RFR 2.1 issued by the Swedish Financial Reporting Board. Länsförsäkringar Sak applies legally restricted IFRS, meaning the international financial reporting standards adopted for application with the restrictions stipulated by RFR 2.1 and FFFS 2008:26. This means that all IFRS and interpretation statements approved by the EU are applied as far as possible within the framework of Swedish legislation and taking into consideration the connection between accounting and taxation.

The accounting principles applied below have been applied consistently for all periods presented in this Annual Report. An exception is the five-year summary, which is restated for 2008-2006 in accordance with legally restricted IFRS.

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

### Change in accounting principles

In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority concerning insurance companies' selection of interest rates for the calculation of technical reserves (FFFS 2008:23), the opening balance of the provision for claims annuities has been recalculated. Since this entails a change to the accounting principles, the effect totalling SEK 38 M has been recognised against shareholders' equity.

### Assessments and estimates in the financial statements

The preparation of the financial statements in accordance with legally restricted IFRS requires that management make a number of assessments and estimates, and make assumptions that affect the application of the accounting principles and the recognised amounts of assets, liabilities income and expenses. These assessments and estimates are based on historical experience and a range of other factors considered reasonable given the prevailing circumstances. The assumptions and assessments that form the basis of the estimates and assessments are reviewed regularly. The valuation of the company's provisions is described in the section below concerning the recognition of insurance contracts and in Note 2, which provides information on risks in the operations.

### Foreign currency

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

### Related parties

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Försäkrings AB Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB and the 24 regional insurance companies.

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

All service income derives from the Länsförsäkringar Alliance. Refer to Note 36 Disclosures on related parties.

### Insurance contracts

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

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

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

### Premium income

Premium income is recognised as the total gross premium for

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

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

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

### Technical reserves

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

#### Provision for unearned premiums and unexpired risks

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

Normally, the provision is strictly proportional to time, referred to as a pro rata temporis calculation. For certain products with small volumes, unearned premiums are not calculated as a share of the premium income.

The cost estimate is based on Länsförsäkringar Sak's experience, but consideration is also given to both the observed and forecast trend in relevant costs.

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

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

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

#### Provision for claims outstanding

The provision for claims outstanding should cover anticipated costs for claims for which final settlement has not been completed, including claims that have been incurred but have not yet been

reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions.

With the exception of medical and accident insurance for children and claims annuities, the provision for claims outstanding is not discounted.

In the case of medical and accident insurance for children, a business for which active operations are transferred to the regional insurance companies, discounting at a rate of 3.0% is applied. The provision for claims annuities is discounted in line with customary life assurance methods.

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

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

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

### Prepaid acquisition costs for insurance contracts

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

### Operating expenses

All operating expenses are classified in profit and loss according to the following functions: acquisition, claims adjustment, administration, commission and profit shares in ceded reinsurance, investment income expenses and, in certain cases, other technical expenses. Operating expenses for claims adjustment are recognised under "Claims payments paid." The service operations conducted by Länsförsäkringar Sak are also recognised net under "Operating expenses" (see Note 7). Operating expenses for financial management are recognised under "Investment income, expenses."

### Reinsurance

Contracts signed between Länsförsäkringar Sak and reinsurers

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

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

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

## **Investment income**

### **Investment income transferred from financial operations**

The insurance operations have been assigned an interest totalling half the premiums earned after ceded reinsurance and the average of opening and closing provisions for claims outstanding after ceded reinsurance during the year. This interest rate, which comprises risk-free interest, was set at 3.5% for 2008.

### **Investment income, revenue**

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

### **Investment income, expenses**

Costs for investment assets are recognised under "Investment income, expenses." This item includes operating expenses for land and buildings, asset management expenses, interest expense, exchange-rate losses and capital losses.

### **Realised and unrealised changes in value**

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

## **Tax**

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

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

Deferred tax is calculated in accordance with the balance-

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

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

## **Other intangible assets**

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

For customer registers, amortisation commences from the date of acquisition of the register. The asset comprises a customer register for insurance products in medical and accident insurance for adults, group accident insurance and group medical insurance.

For proprietary software, amortisation commences when the system or part of the system is put into use. The assets comprise proprietary software that is deemed to be of material value for the operations in the coming year. Only expenses related to new development and major system changes are capitalised. Capitalised development expenditures are amortised from the date on which the asset was utilised in production and over its estimated useful life.

Useful life is set at five years, except for the customer register for group accident and group medical insurance, which has a useful life of eight years. If, at the accounting year-end, there is an indication that the value according to plan of an intangible asset is higher than its recoverable amount, an assessment is made of the asset's recoverable amount. Recoverable amount refers to the higher of the asset's net selling price and its value in use. If the established recoverable amount is less than the carrying amount, the asset's carrying amount is impaired to the recoverable amount.

## **Land and buildings**

Land and buildings are measured at fair value. The valuation of the property portfolio was performed by an external appraiser. The valuation primarily used a location-price analysis based on sales of similar properties. The transaction market came to a standstill in late 2008, with very few property transactions completed. The location-price analysis was supplemented with a cash-flow statement. Since valuation is based on fair value, depreciation is not applied to property.

## **Financial instruments**

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

## **Classification and valuation**

The cost of a financial instrument classified as a financial asset recognised at fair value through profit and loss comprises

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

#### **Financial assets measured at fair value through profit and loss**

Financial instruments in this category are continuously measured at fair value, with changes in value recognised in profit and loss. This includes derivatives with positive fair values.

#### **Financial instruments listed on an active market**

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

#### **Derivatives**

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

#### **Shares and interest-bearing securities**

Shares are measured at fair value. Fair value pertains to the sales value on the balance-sheet date. For shares listed on an authorised exchange or marketplace, the sales value normally pertains to the most recent buying-rate on the balance-sheet date or, if this is not available, the most recently listed price paid.

Bonds and other interest-bearing securities are also measured at fair value according to the most recently listed buying-rate. Capital gains/losses on bonds and other interest-bearing securities are calculated as the difference between sales value and amortised cost. In the calculation of amortised cost, the difference between cost and exercise price are allocated in profit and loss over the remaining term. The change in amortised cost is recognised net under "Interest income." Unrealised changes comprise the difference between fair value and amortised cost.

#### **Other interest-bearing assets and liabilities**

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

#### **Loan receivables and accounts receivable**

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

#### **Financial liabilities measured at fair value through profit and loss**

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

#### **Other financial liabilities**

Other financial liabilities (Borrowing and other financial liabilities, for example, accounts payable) measured at amortised cost.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash funds and immediately available balances at banks and similar institutions.

#### **Untaxed reserves**

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

The accumulated value of the provisions is recognised under the heading "Untaxed reserves" in the balance sheet, of which 26.3% can be considered to be deferred tax liabilities and 73.7% as restricted shareholders' equity. The deferred tax liabilities can be described as interest-free liabilities with an undetermined duration. Untaxed reserves are offset, where appropriate, against loss carry-forwards or are subject to taxation when they are dissolved.

#### **Contingency reserve**

The contingency reserve is a collective contingency-related strengthening of technical reserves. Access is limited and requires official permission in certain cases.

#### **Equalisation reserve**

The purpose of the equalisation reserve is to even out changes in the results of insurance operations over time. New provisions may not be made to the equalisation reserve

#### **Tax allocation reserve**

Swedish tax legislation permits transfers to tax allocation reserves under certain circumstances. Provisions may be made at a maximum of 25% of taxable income. A provision may be reversed for taxation not later than the sixth year after the provision is established. By making provisions to tax allocation reserves, earnings can be equalised for tax purposes between different years.

#### **Pensions**

##### **Pensions through insurance**

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer.

Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that a company shall, as a rule, recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure shall also be presented in the accounts according to the requirements for defined-benefit pension plans.

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

### **Contingent liabilities**

Contingent liabilities are recognised when a commitment exists that has not been recognised as a liability or provision because it is not likely that an outflow of resources will be required.

### **Cash-flow statement**

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

## NOTE 2 RISK OCH RISKHANTERING

### Focus and targets of Länsförsäkringar Sak's risk management

Risks constitute a significant aspect of Länsförsäkringar Sak's operational environment and business activities. To manage the risks, Länsförsäkringar Sak has clearly defined strategies and areas of responsibility, together with a strong commitment to the risk-management process. The main purpose of risk management is to ensure that risks are identified, that risk assessment is impartial, and that the capital base is adequate in relation to the risks. This is important for being able to guarantee, with a high degree of reliability, the commitments made to customers.

The following factors characterise Länsförsäkringar Sak's risk taking:

- conducting non-life insurance operations
- focusing primarily on small and medium-sized companies and private individuals
- relatively low retention in non-life insurance operations
- operations focus on Sweden
- taking risk in investment portfolios by having significant exposure to the equities market, on the condition that the company's capital strength and decisions on the use of capital in the Länsförsäkringar AB Group permit this. At year-end 2008, exposure to the equities market was low due to the high level of volatility in the equities market and diminished capital strength.

### THE FOLLOWING SUMMARY PROVIDES AN OVERVIEW OF LÄNSFÖRSÄKRINGAR SAK'S RISK EXPOSURE

SEK billion	Dec. 31, 2008	Change from Dec. 31, 2007		Dec. 31, 2008	Change from Dec. 31, 2007
<b>Investments</b>			Shareholders' equity	0.4	-1.7
Shares and participations	0.9	-4.4	Untaxed reserves	1.1	-0.3
Interest-bearing assets	8.8	-	<b>Technical reserves (gross)</b>		
Derivatives	0.2	-0.3	Third-party liability	9.5	-0.4
Other investment assets	2.0	1.3	Commercial and property	1.1	-0.1
Loans to Group companies	1.4	-	Medical and accident	1.3	-
			Assumed reinsurance	5.8	0.3
			Other insurance classes	0.6	0.2
Reinsurers	5.7	0.1	Loans from Parent Company	-	-1.2
Other assets	2.7	-0.4	Other liabilities	1.9	-0.5
<b>Total assets</b>	<b>21.7</b>	<b>-3.7</b>	<b>Total shareholders' equity and liabilities</b>	<b>21.7</b>	<b>-3.7</b>

Länsförsäkringar Sak's largest risk exposure is deemed to be the commitments in third-party liability insurance. The company is exposed to many different types of risk. In the non-life insurance operations, insurance risk can be divided into three areas: premium risk, reserve risk and disaster risk. The company's earnings are largely governed by the level of return in asset management, meaning that it is important to follow and handle market risk. Länsförsäkringar Sak employs a Dynamic Financial Analysis (DFA) model for quantifying individual risks and the overall risk profile. The DFA model is based on both the investment and insurance operations and takes into account, for example, the reinsurance structure and allocation of investments. Operational risk, defined as the risk of losses arising due to inappropriate or unsuccessful processes, human error, incorrect systems or external events, are found in all parts of the company's operations.

### Risk management organisation

Länsförsäkringar Sak's process for internal controls and risk management was designed for the purpose of identifying risks and providing a reasonable assurance of reliability in financial reporting, and to ensure that financial reports are prepared in

accordance with the law and generally accepted accounting principles and other requirements imposed on insurance companies.

Länsförsäkringar Sak's Risk Manager is responsible for risk reporting and is charged with analysing and reporting the total risk exposure and promoting an efficient risk-management organisation within the company. In 2008, reporting takes place in accordance with the Solvency II risk model.

Within Länsförsäkringar Sak, there is a Finance/Risk Committee that prepares and discusses matters relating to risk. In addition to this, the Länsförsäkringar AB Group has a joint Finance Committee, which serves as a forum for financial business-environment and macroeconomic analyses. The Committee prepares and coordinates issues concerning asset management that, for example, are to be submitted to Länsförsäkringar Sak's Board of Directors for a decision. The Committee also ensures compliance with investment orientations decided by the Boards and established targets. The Board of Directors of Länsförsäkringar Sak appoints a representative to the Finance Committee.

Within the Länsförsäkringar AB Group's common areas, every effort is made to coordinate procedures and find joint courses of action by establishing Group-wide basic rules. These basic

rules are described in controlling documents comprising policies, guidelines and instructions. The controlling documents must be approved and incorporated in each subsidiary, which is the responsibility of each President. Examples of controlling documents are the Group manual, reporting manual, guidelines for handling ethical issues, authorisation manual and security policy. In addition to the Group-wide controlling documents, Länsförsäkringar Sak has its own company-specific controlling documents, such as the company manual, authorisation manual, investment guidelines, insurance guidelines and guidelines for underwriting business. The controlling documents are updated and then approved by the Board once each year. Risk management within Länsförsäkringar Sak is decentralised, which means that the heads of the individual business areas take responsibility for the risk-management within the parameters set forth by the Board.

An independent review function – Internal Audit – has been established to assist the Board of Directors in following up the operations' compliance with decisions made by the Board of Directors. Through review and reporting, the Internal Audit shall form an opinion as to whether the operations are conducted in an efficient manner, whether reporting to the Board provides a true and fair view of the operations, and whether the operations are conducted in accordance with applicable internal and external regulations. Internal Audit reports to the Länsförsäkringar AB Group's Board of Directors and to the Boards of subsidiaries (including that of Länsförsäkringar Sak).

The task of the Compliance Function is to provide support in identifying risks that may arise in operations as a result of deficient compliance with regulations. Since deficient compliance with regulations could give rise to a risk of financial losses or loss of reputation, the function fulfils a preventive role in assessing such risks and, if necessary, helping to draw up internal rules. The function reports to the President, company management and the Board of Directors.

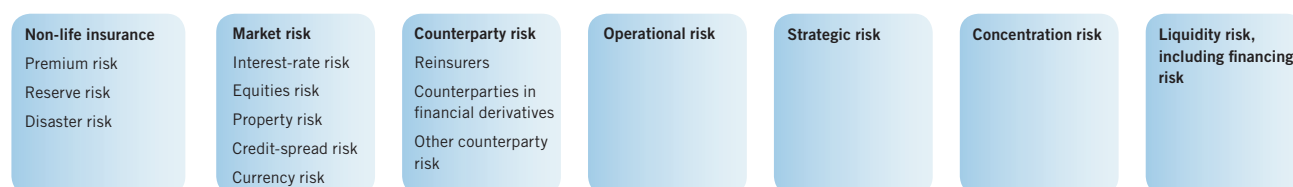
### Risk, capital and solvency

The management of risk taking is closely related to the control of the use of Länsförsäkringar Sak's capital. Länsförsäkringar Sak has a capital base that exceeds the statutory necessary solvency margin by a healthy margin. The Swedish Financial Supervisory Authority has further developed a surveillance tool – the traffic-light model – which aims at measuring the exposure to financial risks and insurance risk. Länsförsäkringar Sak reports a surplus of capital compared with the requirements imposed.

Work is underway at the EU with new risk-based capital adequacy requirements for the insurance industry, Solvency II. The new regulations are expected to become highly significant in such areas as governing risk in insurance companies. A preliminary study into the direction of the Group's Solvency II preparations was conducted in 2008. Based on this preliminary study, a Solvency II project will be initiated at the beginning of 2009.

### CLASSIFICATION OF RISKS

The following classifications of risk are utilised in Länsförsäkringar Sak



The following describes how different types of risks are managed. Information is provided on the size of the exposure for specific risks.

However, strategic risk and business risk, including reputation risk, are not described below. This category of risk is defined as the risk of loss as a result of business strategies and business decisions that prove to be misdirected, action by competitors, changes in the external environment and external reputation. Risks are managed at management and Board level through analyses and decisions prior to making strategic choices on the direction of the company's operations, and in the annual business planning process and also when trends in the company's markets so warrant risk management actions.

### Risk in insurance operations

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

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

The risks in non-life insurance operations comprise premium risks, reserve risks and disaster risks. The implications of these terms and Länsförsäkringar Sak's general methods for handling these types of risk are described below.

#### SENSITIVITY ANALYSIS, SEK M

	Impact on profit before tax	Impact on shareholders' equity
10 % lower premium level	-147	-106
10 % increased claims frequency or higher average claim	-115	-83
1 % higher annual claims inflation	-700	-504

#### Premium risk

Premium risk is the risk that claims and operating expenses for new claims are not covered by premiums earned.

In the insurance classes of third-party liability, accident and animal insurance, a large number of independent risks are added, resulting in a favourable balancing of risk, provided that the premium tariffs reflect the actual risk differences among the various groups in the insurance collective. Tariffs and insurance conditions are monitored regularly and adjusted when required. In other lines of business, risk selection rules and risk inspection are the key instruments for monitoring premium risk, alongside premium calculation. The company also follows detailed internal underwriting guidelines (risk selection rules) to ensure correct assessment and quantification of the risk that is being underwritten. An important element in this regard is the inspection of new and existing risks. In conjunction with inspection, claims-prevention measures are also implemented in the form of advisory services and the installation of preventive products, thereby further improving the company's risk.

In an effort to limit the risk in insurance operations, the company has insured itself against the risk of very large claims through ceded reinsurance. The company's own costs per claim incident, retention, and the limit up to which the reinsurance covers the costs per claim incident – or cover – vary from product to product.

#### REINSURANCE PER CLAIM INCIDENT, SEK M

	Retention	Cover
Third-party liability insurance	2	300
Liability insurance	20	300
Cargo insurance	10	200
Accident insurance	20	250
Marine	10	200

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

#### Reserve risk

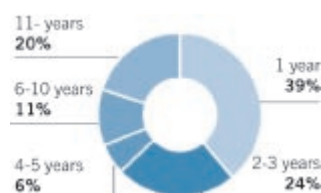
Reserve risk is the risk that the provision for claims outstanding will not suffice to cover claims incurred.

The total undertaking for current insurance policies and for claims outstanding amounts to approximately SEK 18.3 billion. An estimate of the cost of claims outstanding – about SEK 17.7 billion – is associated with uncertainty as to how much claims, perhaps many years ahead, may cost. This is especially apparent in third-party liability insurance, which accounts for a large portion of the company's undertaking. In this case, there is considerable uncertainty concerning the future cost trend, due to the fact that legislation and official decisions can affect the distribution of costs for third-party liability claims between the insurance companies and society, and that the prospects for rehabilitation are difficult to assess in many cases.

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

Länsförsäkringar Sak's non-life insurance portfolio has a relatively high duration given the large percentage of third-party liability insurance transactions, which is why changes in claims inflation have a significant impact on reserve requirements. The following diagram shows how the expected payments of claims outstanding, calculated at present value, are distributed according to tenure.

#### ESTIMATED DISTRIBUTION OF TENURE OF EXPECTED PAYMENTS, CALCULATED AT PRESENT VALUE, OF CLAIMS OUTSTANDING, GROSS



The following table shows the trend in estimated claims costs before reinsurance, per claim year

SEK M	2003	2004	2005	2006	2007	2008	Total
At end of claim year	3,024.8	1,605.3	757.3	825.9	908.6	854.5	
One year later	2,962.9	1,531.7	757.3	911.5	868.8		
Two years later	2,892.7	1,458.7	794.9	876.3			
Three years later	2,503.3	1,491.9	750.7				
Four years later	2,481.5	1,377.3					
Five years later	2,324.7						
Estimated claims costs*)	2,324.7	1,377.3	750.7	876.3	868.8	854.5	
Accumulated claims payments	1,663.7	981.7	536.1	616.8	511.9	315.5	
Provision for claims payments	661.0	395.6	214.7	259.5	356.9	539.0	1,887.7
Provision for claims payments, older year classes							6,181.1
Provision for claims payments for assumed reinsurance							5,762.6
<b>Total provision for claims payments, gross</b>							<b>13,831.4</b>
Claims annuities reserve, gross							3,427.3
Claims adjustment reserve, gross							406.1
<b>Provision for claims outstanding, gross</b>							<b>17,664.7</b>
Provision for claims payments, reinsurers' portion							-5,567.0
Claims annuities reserve, reinsurers' portion							-
Claims adjustment reserve, reinsurers' portion							-8.9
<b>Provision for claims outstanding, reinsurers' portion</b>							<b>-5,575.8</b>
<b>Provision for claims outstanding, for own account</b>							<b>12,088.9</b>

## Disaster risk

Disaster risk refers to the risk of extreme weather conditions, natural disasters, epidemics or disasters caused by human activities leading to a very large claims burden.

Länsförsäkringar Sak has low exposure to disaster risks for own account.

Länsförsäkringar Sak administrates common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural disasters. The experience gained from Hurricane Gudrun showed that the disaster risk modelling performed previously had underestimated the consequences of forest damage. In cooperation with external institutions for risk modelling, the disaster-risk calculations have been updated. For 2007, the cover was SEK 5 billion, which was subsequently raised to SEK 7 billion for 2008. In addition, there is internal Group reinsurance amounting to an additional SEK 3 billion for the same type of damage, which comes into effect if damage exceeds the level covered by the external reinsurance.

## Market risk

In the management of the Länsförsäkringar Sak's assets, assessments are made of the potential for a favourable return and the risk level involved in the creation of investment strategies and for investment decisions of a more operational nature. The main asset

classes in portfolio management are equities, interest-bearing securities and property.

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

Market risks in asset management are controlled by decisions in Länsförsäkringar Sak's Boards concerning the normal portfolio and the extent to which the actual portfolio may deviate from the normal portfolio. In this way, the company's Board take a position on the level of risk applying to investment operations and the degree of freedom allowed to the operational management organisation in its efforts to raise the return by deviating from the normal portfolio.

Changes in interest rates, exchange rates, share prices and prices of commodities, as well as changes in their individual volatilities, influence the market values of financial assets and liabilities.

Derivative instruments are increasingly utilised in the management of investment assets in order to enhance the efficiency of management and to achieve the desired risk profile.

**SENSITIVITY ANALYSIS, SEK M**

	Impact on profit before tax
Interest-rate risk, 1% higher interest rate	-228
Equities risk, 10% low share prices	-49
Property risk, 10% change in market value	-9
Currency risk, 10% weaker SEK	-54
Credit spread risk, 1% increase in credit spread	-64
Interest-rate risk, 1% higher interest rate in claims annuities	215

**Interest-rate risk**

Interest-rate risk is the risk that the net value of assets, liabilities and insurance undertakings may decline due to changed market interest rates. With the exception of claims annuities, the value of insurance undertakings according to applicable accounting

principles for non-life insurance is not determined based on the market interest rate. From 2008, this liability is sensitive to interest-rate fluctuations. The interest-rate risk described below pertains only to assets and liabilities.

The desired interest-rate risk is described and a desired target decided for the duration with a rebalancing interval. Derivative instruments, such as interest-swap contracts, are used to manage interest-rate risk. Hedge accounting is applied in the accounts when an effective connection exists between hedged loans and the interest swaps.

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

**FIXED-INTEREST PERIODS FOR LÄNSFÖRSÄKRINGAR SAK'S ASSETS AND LIABILITIES, NET (INCL. DERIVATIVES) AT DECEMBER 31, 2007, SEK M**

Total	Less than 1 year	1-5 years	5-10 years	More than 10 years
Fixed-interest assets less fixed-interest liabilities	2,537	3,898	1,207	261

The table shows the net nominal interest maturity structure.

**Equities risk**

Equities risk is the risk that the value of assets may decline due to falling share prices. The risk is described and decided on a normal portfolio with exposure by region in a rebalancing interval. In certain, selected regions, investments are subsequently made with a number of asset managers to reduce the manager risk in individual regions. For the regions/markets that are not invested in by several asset managers, investments are made in the desired market index.

**Property risk**

Property risk is the risk that the value of assets declines due to falling property prices. The property prices are an effect of the assumptions made on applicable yield requirements and rental levels. The assumptions on yield requirements usually follow the applicable interest-rate assumptions.

The property risk in Länsförsäkringar Sak overwhelmingly derives from the ownership of the office property in Stockholm that the Länsförsäkringar AB Group utilises for its operations.

**Credit-spread risk**

Credit-spread risk is the risk that the value of assets declines due to increases in the difference between market interest rates on bonds with credit risks and government securities.

The credit-spread risk is managed in controlling documents that stipulate the approved exposure level per counterparty. The counterparty shall have a credit rating that is deemed to be sufficient. Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit risk are made in light of prevailing market conditions.

Bond investments classified by rating	SEK M
AAA – Swedish Government	912
AAA – Government securities other than those issued by the Swedish Government	2,509
AAA - other	3,429
AA	328
A	10

**Currency risk**

Currency risk is the risk that the net value of assets, liabilities and insurance undertakings declines due to fluctuations in exchange rates.

Decisions on the size of currency exposure are made in light of prevailing market conditions.

**LÄNSFÖRSÄKRINGAR SAK'S NET EXPOSURE IN FOREIGN CURRENCY,  
DECEMBER 31, 2008-31**

Currency	Equivalent in SEK M
CHF	239
USD	194
EUR	-257
Other currencies	19
<b>Total</b>	<b>195</b>

The total net currency exposure on December 31, 2008 amounted to 1.5% of total investment assets.

### Counterparty risk

Counterparty risk pertains to the risk that counterparties are unable to fulfil their undertaking and that any collateral provided does not cover the receivable. Länsförsäkringar Sak's exposure to counterparty risk primarily arises through ceded reinsurance and the use of financial derivatives.

Counterparty risks to reinsurers pertain to reinsurance receivables and reinsurers' portions of claims outstanding. Regulations on the choice of reinsurance company are in place to limit counterparty risks on reinsurers. Minimum requirements stipulated for the choice of reinsurer include that reinsurers shall have at least an A credit rating from Standard & Poor's for transactions with long settlement periods and at least a BBB credit rating for other types of business. In addition, efforts are made to ensure a spread of ceded reinsurance between many reinsurers.

Länsförsäkringar Sak regularly assesses impairment requirements on assets related to reinsurance contracts. Receivables that have fallen due for payment are controlled continuously.

Counterparty risks in financial derivatives are managed through regulations for approved exposure to counterparties. The size of the permitted exposure depends on the rating of the counterparty. Exposure is limited on the basis of ISDA agreements (netting agreements) and accompanying agreements on pledging collateral for certain attained counterparty exposure.

Exposure to counterparty risks	Financial derivatives (exposure according to market values), SEK M
AAA	-
AA	169
A	75

Exposure to counterparty risks	Reinsurance in percent
AAA	2
AA	43
A	54
BBB	1

The divisions above refer to exposure for purchased, external cover for 2009.

### Operational risk

Operational risk is defined as the risk of losses arising due to inappropriate or unsuccessful processes, human error, incorrect systems or external events.

Each unit within Länsförsäkringar Sak is responsible for preventing operational risks within its particular area of responsibility. Risk analyses are performed annually both at company level and in the operating activities. To meet the increasing requirements in incident handling, common system support is being implemented with the aim of standardising operating-risk measurement methods throughout the Group. Furthermore, a continuity plan is adopted annually by executive management.

Internal Audit, which reports directly to the Board, examines and evaluates the internal control of the operations. The task of the Compliance Function is to identify and report on risks that may arise as a result of shortcomings in regulatory compliance.

### Concentration risk

From 2004, most of Länsförsäkringar's third-party liability insurance has been underwritten by the local regional insurance companies. Claims incurred for insurance underwritten up to and including 2003 is run-off within Länsförsäkringar Sak. Of the total technical reserves before ceded reinsurance of SEK 18.3 billion, 52% refers to the third-party liability insurance line of business.

### Liquidity risk, including financing risk

Liquidity risk, including financing risk, is the risk that the company's undertakings cannot be fulfilled due to a shortage of cash and cash equivalents or that these undertakings can be fulfilled only by raising borrowings at significantly higher costs than usual. Länsförsäkringar Sak's liquidity risks are limited since premiums are received in advance and large claims payments are usually known well in advance of their maturity dates. In addition, most of Länsförsäkringar Sak's investment assets are available at short notice.

Amounts are stated in SEK M unless specified otherwise

### NOTE 3 PREMIUM INCOME

	2008	2007
Direct insurance, Sweden	1,509.5	1,229.2
Direct insurance, other EEA	0.1	0.0
Assumed reinsurance	2,490.5	2,054.4
<b>Total</b>	<b>4,000.1</b>	<b>3,283.7</b>

### NOTE 4 INVESTMENT INCOME TRANSFERRED FROM FINANCIAL OPERATIONS

	2008	2007
Total investment income	463.6	383.2

#### Interest rates, %

Provisions for long-term claims in run-off, SEK	3.50	3.00
Provisions for third-party liability, not in run-off, SEK	3.50	2.50
Provisions for claims annuities, SEK (the real discount rate)	3.50	3.00
Provisions for other insurances with long-term claims not in run-off, SEK	3.50	2.50
Provisions for insurances with short-term claims, SEK	3.50	2.50
Provisions in USD	5.30	5.10
Provisions in GBP	6.10	4.80
Provisions in EUR	4.80	3.00
Provisions in other foreign currencies	5.40	4.30

The transferred investment income is calculated on the basis of half the premiums earned after ceded reinsurance and on the basis of the average of opening and closing provisions for claims outstanding after ceded reinsurance during the year.

### NOTE 5 OTHER TECHNICAL REVENUE AND EXPENSES

	2008	2007
Portfolio payments	6.1	11.8
Portfolio payments	–	–4.4
<b>Total</b>	<b>6.1</b>	<b>7.4</b>

Parts of the insurance portfolio pertaining to insurance cover for national customers in commercial motor insurance were sold to the local regional insurance companies.

### NOTE 6 CLAIMS PAYMENTS

	2008	2007
Claims paid	–1,330.8	–1,218.5
Operating expenses for claims adjustment	–227.8	–175.4
<b>Total</b>	<b>–1,558.5</b>	<b>–1,393.9</b>

### NOTE 7 OPERATING EXPENSES

#### Total operating expenses by type of cost

	2008	2007
Personnel costs	–481.7	–343.6
Costs for premises	–44.6	–30.9
Depreciation	–36.7	–35.3
Service income	769.5	734.4
Other expenses	–981.1	–966.3
<b>Total</b>	<b>–782.6</b>	<b>–641.7</b>

#### Total operating expenses by function

	2008	2007
Operating expenses in asset management	–77.0	–59.8
Operating expenses in property management	–0.2	–0.2
Operating expenses for claims adjustment	–227.8	–175.4
Operating expenses for procurement and administration	–477.7	–406.3
<b>Total</b>	<b>–782.6</b>	<b>–641.7</b>

#### Operating expenses

Acquisition costs <sup>1)</sup>	–215.9	–197.5
Change in Prepaid acquisition costs	3.9	2.1
Administration expenses	–511.7	–304.0
Commission and profit shares in ceded reinsurance	246.1	93.1
<b>Total</b>	<b>–477.7</b>	<b>–406.3</b>

Of which, expenses for the leasing of premises, equipment and IT equipment

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

<sup>1)</sup> Of which, commission for direct insurance

### NOTE 8 INVESTMENT INCOME, REVENUE

	2008	2007
Rental income from land and buildings	5.9	5.1
Dividends on shares and participations	75.2	80.7
Dividend from associated companies	–	4.0

#### Interest income

Bonds and other interest-bearing securities	353.4	363.7
Other interest income	170.6	185.0

Profit from partnership participation	31.4	43.7
Exchange-rate gains, net	204.7	–

#### Capital gains, net

Shares and participations in associated companies	0.1	–
Interest-bearing securities, Group companies	0.4	–
Shares and participations <sup>1)</sup>	–	1 846.1
<b>Total</b>	<b>841.9</b>	<b>2 528.2</b>

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

### NOTE 9 INVESTMENT INCOME, EXPENSES

	2008	2007
Operating expenses, land and buildings	–2.8	–2.8
Asset management expenses	–77.2	–60.2

#### Interest expense

Bonds and other interest-bearing securities	–69.1	–68.7
Other interest expense	–74.9	–203.6

Exchange-rate losses, net	–	–53.5
Impairment of shares and participations in associated companies	–	–3.0

#### Capital losses, net

Shares and participations	–1 570.4	–
Bonds and other interest-bearing securities <sup>1)</sup>	–1 204.4	–30.1
Other investment assets	–2.8	–
<b>Total</b>	<b>–3 001.5</b>	<b>–421.8</b>

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

**NOTE 9 INVESTMENT INCOME, EXPENSES, CONT.**

Profit/loss by valuation category	2008	2007
Derivative assets intended for risk management, non-hedge accounting	-1 340.0	-244.1
Other financial assets measured at fair value through profit and loss	-1 434.1	1 539.7
Other financial liabilities	-66.7	-66.5
Loan receivables and accounts receivable	24.4	19.6
<b>Items not specified by category</b>		
Exchange-rate gains/losses	204.7	-53.5
Net interest income	4.3	17.3
Asset management expenses	-77.2	-60.2
Non-financial items included in net investment income	31.6	44.7
<b>Total</b>	<b>-2 652.9</b>	<b>-1 197.0</b>

**NOTE 10 UNREALISED GAINS AND LOSSES ON INVESTMENT ASSETS**

Unrealised gains	Unrealised losses		Unrealised profit/loss	
	2008	2007	2008	2007
Land and buildings	-	3.0	-	-
Shares and participations	-	-	-713.9	-896.3
Bonds and other interest-bearing securities	70.1	116.5	-	-
Derivatives	150.5	-	-	-132.6
<b>Total</b>	<b>220.6</b>	<b>119.5</b>	<b>-713.9</b>	<b>-1 028.9</b>

**NOTE 11 TAX ON NET PROFIT FOR THE YEAR**

	2008	2007
Current tax	5.9	-223.1
<b>Total current tax</b>	<b>5.9</b>	<b>-223.1</b>
<b>Deferred tax</b>		
Deferred tax pertaining to temporary differences	150.1	-518.5
Deferred tax income, tax loss carryforward capitalised during the year	510.2	524.0
<b>Total deferred tax</b>	<b>660.4</b>	<b>5.5</b>
<b>Total recognised tax income/expense</b>	<b>666.3</b>	<b>-217.6</b>
<b>Reconciliation of effective tax rate</b>		
Profit/loss before tax	-2 466.6	794.7
Tax at applicable tax rate	690.6	-222.5
Tax on non-deductible costs	5.6	-301.3
Tax on non-taxable income	10.4	306.2
Tax attributable to earlier years	5.3	-
Changed tax rates	-34.4	-
<b>Summa skatt på årets resultat</b>	<b>666.3</b>	<b>-217.6</b>
Current tax rate, %	28	28
Effective tax rate, %	27	27

Refer also to Note 26 Deferred tax.

**NOTE 12 OTHER INTANGIBLE ASSETS**

	Dec. 31, 2008	Dec. 31, 2007
Opening cost	180.1	44.9
Additional assets	11.2	135.2
<b>Closing cost</b>	<b>191.3</b>	<b>180.1</b>
Opening accumulated amortisation	-46.3	-19.3
Amortisation for the year	-24.6	-27.0
<b>Closing accumulated amortisation</b>	<b>-70.9</b>	<b>-46.3</b>
<b>Total</b>	<b>120.4</b>	<b>133.8</b>

Of acquisitions for the year, the acquisition refers to the insurance system from Länsförsäkringar EFEL Skadeförsäkring AB. The asset is amortised over five years. Other intangible assets comprise customer registers/insurance portfolio and proprietary systems.

**NOTE 13 LAND AND BUILDINGS**

	Cost	Fair value	Floor space vacancy rate	Direct yield, %	Change in value*)
Investment property, value on December 31, 2008	5.2	93.0	0.0	3.2	-36.3
Investment property, value on December 31, 2007	5.2	93.0	0.0	2.3	-53.0

\*)Change in value refers to the change in fair value if the direct yield requirement is raised by two percentage points.

	Cost		Fair value	
Change in value for the period	Dec. 31, 2008	Dec. 31, 2007	2008-12-31	Dec. 31, 2007 -31
Opening balance	5.2	5.2	93.0	90.0
Profit from adjustments of fair value	–	–	–	3.0
<b>Closing balance</b>	<b>5.2</b>	<b>5.2</b>	<b>93.0</b>	<b>93.0</b>

**Summary of values**

Dec. 31, 2008	Tax assessment value	Fair value	Cost
Investment property	73.3	93.0	5.2

**Impact on profit for the period**

	2008	2007
Rental income	5.9	5.1

Direct expenses for properties that generated rental income during the period (operating and maintenance expenses, real estate tax and site leasehold fees).

-2.8 -2.8

The income-statement items above are included in the lines Investment income, revenue and Investment income, expenses. The properties are situated in the Municipality of Stockholm.

None of the properties are utilised in the company's own operations, instead they are leased to external tenants.

The valuation of the properties was performed by an external appraiser. The properties are valued at market value. The valuation is based on a cash-flow analysis.

**NOTE 14 SHARES AND PARTICIPATIONS IN GROUP COMPANIES**

Company name	Corporate Registration Number	Registered offices	Number of shares and participations	Participating interest	Shareholders' equity, Dec. 31, 2008	Profit/loss, 2008	Carrying amount, Dec. 31, 2008
Agria Försäkrings AB	516401-8003	Stockholm	40,000	100	340.9	-72.0	658.6
Länsförsäkringar Sak Fastighets AB	556683-6416	Stockholm	1,000	100	68.0	-0.1	68.0
Länsförsäkringar EFEL Livförsäkring AB	516406-0658	Stockholm	60,000	100	60.5	0.5	170.0
Länsförsäkringar EFEL Skadeförsäkring AB	516406-0666	Stockholm	65,000	100	66.2	1.2	355.0
Länsförsäkringar Grupplivförsäkrings AB	516401-6692	Stockholm	28,000	100	157.1	-6.6	160.5
Länsförsäkringar International AB	556682-1210	Stockholm	5,000	100	7.7	-1.6	7.7
Länsförsäkringar International Försäkrings AB	516406-0609	Stockholm	30,000	100	110.2	-48.9	135.0
Utile Dulci 2 HB	916601-0067	Stockholm		100	81.2	31.5	278.4
<b>Total</b>					<b>891.9</b>	<b>-96.1</b>	<b>1,833.3</b>
<b>Total December 31, 2007</b>					<b>281.8</b>	<b>40.1</b>	<b>480.0</b>

All shares and participations are unlisted.

Cost	Dec. 31, 2008	Dec. 31, 2007
Opening balance	480.0	271.8
Added and deducted assets	1,353.2	173.7
<b>Closing balance</b>	<b>1,833.3</b>	<b>480.0</b>
<b>Accumulated impairment</b>	<b>–</b>	<b>–</b>
<b>Total carrying amount</b>	<b>1,833.3</b>	<b>480.0</b>
<b>Fair value</b>	<b>2,430.0</b>	<b>903.0</b>

**NOTE 15 LOANS TO GROUP COMPANIES**

	Dec. 31, 2008	Dec. 31, 2007
Promissory notes to Utile Dulci 2 HB	1,310.0	1,390.0
Länsförsäkringar Hypotek AB (publ)	54.1	–
<b>Total</b>	<b>1,364.1</b>	<b>1,390.0</b>

The loan to Utile Dulci 2 HB is valid with extensions of three months at a time. Interest is three-month STIBOR. The loan to Länsförsäkringar Hypotek AB is valid until August 18, 2013. The interest rate is 4.5%.

**NOTE 16 SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES**

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Share of equity %	Shareholders' equity, Dec. 31, 2008	Profit/loss, 2008	Carrying amount, Dec. 31, 2008
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29	0.7	-0.1	0.0
Consulting AB Lennermark & Andersson	556131-2223	Örebro	1,582	29	34.6	8.2	10.7
European Alliance Partners Company AG*	CH-0203026423-1	Zürich	12,331	17	57.3	3.3	8.0
<b>Total</b>					<b>92.6</b>	<b>11.5</b>	<b>18.7</b>

All shares and participations are unlisted.

Cost	Dec. 31, 2008	Dec. 31, 2007
Opening balance	22.0	23.9
Added and deducted assets	-0.3	-1.9
<b>Closing balance</b>	<b>21.7</b>	<b>22.0</b>

**Accumulated impairment**

Opening balance	-3.0	-
Impairment for the year	3.0	-3.0
<b>Closing balance</b>	<b>-</b>	<b>-3.0</b>

<b>Total carrying amount</b>	<b>18.7</b>	<b>19.0</b>
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**Summary of financial information pertaining to associated companies**

Information pertains to Länsförsäkringar Sak's participating interest

	2008	2007
Income	32.8	32.8
Earnings	2.9	3.6
Assets	229.1	179.4
Liabilities	209.4	161.3
Shareholders' equity	19.7	18.1

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

**NOTE 17 SHARES AND PARTICIPATIONS**

	Fair value Dec. 31, 2008	Fair value Dec. 31, 2007
Listed shares and participations	417.1	4,569.1
Unlisted shares and participations	522.6	756.1
<b>Total</b>	<b>939.8</b>	<b>5,325.2</b>
Cost	856.5	4,624.1

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

**NOTE 18 BONDS AND OTHER INTEREST-BEARING SECURITIES**

	Fair value Dec. 31, 2008	Fair value Dec. 31, 2007
<b>Issued by</b>		
Swedish government	912.2	1,645.0
Swedish mortgage institutions	3,204.2	4,067.9
Other Swedish issuers	108.0	96.4
Foreign states	2,836.3	1,824.9
Other foreign issuers	1,758.9	1,222.9
<b>Total</b>	<b>8,819.5</b>	<b>8,857.2</b>
<b>Market status</b>		
Securities listed	8,819.5	8,857.2
	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Amortised cost	8,216.1	8,943.3

**The carrying amounts of the securities compared with their par amounts**

	Dec. 31, 2008	Dec. 31, 2007
Carrying amount	8,819.5	8,857.2
Par value	8,610.5	8,841.4
<b>Difference</b>	<b>209.0</b>	<b>15.7</b>
Total surplus	213.1	59.6
Total deficit	-4.1	-43.9
<b>Net difference</b>	<b>209.0</b>	<b>15.7</b>

## NOTE 19 DERIVATIVES

### Derivative instruments with positive values or valued at zero

	Fair value		Par value	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Equity derivatives	0.2	365.9	215.3	11,572.8
Interest-rate derivatives	0.3	–	655.0	–
Currency derivatives	205.6	157.5	8,247.7	9,150.6
<b>Total</b>	<b>206.1</b>	<b>523.4</b>	<b>9,118.0</b>	<b>20,723.4</b>
Cost	–	323.8		

### Derivative instruments with negative values

	Fair value		Par value	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Equity derivatives	0.0	203.6	503.9	9,895.0
Interest-rate derivatives	–	0.1	–	479.2
Currency derivatives	449.6	97.9	8 514.4	9,093.9
<b>Total</b>	<b>449.6</b>	<b>301.6</b>	<b>9 018.3</b>	<b>19,468.1</b>

## NOTE 20 RECEIVABLES, DIRECT INSURANCE

	Dec. 31, 2008	Dec. 31, 2007
Receivables, policyholders	189.3	146.0
Receivables, insurance brokers	–	10.6
Receivables, insurance companies	6.6	2.2
<b>Total</b>	<b>195.9</b>	<b>158.8</b>

## NOTE 21 OTHER RECEIVABLES

	Dec. 31, 2008	Dec. 31, 2007
Receivables, Group companies	231.6	386.9
Receivables, Parent Company	278.1	–
Receivables, Länsförsäkringar Liv Försäkrings AB, Group	49.9	532.2
Other receivables	276.8	480.8
<b>Total</b>	<b>836.6</b>	<b>1,400.0</b>

## NOTE 22 ASSETS AND LIABILITIES BY CATEGORY

	Loan receivables and accounts receivable	Financial assets measured at fair value	Held for trading	Non-financial assets	Total carrying amount	Fair value
<b>ASSETS</b>						
Other intangible assets				120.4	120.4	
Investment property		93.0			93.0	93.0
Participations in Group companies				1,833.3	1,833.3	
Shares and participations in associated companies				18.7	18.7	
Loans to Group companies		1,364.1			1,364.1	1,364.1
Shares and participations		939.8			939.8	939.8
Bonds and other interest-bearing securities		8,819.5			8,819.5	8,819.5
Derivatives			206.1		206.1	206.1
Deposits with companies that have ceded reinsurance				51.5	51.5	
Reinsurers' portion of technical reserves				5,730.9	5,730.9	
Receivables, direct insurance				195.9	195.9	
Receivables, reinsurance				216.5	216.5	
Other receivables	368.5			468.1	836.6	368.5
Deferred tax assets				532.7	532.7	
Prepaid expenses and accrued income		162.5		54.6	217.1	162.5
Cash and bank balances	541.6				541.6	541.6
<b>Total assets</b>	<b>910.1</b>	<b>11,378.9</b>	<b>206.1</b>	<b>9,222.6</b>	<b>21,717.7</b>	<b>12,495.1</b>
<b>LIABILITIES</b>						
Technical reserves				18,270.3	18,270.3	
Other provisions				204.4	204.4	
Deposits from reinsurers				46.2	46.2	
Liabilities, direct insurance				446.8	446.8	
Liabilities, reinsurance				278.2	278.2	
Derivatives		449.6			449.6	449.6
Other liabilities			29.8		99.1	29.8
Accrued expenses and deferred income			27.7	350.3	378	27.7
<b>Total liabilities</b>		<b>449.6</b>	<b>57.5</b>	<b>19,786.4</b>	<b>20,172.6</b>	<b>507.1</b>

**NOTE 23 PREPAID ACQUISITION COSTS**

	Dec. 31, 2008	Dec. 31, 2007
Opening prepaid costs	10.5	8.3
Depreciation for the year	-10.5	-8.3
<b>Provision for the year</b>	<b>14.4</b>	<b>10.5</b>

All acquisition costs have a depreciation period of less than one year.

**NOTE 24 OTHER PREPAID EXPENSES AND ACCRUED INCOME**

	Dec. 31, 2008	Dec. 31, 2007
Other accrued income	27.4	82.8
Other prepaid expenses	12.1	11.5
<b>Total</b>	<b>39.5</b>	<b>94.2</b>

**NOTE 25 TECHNICAL RESERVES**

	Gross	Dec. 31, 2008 Reinsurers' portion	Net	Gross	Dec. 31, 2007 Reinsurers' portion	Net
<b>Unearned premiums</b>						
Opening balance	397.9	75.3	322.7	406.7	113.8	292.9
Provisions during the period	187.2	79.4	107.8	-45.1	-38.6	-6.5
Insurance portfolio taken over	-	-	-	36.2	-	36.2
Exchange-rate changes	-1.0	0.4	-1.4	0.2	0.1	0.1
<b>Closing balance</b>	<b>584.1</b>	<b>155.1</b>	<b>429.0</b>	<b>397.9</b>	<b>75.3</b>	<b>322.7</b>
<b>Unexpired risk</b>						
Opening balance	1.4	-	1.4	3.2	-	3.2
Provisions during the period	20.1	-	20.1	-1.8	-	-1.8
<b>Closing balance</b>	<b>21.5</b>	<b>-</b>	<b>21.5</b>	<b>1.4</b>	<b>-</b>	<b>1.4</b>
<b>Claims outstanding</b>						
Claims incurred and reported	10,545.9	3,093.6	7,452.3	9,898.2	2,307.1	7,591.21
Claims incurred and not reported	3,569.2	2,380.5	1,188.7	2,961.8	1,994.8	967.0
Claims annuities	3,212.0	-	3,212.0	3,056.8	-	3,056.8
Claims adjustment costs	536.5	8.7	527.7	559.6	9.9	549.6
<b>Total opening balance</b>	<b>17,863.6</b>	<b>5,482.9</b>	<b>12,380.7</b>	<b>16,476.4</b>	<b>4,311.8</b>	<b>12,164.6</b>
Provisions for the period	-333.6	68.8	-402.4	867.2	1,167.3	-300.1
Insurance portfolio taken over	12.0	-	12.0	511.1	-	511.1
Change in shareholders' equity	38.5	-	38.5	-	-	-
Exchange-rate changes	84.3	24.2	60.1	8.9	3.9	5.0
Claims incurred and reported	9,815.2	2,666.6	7,148.7	10,545.9	3,093.6	7,452.3
Claims incurred and not reported	4,016.1	2,900.4	1,115.7	3,569.2	2,380.5	1,188.7
Claims annuities	3,427.3	-	3,427.3	3,212.0	-	3,212.0
Claims adjustment costs	406.1	8.9	397.2	536.5	8.7	527.7
<b>Total closing balance</b>	<b>17,664.7</b>	<b>5,575.8</b>	<b>12,088.9</b>	<b>17,863.6</b>	<b>5,482.9</b>	<b>12,380.7</b>

Provision for claims outstanding before discounting for medical and accident insurance for children amounts to SEK 36.0 M. The corresponding amount after discounting is SEK 33.8 M. The discount rate is 3.0%.

**NOTE 26 DEFERRED TAX**

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

December 31	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Land and buildings	-	-	23.7	25.2	23.7	25.2
Other financial investment assets	-	-	17.9	151.0	17.9	151.0
Liabilities	-64.0	-48.6	-	-	-64.0	-48.6
Utilisation of loss carryforwards	-510.2	-	-	-	-532.7	-
<b>Deferred tax assets (-)/ deferred tax liabilities (+)</b>	<b>-574.3</b>	<b>-48.6</b>	<b>41.5</b>	<b>176.2</b>	<b>-532.7</b>	<b>127.6</b>
Offset	41.5	48.6	-41.5	-48.6	-	-
<b>Net deferred tax asset (-) / deferred tax liability (+)</b>	<b>532.7</b>	<b>-</b>	<b>-</b>	<b>127.6</b>	<b>532.7</b>	<b>127.6</b>

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

**NOTE 26 DEFERRED TAX, CONT.**

Change in deferred tax in temporary differences and loss carryforwards

	Amount at Jan. 1	Recognised in profit and loss	Amount at Dec. 31
Land and buildings	25.2	-1.5	23.7
Other financial investment assets	151.0	-133.1	17.9
Liabilities	-48.6	-15.5	-64.0
Utilisation of loss carryforwards	-	-510.2	-510.2
<b>Deferred tax asset (-)/ tax liability (+)</b>	<b>127.6</b>	<b>-660.4</b>	<b>-532.7</b>

**NOTE 27 OTHER PROVISIONS**

	Dec. 31, 2008	Dec. 31, 2007
Pension provisions according to agreement on the possibility of voluntary retirement from the age of 62.	18.8	28.4
Other provisions	181.8	169.6
<b>Total</b>	<b>200.7</b>	<b>198.0</b>

**NOTE 28 LIABILITIES, DIRECT INSURANCE**

	Dec. 31, 2008	Dec. 31, 2007
Liabilities, policyholders	42.4	57.4
Liabilities, insurance brokers	22.0	16.0
Liabilities, insurance companies	382.4	291.3
<b>Total</b>	<b>446.8</b>	<b>364.7</b>

**NOTE 29 LOANS FROM THE PARENT COMPANY**

	Dec. 31, 2008	Dec. 31, 2007
Promissory notes from Länsförsäkringar AB (publ)	–	1,160.0
<b>Total</b>	<b>–</b>	<b>1,160.0</b>

**NOTE 30 OTHER LIABILITIES**

	Dec. 31, 2008	Dec. 31, 2007
Liabilities, Group companies	3.4	132.1
Liability to the Parent Company	9.9	13.1
Liabilities, Länsförsäkringar Liv Försäkrings AB, Group	0.0	–
Liabilities, regional insurance companies	2.3	4.1
Other liabilities	83.5	348.1
<b>Total</b>	<b>99.1</b>	<b>497.3</b>

**NOTE 31 OTHER ACCRUED EXPENSES AND DEFERRED INCOME**

	Dec. 31, 2008	Dec. 31, 2007
Premiums, received but not due	43.4	35.6
Accrued holiday and overtime remuneration	18.0	16.1
Other	316.6	156.6
<b>Total</b>	<b>378.0</b>	<b>208.3</b>

**NOTE 32 PENSIONS****Defined-benefit pension plans**

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

	2008	2007
<b>Pension commitments</b>		
Provisions for pensions	8.6	9.2
Other provisions	22.5	35.4
<b>Total</b>	<b>31.1</b>	<b>44.6</b>
Of the amounts recognised as Pension provisions, only the following amounts are encompassed by the Swedish Pension Obligations Vesting Act.	8.6	9.2

**NOTE 32 PENSIONS, CONT.**

	2008	2007
<b>The year's change in capital value of own commitments for which there are no separated assets:</b>		
Opening capital value on January 1, in accordance with Swedish principles for calculation of pension commitments	35.4	32.0
Income/expense excluding interest expense that impacted earnings	–14.2	2.2
Interest expense	1.3	1.2
<b>Capital value at December 31</b>	<b>22.5</b>	<b>35.4</b>

**The year's change in capital value of own commitments which are wholly or partly covered by separated assets**

Opening capital value on January 1, in accordance with Swedish principles for calculation of pension commitments	9.2	10.0
Pensions paid	–1.3	–1.4
Other change in capital value	0.7	0.6
<b>Capital value at December 31</b>	<b>8.6</b>	<b>9.2</b>

**The year's change in the capital value of the company's own commitments**

Opening capital value on January 1, in accordance with Swedish principles for calculation of pension commitments	44.6	42.0
Income/expense excluding interest expense that impacted earnings	–14.2	2.2
Interest expense	1.3	1.2
Pensions paid	–1.3	–1.4
Other change in capital value	0.7	–0.5
<b>Capital value at December 31</b>	<b>31.1</b>	<b>44.6</b>

**Fair value of separated assets**

Fair value on January 1	17.6	18.4
Return on separated assets	0.9	0.5
Payments to and from pension foundations	–1.3	–1.4
Surplus in separated assets (Fair value of separated assets to the extent that the value does not affect the company's accounts)	–8.6	–8.4
<b>Fair value on December 31</b>	<b>8.6</b>	<b>9.2</b>

<b>Net pension commitments on December 31</b>	<b>22.5</b>	<b>35.4</b>
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**Costs regarding pensions****The company's own pensions**

Income/expense excluding interest expense	–14.2	2.2
Interest expense	1.3	1.2
Return on separated assets	0.9	0.5
<b>Cost of the company's own pensions</b>	<b>–11.9</b>	<b>3.9</b>
Costs covered by surplus in separated assets	–0.9	–0.5
<b>Recognised net cost attributable to pensions</b>	<b>–12.9</b>	<b>3.3</b>

**Fair value of separated assets**

Participations in fixed-income funds	21.8	20.9
Cash and bank balances	3.3	3.1
Other assets	0.0	0.0
Liabilities	–8.1	–6.6
<b>Total</b>	<b>17.0</b>	<b>17.5</b>

<b>Return in % on separated assets</b>	<b>3.6</b>	<b>1.9</b>
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**NOTE 32 PENSIONS.** cont.

	2008	2007
<b>Assumptions pertaining to defined-benefit commitments</b>		
Discount rate	3.5	3.5
Percentage expected to retire voluntarily at age 62	20%	20%
Capital in separated assets that exceeds the capital value of pension commitments to employees. This is not recognised in the balance sheet.	8.6	8.4

**Defined-contribution pension plans**

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions. The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK) is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that a company shall, as a rule, recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. Disclosure shall also be presented in the accounts according to the requirements for defined-benefit pension plans. FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 30 of IAS 19. Also, no information is available on surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

	2008	2007
Expenses for defined-contribution plans	56.4	50.9

**NOTE 33 MEMORANDUM ITEMS**

	Dec. 31, 2008	Dec. 31, 2007
<b>Pledged assets</b>		
Total registered investment assets on behalf of policyholders	13,117.5	13,802.2
of which pertain to preferential commitments	3,427.3	3,212.0
Bank balances	54.0	14.4
<b>Total</b>	<b>13,171.5</b>	<b>13,816.6</b>
The technical liabilities which correspond to registered assets amount to:	12,539.4	12,704.8

Registered assets in accordance with Chapter 7, Section 11 of the Swedish Insurance Business Act amount to SEK 13,117.5 M. In the event of insolvency, the policyholders have a priority right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance undertakings are covered for liabilities in accordance with the Insurance Business Act.

	Dec. 31, 2008	Dec. 31, 2007
<b>Contingent liabilities</b>		
Partnership in Länsförsäkringsbolagens Fastighets HB Humlegården	–	0.7
Part-owner of Utile Dulci 2 HB	41.1	42.2
Early retirement at age 62 in accordance with pension agreement, 80%	75.3	113.7
<b>Total</b>	<b>116.4</b>	<b>156.6</b>

**The following guarantees also apply:**

Guarantee to ILU (Institute of London Underwriters) regarding liability for contracts underwritten by the Group company Stockholm Reinsurance Company (UK) Ltd. The insurance portfolio has been transferred to Wasa International Försäkrings AB Försäkrings AB.

**NOTE 34 EMPLOYEES AND PERSONNEL COSTS**

	2008	2007
<b>Average number of employees</b>		
Salaried employees, Sweden		
Men	159	156
Women	202	182
<b>Total number of employees</b>	<b>361</b>	<b>338</b>

	2008	2007
<b>Salaries, remuneration and social security expenses, SEK M</b>		
<b>Salaried employees, Sweden</b>		
Salaries and remuneration	222.3	181.4
of which variable remuneration	1.9	5.7
Social security expenses	219.8	131.1
of which pension costs	119.8	58.5

**Board, President, Sweden**

Salaries and remuneration	5.2	2.9
of which salaries to President and Executive Vice President	4.3	2.4
of which variable remuneration to President and Executive Vice President	0.7	0.4
Social security expenses	3.4	2.0
of which pension costs	1.3	0.9

**Total salaries, remuneration and social security expenses**

Salaries and remuneration	227.6	184.3
of which variable remuneration	2.6	6.1
Social security expenses	223.1	133.1
of which pension costs	121.1	59.4

**The amounts above include costs for personnel redundancies as follows:**

Redundancies, salaries	28.0	–
Redundancies, social security expenses	100.6	–
of which pensions	72.7	–

**Variable remuneration**

Variable remuneration is paid to managers who have a bonus agreement. Remuneration is based on attained targets met in accordance with the business plan, the Employee Commitment Index, the leadership index and other individual goals. Variable remuneration is paid in a maximum of two month's salary.

An incentive system is in place that encompasses all employees not included in other bonus agreements. A condition for payment of this remuneration is that the owners' requirements for the return on shareholders' equity in the Group are fulfilled. The maximum amount that can be paid per employee if the conditions are met is determined by the Board in December each year. One third of the established amount is paid to everyone regardless of individual performance. Payment of two thirds of the determined amount is based on the degree of completion of the individual goals in the target contract.

**Costs for personnel reduction in conjunction with reorganisation**

The amounts for "Salaries, remuneration and social security expenses" include expenses for personnel reduction in conjunction with the reorganisation of company include SEK 28.0 M pertaining to salaries and SEK 100.6 pertaining to social security expenses, of which SEK 72.7 comprises pension costs.

	2008	2007
<b>Sickness absence, %</b>		
Total of overall working hours	2.9	2.9
Total of overall working hours for men	1.1	1.5
Total of overall working hours for women	4.3	3.9
Absence for employees aged 29 or younger	1.4	1.6
Absence for employees aged 30–49	2.5	2.5
Absence for employees aged 50 or older	3.4	3.4
Percentage of absence pertaining to absence during a consecutive period of 60 days or more	47.6	48.0

## Remuneration to senior executives

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

Remuneration to the President and other senior executives comprises basic salary, variable salary, other benefits and pension costs. Other senior executives refers to the nine individuals who comprise company management together with the President.

Variable salary is maximised to four monthly salaries for the President and to two monthly salaries for other senior executives. For 2008, a maximum of two monthly salaries may be paid to the President.

Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration.

## Variable remuneration

Variable remuneration includes anticipated bonus for the fiscal year. For information on how bonuses are calculated, see below. Other benefits pertain to company car and interest benefits. Pension costs pertain to the impact on net profit for the year.

For the President and other senior executives, variable remuneration is based on targets met in accordance with the business plan, the Employee Commitment Index, the leadership index and other individual goals.

## Pensions

The retirement age for the President is 60 years. The pension between the age of 60 and 65 is a defined-contribution plan. The pension premium shall amount to 18% of pensionable

salary. Pension from the age of 65 will be subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO) and the Swedish Union of Insurance Employees (FTF).

The retirement age for a senior executive is 62. The pension between the age of 62 and 65 is a defined-contribution plan. The premium shall amount to 30% of pensionable salary. Pension from the age of 65 will be subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO) and the Swedish Union of Insurance Employees (FTF).

For other senior executives the retirement age is 65, and the pension will be subject to the terms of the pension agreements between the FAO and FTF.

## Severance pay

A mutual period of notice of three months applies to the President. If termination of employment is issued by the company, the President shall also be entitled to severance pay corresponding to two annual salaries. The Executive Vice President has a mutual period of notice of three months. If termination of employment is issued by the company, the period of notice is twelve months. For other senior executives, the bank applies the terms stipulated in the central agreements between the labour market parties.

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

Remuneration to the President is determined by the CEO and thereafter confirmed by the Board of Directors. Remuneration to other senior executives is determined by the President.

## Remuneration to senior executives

Amounts in SEK

2008	Basic salary	Variable salary	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, %
Ann Sommer, President	2,104,662	347,600	68,808	858,815	3,379,885	34
Mats Olausson, Executive Vice President	1,519,280	312,500	43,280	450,766	2,325,826	29

## Board members

Jan Fock, Deputy Chairman of the Board	186,208				186,208	
Conny Famm, Board member	153,750				153,750	
Anders Stigers, Board member	153,750				153,750	
Lars-Göran Pettersson, Board member	161,750				161,750	
Kjell Lindfors, Board member	153,750				153,750	
Mikael Sundquist, Board member	119,583				119,583	
Other senior executives (8 people)	8,576,616	871,716	302,126	4,811,531	14,561,989	46
<b>Total 2008</b>	<b>13,129,349</b>	<b>1,531,816</b>	<b>414,214</b>	<b>6,121,112</b>	<b>21,196,491</b>	

## 2007

Ann Sommer, President	1,967,442	417,690	69,721	887,903	3,342,756	38
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## Board members

Jan Fock, Deputy Chairman of the Board	100,751				100,751	
Jan Karlsson, Board member	33,583				33,583	
Conny Famm, Board member	80,600				80,600	
Anders Stigers, Board member	80,600				80,600	
Lars-Göran Pettersson, Board member	96,600				96,600	
Kjell Lindfors, Board member	47,017				47,017	
Sören Westin, Board member	33,583				33,583	
Other senior executives (11 people)	9,805,098	699,823	332,227	4,685,433	15,522,581	44
<b>Total 2007</b>	<b>12,245,274</b>	<b>1,117,513</b>	<b>401,948</b>	<b>5,573,336</b>	<b>19,338,071</b>	

Proportion of women among senior executives, %	2008	2007
Board members	0	11
Other senior executives	50	60

#### NOTE 35 FEES AND REMUNERATION TO AUDITORS

The following fees have been paid to auditors	2008	2007
KPMG Bohlins AB, audit assignments	1.3	2.3
KPMG Bohlins AB, other assignments	0.6	0.9
SET Revisionsbyrå AB, audit assignments	–	0.1

#### NOTE 36 DISCLOSURES ON RELATED PARTIES

The 24 regional insurance companies have chosen to organise joint operations in the Länsförsäkringar AB Group. The Group has been assigned by the regional insurance companies to conduct operations in areas in which economies of scale constitute a decisive competitive advantage and to provide such service to the regional insurance companies, which, for reasons of efficiency, shall be produced and provided jointly within Länsförsäkringar.

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Group's companies, all associated companies, Länsförsäkringar Mäklarservice AB, the 24 regional insurance companies with subsidiaries and the 14 local insurance companies. Related key persons are Board members, senior executives and close family members to these individuals.

#### Principles for transactions

Transactions between closely related parties occur mainly as transactions of a nonrecurring nature and transactions on a continuous basis. Transactions of a nonrecurring nature comprise the acquisitions and divestment of assets and similar transactions, in limited scope. Larger transactions of a non-recurring nature are to be based on written agreements and comply with market standards and market conditions.

Transactions of a continuous nature include goods and services provided for the companies within the Länsförsäkringar AB Group and to the Länsförsäkringar Alliance for carrying out development projects and service. Transactions of this nature shall follow established procedures as specified below.

#### Pricing

Pricing for business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the budget process. Overall, pricing is intended to distribute costs fairly within the Länsförsäkringar Alliance based on consumption.

Development projects and parts of services are financed collectively and invoiced based on an established distribution key.

#### Committees

There are a number of Service Committees within the Länsförsäkringar AB Group whose task is to deal with all intra-Group transactions involving various goods and services. The committees discuss the service levels and costs for all goods and services.

Based on these discussions, each internal supplier develops a budget and price list for the year ahead.

#### Decisions

The Group management within the Länsförsäkringar AB Group, in conjunction with the annual business planning, decides on the respective Group unit's budget and price list for goods and services. The price level for the goods and services purchased by Länsförsäkringar Sak from other companies within the Länsförsäkringar AB Group and from the regional insurance companies is determined by the Board, either by approval of the agreement or within the framework for budget approval.

#### Related-party transactions 2008

	Income	Expences	Receivables	Liabilities
Parent Company	241.0	220.3	278.1	210.0
Group companies	79.6	399.9	1,579.4	12.2
Life Group	3.9	1.3	50.1	–
Associated companies	–	4.2	–	–
Regional insurance companies	475.7	15.5	4,874.4	5,810.8
Other related parties	8.9	5.8	0.4	–

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

Cash and cash equivalents with Länsförsäkringar Bank AB	SEK 211,6 M
Interest income received	SEK 2,4 M

#### Closely related agreements, Länsförsäkringar Sak

Agreement	Counterparty	Date
Assignment agreement regarding asset management	Länsförsäkringar AB	July 1, 2007
Partnership agreement regarding Utile Dulci 2 HB	Länsförsäkringar AB	Dec. 15, 2006
Commission agreements	24 regional insurance companies	Nov. 15, 2006
Agreement regarding sales	Länsförsäkringar Mäklarservice AB	Dec. 15, 2008
Management agreement regarding Utile Dulci 2 HB	Humlegården Fastigheter AB	Oct. 11, 2007
Agreement regarding transfer	Länsförsäkringar Liv Försäkringsaktiebolag	Jan. 22, 2007
IT framework agreement	Länsförsäkringar IT Center AB	Jan. 31, 2005
Claims adjustment agreement	24 regional insurance companies	Dec. 31, 2008

#### Länsförsäkringar AB

The operations of Länsförsäkringar AB and its subsidiaries are organised into divisions, Group-wide units, service centres and President staff functions. The basis of the organisation is that the ongoing operations shall be conducted in the divisions, and also, for the purpose of generating economies of scale, certain functions have been organised centrally in the Länsförsäkringar AB Group.

The functions that have been organised centrally from Länsförsäkringar AB include maintenance and development of joint computer systems and such services as Legal Affairs, HR, Communication and Security. In addition, Länsförsäkringar Sak leases equipment from Länsförsäkringar AB, which purchases and owns the equipment.

Länsförsäkringar Sak leases its office premises from the Parent Company Länsförsäkringar AB, which in turn leases from the property owner Utile Dulci 2 HB. The property company is a subsidiary of Länsförsäkringar Sak.

#### Utile Dulci 2 HB

The company is financed by Länsförsäkringar Sak through a loan of SEK 1,310 M.

#### Länsförsäkringar Gruppliv

The company is a subsidiary of Länsförsäkringar Sak and was acquired on February 14, 2007 at net worth. During the year, a portfolio was transferred from Länsförsäkringar Liv to Länsförsäkringar Gruppliv.

#### Försäkringsaktiebolaget Agria

Länsförsäkringar Sak acquired Försäkringsaktiebolaget Agria and its subsidiaries from Länsförsäkringar AB in December 2008. The Group was acquired at net worth.

#### Länsförsäkringar EFEL Skadeförsäkring

The company is a subsidiary of Länsförsäkringar Sak and was acquired from the Federation of Swedish Farmers (LRF) on July 1, 2008 at net worth. The personnel who work with the company's insurance portfolio are employed in Länsförsäkringar Sak. The company is planned to be merged with Länsförsäkringar Sak in 2010. An insurance system was sold to the Parent Company for SEK 13 M in 2008.

#### Länsförsäkringar EFEL Livförsäkring

The company is a subsidiary of Länsförsäkringar Sak and was acquired on July 1, 2008 from LRF. The personnel who work with the company's insurance portfolio are employed in Länsförsäkringar Sak. A portfolio is planned to be transferred to Länsförsäkringar Gruppliv in 2009. It is then planned that the company be liquidated.

#### Länsförsäkringar IT Center AB

IT services and products are provided through Länsförsäkringar IT Center AB (ITC), which is a wholly-owned subsidiary of Länsförsäkringar AB. The ITC services that are to be delivered to Länsförsäkringar Sak are stated in the framework agreement between parties. The purpose of the agreement is to allocate responsibility between ITC and Länsförsäkringar Sak and to comply with operational requirements governed by laws and regulations.

Länsförsäkringar Sak also debits the services of ITC within non-life insurance against the regional insurance companies.

#### Humlegården Fastigheter AB

Länsförsäkringar Saks' property holdings are managed by Humlegården Fastigheter AB.

#### Other Group companies

The Group company Wasa Försäkring Run Off AB processes parts of the portfolio in Länsförsäkringar Sak in run-off.

Länsförsäkringar Bank AB manages subsidised loans to employees on behalf of

Länsförsäkringar Sak. Such loans are issued after the bank performs standard credit rating checks.

#### Länsförsäkringar Liv

Final adjustment of transfer agreement pertaining to the insurance portfolio of medical and accident insurance for adults, group medical and group accident insurance to Länsförsäkringar Sak and an insurance portfolio of group life assurance and employment group life assurance to Länsförsäkringar Grupplivförsäkrings AB.

#### 24 regional insurance companies and Länsförsäkringar Mäklarservice AB

A large part of customer contact is handled through the 24 regional insurance companies and Länsförsäkringar Mäklarservice. Länsförsäkringar Sak pays commissions to the 24 regional insurance companies and Länsförsäkringar Mäklarservice for remuneration pertaining to the sale of its insurance products.

Länsförsäkringar Sak performs development projects and services for the regional insurance

companies within several areas including personal injury claims adjustment, legal and actuarial services, product and concept development and development of IT support. All Länsförsäkringar Sak's service income derives from the Länsförsäkringar Alliance.

Länsförsäkringar Sak manages and reconciles the Länsförsäkringar Alliance's internal and external reinsurance.

The cooperation between the 24 regional insurance companies and Länsförsäkringar Sak reduces the risk for each individual regional insurance company.

In December 2008, Länsförsäkringar Sak signed an agreement with 24 regional insurance companies for claims adjustment of personal injuries in run-off third-party liability insurance.

#### Transactions between Länsförsäkringar Sak and its Board and management

Remunerations to the Board and senior executives of Länsförsäkringar Sak are stated in Note 34. In all other respects, no transactions took place between these individuals and their related parties apart from normal customer transactions.

### NOTE 37 ANTICIPATED RECOVERY AND SETTLEMENT PERIODS, AMOUNTS EXPECTED TO BE RECOVERED

	Within 12 months	After 12 months	Total
<b>ASSETS</b>			
Other intangible assets	–	120.4	120.4
Shares in Group companies	–	1,833.3	1,833.3
Shares and participations in associated companies	–	18.7	18.7
Investment property	–	93.0	93.0
Loans to Group companies	1,310.1	54.0	1,364.1
Shares and participations	–	939.8	939.8
Bonds and other interest-bearing securities	2,759.5	6,060.0	8,819.5
Derivatives	206.1	–	206.1
Deposits with companies that have ceded reinsurance	51.7		51.7
Reinsurers' portion of technical reserves	2,503.9	3,227.0	5,730.9
Receivables, direct insurance	195.9		195.9
Receivables, reinsurance	108.5	108.0	216.5
Deferred tax assets	302.7	230.0	532.7
Other receivables	836.6		836.6
Prepaid expenses and accrued income	217.1		217.1
Cash and bank balances	541.6		541.6
<b>Total assets</b>	<b>9,033.5</b>	<b>12,684.2</b>	<b>21,717.7</b>
<b>LIABILITIES</b>			
Technical reserves	4,791.3	13,479.0	18,270.3
Other provisions	36.4	168.0	204.4
Deposits from reinsurers	46.2		46.2
Liabilities, direct insurance	446.8	–	446.8
Liabilities, reinsurance	139.2	139.0	278.2
Derivatives recognised as liabilities	449.6	–	449.6
Other liabilities	99.1		99.1
Accrued expenses and deferred income	378.0		378.0
<b>Total liabilities</b>	<b>6,386.6</b>	<b>13,786.0</b>	<b>20,172.6</b>

### NOTE 38 SUPPLEMENTARY DISCLOSURES ON INCOME-STATEMENT ITEMS BY INSURANCE CLASS

	Total	Medical and accident	Motor vehicle third-party liability	Motor vehicle other classes	Marine, air and cargo	Fire and other property damage	General liability	Legal cover	Total, direct insurance	Assumed reinsurance
<b>2008</b>										
Premiums earned, gross	3,792.8	574.0	86.0	149.0	103.9	203.5	182.0	1.0	1,299.6	2,493.2
Claims payments, gross	–2,432.0	–416.3	–173.1	–155.8	–45.7	–14.3	–112.3	–3.6	–921.0	–1,511.0
Operating expenses, gross	–723.7	–177.1	–51.0	–37.4	–32.9	–37.4	–45.6	–1.3	–382.6	–341.1
Profit/loss from ceded reinsurance	–797.4	0.9	45.8	–0.8	–8.6	–153.0	–4.2	0.0	–119.9	–677.5
<b>Profit/loss</b>	<b>–160.3</b>	<b>–18.5</b>	<b>–92.0</b>	<b>–44.9</b>	<b>–16.7</b>	<b>–1.1</b>	<b>19.9</b>	<b>–4.0</b>	<b>–123.9</b>	<b>–36.4</b>
Premium income, gross	4,000.1	590.3	84.8	351.1	103.5	188.4	190.6	1.0	1,509.6	2,490.5

## Proposed appropriation of profit

As shown in the balance sheet of Länsförsäkringar Sak Försäkringsaktiebolag (publ), the non-restricted shareholders' equity as below is at the disposal of the Annual General Meeting.

Profit brought forward	SEK	2,002,553,143
Net loss for the year	SEK	-1,800,285,271
Total	SEK	202,267,872

The Board of Directors and President propose that the net loss of SEK 1,800,285,271 be carried forward.

Stockholm, March 24, 2009

Håkan Danielsson  
*Chairman*

Jan Fock  
*Deputy Chairman*

Conny Famm  
*Board member*

Kjell Lindfors  
*Board member*

Lars-Göran Pettersson  
*Board member*

Anders Stigers  
*Board member*

Mikael Sundquist  
*Board member*

Tomas Jönsson  
*Employee Representative*

Johan Welin  
*Employee Representative*

Ann Sommer  
*President*

My audit report was submitted on March 24, 2009.

Stefan Holmström  
*Authorised Public Accountant*

## Audit Report

TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF LÄNSFÖRSÄKRINGAR SAK  
FÖRSÄKRINGSAKTIEBOLAG (PUBL) CORPORATE REGISTRATION NUMBER 502010-9681

I have audited the annual accounts, the accounting records and the administration of the Board of Directors and the President of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2008. These accounts and the administration of the company and the application of the Annual Accounts Act for Insurance Companies when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. My responsibility is to express an opinion on the annual accounts and the administration based on my audit.

I conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for my opinion concerning discharge from liability, I examined significant

decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. I also examined whether any Board member or the President has, in any other way, acted in contravention of the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and, thereby, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory Board of Directors' Report is consistent with the other parts of the annual accounts.

I recommend to the Annual General Meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, March 24, 2009

Stefan Holmström  
*Authorised Public Accountant*

# Board of Directors and auditors

## BOARD OF DIRECTORS

### Elected by Annual General Meeting

**Håkan Danielsson**, Chairman, President and CEO of Länsförsäkringar AB

**Conny Famm**, President, Länsförsäkringar Kristianstad

**Jan Fock**, President, Länsförsäkringar Skåne

**Kjell Lindfors**, President, Länsförsäkringar Norrbotten

**Anders Stigers**, President, Dalarnas Försäkringsbolag

**Mikael Sundquist**, President, Länsförsäkringar Bergslagen

### Appointed by LRF, Lantbrukarnas Riksförbund

**Lars-Göran Pettersson**

### Employee representatives

**Tomas Jönsson**, SACO, Länsförsäkringar Sak Försäkrings AB

**Johan Wehlin**, FTF, Länsförsäkringar Sak Försäkrings AB

### President

**Ann Sommer**

## AUDITORS

### Elected by Annual General Meeting

**Stefan Holmström**, Authorised Public Accountant, KPMG Bohlins AB

### Deputy

**Gunilla Wernelind**, Authorised Public Accountant, KPMG Bohlins AB

# Länsförsäkringar Sak Försäkrings AB

