

# Länsförsäkringar Sak

Annual Report

# 2016



Länsförsäkringar



# The 2016 fiscal year

## Significant events

- Net profit for the year before appropriations and tax amounted to SEK 580 M (972).
- The technical result amounted to SEK 103 M (501).
- The combined ratio amounted to 96% (78).
- The technical result was impacted by higher claims costs in international reinsurance.

## Key figures

%	2016	2015	2014	2013	2012
Combined ratio	96	78	86	98	96
ROE <sup>1)</sup>	25	23	14	5	11
Total investment income	5.7	7.7	5.6	-1.2	3.7
Solvency ratio SII <sup>2)</sup>	260	235	-	-	-

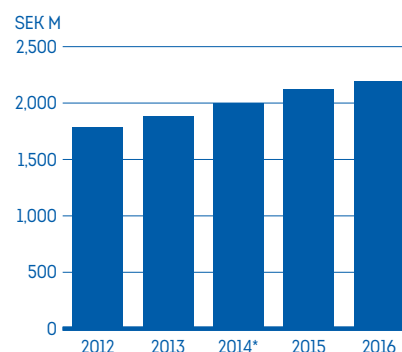
<sup>1)</sup> Profit before appropriations less standard tax at a rate of 22.0% as a percentage of average equity including 78% of untaxed reserves.

<sup>2)</sup> Solvency ratio according to Solvency II rules (SII), applicable from 1 January 2016. The ratio is calculated by SII-valued own funds being divided by the SII solvency capital requirement.

## Business volume

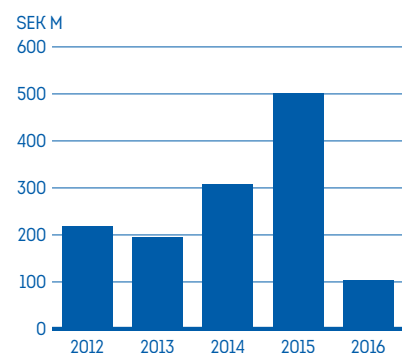
**2,196** +3%

## Premium income



\* Premium income after ceded reinsurance. 2014 adjusted by SEK 500 M corresponding to the effect of the transfer of the motor third-party liability insurance portfolio to the regional insurance companies.

## Technical result for insurance operations

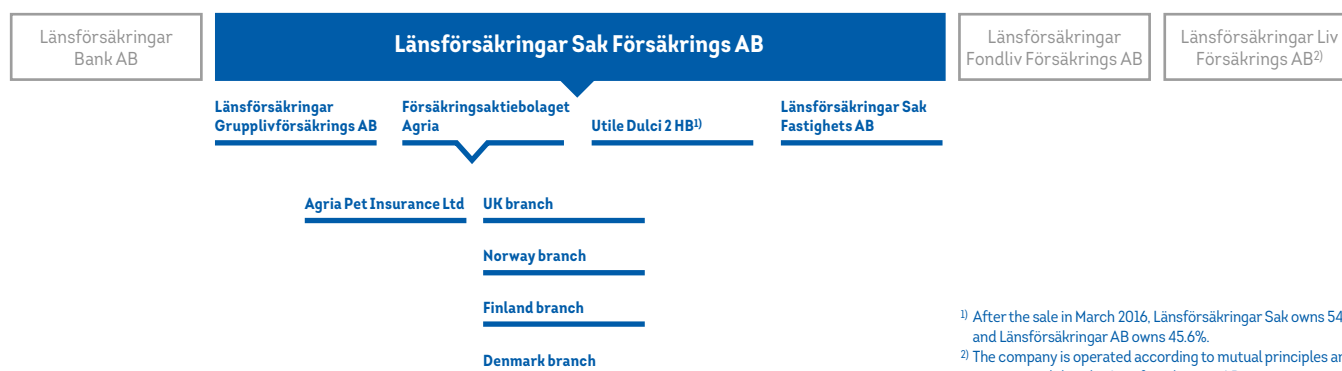


A part of the accident and health insurance business will be transferred from Länsförsäkringar Sak to the regional insurance companies in 2017. Prior to the decision on this transfer in 2015, reserves were reviewed and a large, positive run-off gain was realised in the business.

3.7 million customers

23 local regional insurance companies

Länsförsäkringar AB



<sup>1)</sup> After the sale in March 2016, Länsförsäkringar Sak owns 54.4% and Länsförsäkringar AB owns 45.6%.

<sup>2)</sup> The company is operated according to mutual principles and is not consolidated in Länsförsäkringar AB.

## Länsförsäkringar Sak

The Non-life Insurance business unit of the Länsförsäkringar AB Group comprises Länsförsäkringar Sak Försäkrings AB and its subsidiaries Agria Djurförsäkring and Länsförsäkringar Gruppliv. The Non-life Insurance business unit is responsible for the non-life insurance operations, including animal and crop insurance and health insurance, which are conducted by Länsförsäkringar AB as assigned by the regional insurance companies.

The Non-life Insurance business unit's task involves supplementing the companies' offering with specialist products to meet customer needs and to start new business that can be channelled through the regional insurance companies. Business is conducted

so that the regional insurance companies can offer customers a broad range of insurance for people, animals and property and obtain effective reinsurance coverage. Länsförsäkringar Sak underwrites health care, accident and health insurance in the Health Business Area, and commercial special insurance and international reinsurance, and manages the Länsförsäkringar Alliance's overall reinsurance cover. Pet insurance is conducted in the subsidiary Agria Djurförsäkring and group life assurance is underwritten in the subsidiary Länsförsäkringar Gruppliv as an important part of the customer offering in the expanding the Health Business Area.



## Länsförsäkringar in brief

### Customer-owned regional insurance companies with local presence

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB with subsidiaries. Customers are provided with a complete solution for banking, insurance, pension and real-estate brokerage services through the regional insurance companies. The regional insurance companies are owned by the insurance customers - there are no external shareholders and customers' needs and requirements are always Länsförsäkringar's primary focus. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has more than 3.7 million customers and approximately 6,000 employees.

## Contents

### Introduction

- 2 Statement by the President

### Operations

- 4 Board of Directors' Report
- 8 Five-year summary

### Financial statements

- 11 Income statement
- 11 Statement of comprehensive income
- 12 Performance analysis
- 14 Balance sheet
- 16 Statement of changes in equity
- 16 Cash-flow statement
- 18 Notes
- 46 Auditor's report

### Other information

- 48 Board of Directors and auditor
- 50 Executive management
- 50 Definitions
- 52 Address



**Statement by the President** Länsförsäkringar Sak's overall objective is to help the regional insurance companies be successful and create the best value for customers. Our work in recent years has followed the ethos of "conducting profitable business and making business profitable." This is what we seek to do at all levels, regardless of role in the operations. Employee expertise and involvement are essential for achieving excellent results.

# We can help save the world

Much of the world around us is changing at the moment and many are anxious about what the future will hold. There are many indications that society will become more difficult in several different ways. We can see an increase in household lending and climate change is becoming ever more obvious. In addition, there is much uncertainty with unknown consequences, such as the UK leaving the EU, a US president with an unclear agenda, Russia's greater appetite for action and streams of refugees continuing to migrate from war-torn areas. It became clear during the year, particularly on the part of the UN, that there is widespread interest in insurance companies' know-how for helping solve the problem of managing the consequences of climate change. Länsförsäkringar's work on security for customers dates back more than 200 years. Länsförsäkringar Sak's mission is to conduct profitable business that complements and harmonises with the business of the regional insurance companies, and to develop new business so that the regional insurance companies can continue to meet customer needs insurance cover for people, animals and property.

## Earnings

Operating profit for the Länsförsäkringar Sak Försäkringsaktiebolag amounted to SEK 580 M (972), and operating profit for the non-life insurance company and its subsidiaries amounted to SEK 644 M (908). Many factors contributed to yet another year of robust earnings. For example, Agria is continuing to report very strong earnings that are exceeding targets, as is the Health Business Area. Asset management also performed its mission well.

## Customer focus

Respect for customers' money and security is Länsförsäkringar's only task, since customers are also the owners. Being customer-owned and local creates the basis for being close, providing the best service and adopting a long-term approach. Länsförsäkringar this year has the most satisfied retail customers in both banking and insurance according to the Swedish Quality index survey from autumn 2016. In our joint endeavour to meet our customers' needs and offer security in a rapidly changing society, the Non-life Insurance business unit works alongside the regional insurance

companies to produce new insurance solutions and offerings. New business is jointly developed and when it has reached the point of maturity it is transferred to the regional insurance companies as a separate business.

## Involvement and expertise create profitable growth

It is a privilege to lead a company with so many dedicated and highly skilled employees. Our business and mission are very broad and everyone in the organisation is important, regardless of their role. We strive for diversity that reflects our customers. The results we can deliver are due to the great commitment of our employees who have performed exceptionally. Despite an intensifying market, Länsförsäkringar Sak's employees have renewed and taken out new cover for many risks. We need to continuously improve our business activities in a rapidly changing world. We produced new, attractive offerings during the year. We also improved processing of customer insurance claims and developed our claims-prevention activities. Everyone deserves praise for this hard work as

involvement and expertise create profitable growth.

### Digitisation and product development in our three business areas

Digitisation is a key feature of our developing society. The Non-life Insurance business unit has started its shift to digitisation but major change is needed. Not only does digitisation make it easy for customers and employees, it is also a more modern and environmentally friendly way of working that presents many opportunities. We must continue to develop products and digital services in order to ensure profitable long-term business and create value for customers in the future.

One of the Health Business Area's highly attractive offerings is the "Bo Kvar" insurance policy, which is sold to customers who take out mortgages with Länsförsäkringar and contains cover in the event of death, illness or unemployment. Customers have sought this type of cover since it provides important support for the family finances.

Since customer value is the highest priority, the Health Business Area introduced an independent medical reviews of operation requests in 2015 to ensure that the care that we arrange is compatible with the most recent research findings. The target was to reduce the number of non-medically necessary procedures and ensure that customers always receive evidence-based care. One year on and the results show several positive effects, above all enhanced customer value. The quality of care and medical-record keeping have also increase substantially. We also identified and intensified cooperation with health care providers that want to pursue evidence-based care.

2016 was also a strong year for Agria Djurförsäkring. Over the years, we experienced fantastic growth in pet insurance, primarily in cat insurance during the year. The Agria brand is very strong with a market share in Sweden of about 57%. In June, Agria established operations in Finland, so we are also growing internationally.

We received praise for our digitisation work when Agria Sweden won the prizes of "Best Website" and "Best Responsive Website" at this year's Web Service Award. Agria also launched the "Pälspodden" podcast, which mixes scientific discoveries and practical experience. Agria has, for many years, financed a large amount of scientific research into horses, other dogs and other animals to increase animal well-being and sustainability. Research grants are awarded in cooperation with the Swedish Kennel Club SKK Research Fund and the Swedish-Norwegian Foundation for Equine

“ Our vision is to create security and opportunities. Creating the best value for customers is our goal and driver.

Research. Research results will be even more accessible with the podcast, and the latest findings can be communicated together with researchers.

The reinsurance market remains highly pressed with lower prices and generous conditions. International reinsurance experienced many claims this year, leading to a negative result. However, few claims occurred in the reinsurance programme for the regional insurance companies' business. Reinsurance and Special Insurance launched completion insurance, as requested by the regional insurance companies' construction companies. The insurance provides security for a contractor's undertaking to the client. The response from the regional insurance companies' customers has been very positive.

### Regulations

New regulations are regularly introduced to strengthen the customer's position and we diligently follow these changes, which requires extensive resources. We are one step ahead since we are customer owned and can convert new rules into business development and high customer value. Our work on the new regulations for insurance operations (Solvency II), which came into

effect on 1 January 2016, is proof that this is possible. The Solvency II rules allow for the solvency capital requirement to be calculated using an internal model instead of a standard model. Länsförsäkringar's Internal Model (LIM) was the first Swedish internal model to be approved by the Swedish Financial Supervisory Authority at the start of the summer.

### Sustainability and focus going forward

Our vision is to create security and opportunities. Creating the best value for customers is our goal and primary driver. Most

aspects of society are changing at breakneck speed. We must continuously strive to meet customer needs that already exist and those that will arise in the future. This requires a close dialogue with customers and monitoring

the business environment, while continuously developing the offering, work methods and employees. With the qualities and commitment of all of our employees, we have excellent conditions and confidence in the future.

Our important sustainability work is continuing. In December, we were the first Swedish insurance company to sign the UN Principles for Sustainable Insurance (PSI), a major international initiative between the UN and the insurance industry. The UN intends to build the sustainability foundation on which the insurance industry will be based and is very interested in our expertise. It is wonderful that we can help save the world!

Stockholm, February 2017



**Ann Sommer**

President of Länsförsäkringar Sak

# 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 the 2016 fiscal year.

The registered office of the company is in Stockholm.

In accordance with Chapter 7, Section 2 of the Swedish Annual Accounts Act, consolidated financial statements were not prepared since the company and its subsidiaries are included in the consolidated financial statements for Länsförsäkringar AB (publ), Corp. Reg. No. 556549-7020. Figures in parentheses pertain to the preceding year.

## Ownership

Länsförsäkringar Sak Försäkringsaktiebolag (publ) (referred to below as Länsförsäkringar Sak) is wholly owned by Länsförsäkringar AB (publ), which in turn is owned by 23 regional insurance companies and 16 local insurance companies.

## Organisation

Länsförsäkringar Sak is the Parent Company of Försäkringsaktiebolaget Agria, Länsförsäkringar Grupplivförsäkringsaktiebolag, Länsförsäkringar Sak Fastighets AB, and has a controlling influence in the partnership Utile Dulci 2 HB.

## Focus of 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. Länsförsäkringar Sak's task is to conduct business activities in the development areas in non-life insurance and to supplement the regional insurance companies' offering by conducting business activities where there is a need for specialist expertise or where economies of scale can be gained from underwriting business in Länsförsäkringar Sak. In 2016, business was underwritten in the insurance classes of health, health care, accident, property, cargo, liability and credit insurance. In addition, insurance cover is provided for nationwide customers in the commercial automotive area (motor third-party liability

insurance and motor insurance) and annuities operations. The company also handles the Länsförsäkringar Alliance's internal and external reinsurance and underwrites assumed international reinsurance. Länsförsäkringar Sak's subsidiary Försäkringsaktiebolaget Agria is a specialist company in pet and crop insurance. The subsidiary Länsförsäkringar Grupplivförsäkringsaktiebolag underwrites group life assurance and employment group life assurance. The operations in Länsförsäkringar Sak with subsidiaries are conducted jointly in Länsförsäkringar AB's Non-life Insurance business unit.

## Market

The market for personal-risk insurance was affected by greater household indebtedness and growing concern that social insurance in Sweden will be insufficient. A rising number of people are buying private insurance to increase their financial security in the event of illness, accident, unemployment, pensions and death. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security and keep a business's employees healthier. The market for accident and health insurance increased about 12% during the year and Länsförsäkringar's market share was unchanged at about 20%.

The health care insurance market is continuing to grow and competition in the market remains fierce, particularly in the market for medium-sized and large companies. Volumes mainly rose in health insurance, which encompasses preventive and rehabilitation measures. Following several years of weak profitability in the industry, several insurance companies have introduced deductibles, raised premiums and introduced restrictions to insurance terms.

Competition remains intense in cargo insurance and the previously falling pre-

mium levels have abated slightly. New players and a change in strategy by insurance companies that previously only targeted large companies contributed to tougher competition in liability insurance. Several players in the market now see an interest in the segment of medium-sized companies. Portfolio and group procurement is increasingly common for business from insurance brokers, which in Länsförsäkringar Sak's case is evident in the cargo, motor insurance and liability businesses.

The total reinsurance capacity in the international reinsurance market remained large. Low interest rates are attracting new investors to the industry. However, earnings have declined as a result of pressed prices, which has now led to premium reductions stagnating slightly compared with prior years. The global insurance industry's costs for natural disasters increased year-on-year but just below the average for the past ten years.

Länsförsäkringar Sak's partnership with the International Network of Insurance (INI) continues to be developed and provides the Länsförsäkringar Alliance's Swedish corporate customers with international interests the opportunity to gain customised and local insurance solutions in more than 100 countries at competitive prices.

## Significant events during the year *The Health Business Area*

Länsförsäkringar Sak is increasing both premium volumes and the number of policies in personal-risk insurance. Claims costs for health care insurance improved due to premium adjustments and quality enhancements in claims adjustment and earnings are now balanced. Länsförsäkringar's work on developing evidence-based claims adjustment in health care insurance has generated positive attention from the media and health care providers. As a result, customers receive enhanced quality of care. Länsförsäkringar remains a market leader in health care insurance and has the most comprehensive products featuring preventive health services, the right care at the right time and effective rehabilitation.

Accident and health insurance delivered stable, positive earnings. Sales of the Bo Kvar insurance policy, distributed in coop-

eration with Länsförsäkringar Bank, displayed a strong performance. This policy provides financial protection for the bank's mortgage customers in the event of death, illness or unemployment and is an important component in providing financial security to mortgage customers.

Digital handling of the Health Business Area's insurance policies was developed during the year so that new policies can be taken out and health declarations for most insurance products can be administered and processes completely digitally. These steps improve the efficiency of handling times and provide better and faster service to customers.

A decision was made in 2015 to transfer one of the business lines in accident and health insurance for adults to the regional insurance companies. Länsförsäkringar Sak closed underwriting new policies for its products during the year and the business portfolio will be transferred during 2017.

### **Reinsurance and Special Insurance**

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers through Business Area Reinsurance and Special Insurance, which manages the Group's internal and external reinsurance, underwrites assumed international reinsurance and offers specialised liability, cargo, motor, property and credit insurance solutions.

Both the premium volumes and the number of policies in the cargo portfolio are growing and the business is continuing to deliver stable, positive earnings.

The insurance portfolio in the liability business trended positively. The legal situation of professional indemnity insurance for life-assurance brokers remains uncertain. Länsförsäkringar Sak closed underwriting new liability insurance for life-assurance brokers in 2014 and has taken the case to court to clarify the legal situation. Two cases are before the European Court of Justice to be considered against the EU Directive on which Swedish law is based. After the European Court of Justice has heard these cases, they will be considered by a Swedish court for a final ruling. It is hoped that the legal situation will become clearer during 2017. Seller liability insurance, which provides cover for the ten years of liability for hidden faults that sellers of private residences have under the Swedish Land Code, is increasing in line with the growth of Länsförsäkringar Fastighetsförmedling.

The business area conducts a small portfolio in motor third-party liability and motor insurance as a supplement to the regional insurance companies' business.

Completion insurance, a credit insurance in the form of security for a contractor's undertaking to the client, was launched during the year. This product, an alternative to bank guarantees in the construction contract process, received a very positive reception in the market.

The Länsförsäkringar Alliance's internal reinsurance, to which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance, noted few large claims during the year. Assumed international reinsurance reported a relatively high frequency of medium-sized claims during the year, with no very large disaster claims in 2016. Länsförsäkringar underwrites assumed international reinsurance for both the risk and catastrophe business, specialising in property business. The long established strategy is to underwrite business from mutual companies with broad geographic risk diversification.

### **Significant events after the end of the fiscal year**

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

### **Expectations regarding future development**

Personal-risk insurance is expected to be affected by the rapidly increasing rate of sick leave. The area is dominated by mental health issues that now account for more than half of all sick leave. All relevant parties need to combine their efforts to break this trend, and in particular the actions of the employer will become increasingly important. Preventive and early measures at the workplace are the keys to success. The trend of rising household indebtedness is continuing and has now led to many not having sufficient insurance cover. The need for personal-risk insurance in the form of benefits in the event of illness, accident or unemployment is thus expected to continue to increase. With highly satisfied health care insurance customers and a large market share in commercial insurance, Länsförsäkringar is well-positioned for growth.

Business Area Reinsurance and Special Insurance is pursuing its focus on aggressive growth, which includes new products and targeted efforts to meet new customer needs arising from an increasingly digitised world, so as to supplement the Länsförsäkringar Alliance's range of commercial insur-

ance. Länsförsäkringar Sak also sees many opportunities for growth as a player in assumed reinsurance, targeting carefully selected customer segments and risk categories.

### **Capital situation**

The introduction of the EU's new Solvency II rules for insurance operations on 1 January 2016 significantly changed the rules on capital requirements for insurance operations.

In June 2016, Länsförsäkringar AB and its insurance subsidiaries became the first Swedish company to receive permission from the Swedish Financial Supervisory Authority to calculate the capital requirement for insurance operations using a partial internal model. Capital requirements for most market risks, non-life insurance risks in Länsförsäkringar Sak are calculated using an internal model, whereas other types of risk are calculated by applying the standard formula.

Länsförsäkringar Sak's own funds valued according to Solvency II increased SEK 123 M during the year to SEK 3,453 M. Own funds were strengthened by the high earnings during the year, but were negatively impacted at year-end by Group contributions paid and proposed dividends to the Parent Company totalling SEK 660 M, which led to a minor net increase in own funds.

The capital requirement declined during the year by SEK 89 M to SEK 1,326 M, primarily driven by lower market risk as a result of reduced property holdings. Accordingly, the solvency ratio (own funds as a percentage of the capital requirement) strengthened from 235% at the start of the year to 260% on 31 December 2016. The company's capital situation according to Solvency II is described in greater detail in the Länsförsäkringar AB Group's Solvency and Financial Condition Report.

### **Risks and risk management**

Länsförsäkringar Sak's operations give rise to various types of risks. Market risk primarily arises due to changes in the level or volatility of interest rates, financial asset prices and exchange rates. Exposure to underwriting risks includes non-life insurance risks such as premium, reserve and catastrophe risk as life-assurance and health-insurance risks arising in the health products.

A more detailed description of the risks to which the company is exposed and how these risks are managed is presented in note 2 Risk and capital management.

## Employees

### *Employees and leadership*

Dedicated employees and strong leadership are important prerequisites for achieving results. The companies in the Länsförsäkringar AB Group work according to a joint model for performance management and employeeship includes actively pursuing operational improvements. Employeeship involves every employee assuming responsibility for their own development in terms of performance, competencies and health. This responsibility is described in the personnel policy and the performance management work model.

### *Health and work environment*

Work environment activities are based on systematic methods, and the organisational and social work environment is regularly followed up. Managers and health and safety representatives have been trained in how they can improve a healthy workplace. The Länsförsäkringar AB Group's employee survey said that 64% (56) of employees believe that they have a reasonable stress level in their work and 80% (77) think that they have a good work/life balance.

The company perspective of the work environment is conducted in the Work Environment and Equality Committee.

### *Equality and diversity*

The Länsförsäkringar AB Group is very ambitious in its continued diversity efforts. The equality and diversity plan, containing targets, action plans and monitoring activities, was revised during the year.

The Group has several collaboration projects aimed at enhancing diversity, for example, with the Stockholm School of Economics, Korta vägen ("fast track") and Welcome Talent.

According to the employee survey, 80% of women and 92% of men believe that the Länsförsäkringar AB Group is an equal opportunity workplace. Salary levels for men and women in equal positions at the same level are quality assured based on a salary survey that will be completed in the first quarter of 2017.

The focus of the recruitment process is to achieve a more even gender distribution among working groups and in corporate management, department heads and group and team leaders.

### *One of Sweden's most attractive employers*

Länsförsäkringar won the title of "The Insurance Industry's Most Attractive

Employer" for the ninth consecutive year in the Career Barometer survey of young university graduates, and was the only insurance company in the top 100 most attractive employers. Länsförsäkringar won the same award in the Corporate Barometer survey of economics students for the 14th consecutive year. These surveys are carried out by Universum.

Länsförsäkringar Sak's internal attractiveness as an employer is measured according to a Net Promotor Score (NPS). The NPS in this year's employee survey was 34 (on a scale of -100 to 100), compared with the benchmark of 29. The high performing benchmark is based on results from approximately 70,000 responses from high performing companies. Other areas surveyed included the Commitment Index, which for 2016 was 81 (of 100) compared with a high performing benchmark of 84, and the Leadership Index, which was 77 (of 100) compared with a high performing benchmark of 81.

For information about the number of employees, etc., see note 8.

### *Sustainability*

Länsförsäkringar Sak wants to create security for animals and people focusing on health and sustainability. A sustainability policy that replaces the environmental policy was adopted in 2016 to clarify the governance and development of sustainability efforts.

At the end of 2016, Länsförsäkringar Sak became the first Swedish insurance company to sign the Principles for Sustainable Insurance (PSI), a large international initiative between the UN and the insurance industry on sustainable insurance. The PSI comprises four principles that encompass the entire value chain to contribute to financial, environmental and social sustainability.

The product range is continuously reviewed to offer financial security in the offering that reduces risks in a variety of situations that customers may find themselves in. The "Bo Kvar" insurance policy has been offered since 2015, providing cover in the event of death, illness or unemployment and is offered to Länsförsäkringar Bank's mortgage customers.

Länsförsäkringar Sak is one of Sweden's leading players in health care, accident and health insurance, and actively participates in public debate on good health and a sustainable working life. The aim of these preventive health services is to promote good health and prevent ill health by, for example, reducing stress, improving sleep and main-

taining a healthier lifestyle. Activities include a health profile for employees and organisations, online health programmes, personal counselling and manager support services. Independent medical examinations are used to ensure that mediated health care is based on medical grounds and provides the best long-term results for customers. Länsförsäkringar Sak supports scientific studies and research into people's lifestyles, health and mental health. Effective rehabilitation not only includes medical but also work-oriented rehabilitation, and also includes treatment for addiction and substance abuse.

Länsförsäkringar Sak has access to a comprehensive claims statistics database to continuously monitor and assess the higher risk of natural catastrophes occurring. Mapping can be used to develop geographic information systems (GIS) to analyse and assess flooding risks. In 2016, Länsförsäkringar Sak initiated a dialogue with partner reinsurance companies to ensure that they have signed Länsförsäkringar AB's Code of Conduct for Suppliers or support the principles of the UN Global Compact. A survey carried out in autumn 2016 revealed that 74% of these reinsurance companies met at least one of the criteria.

Financial, social and environmental aspects are integrated into the purchasing policy to manage sustainability risks and safeguard the principles of the UN Global Compact. A Code of Conduct for Suppliers, based on the UN Global Compact, is in place and defines requirements regarding human rights, labour conditions, environment and business ethics.

Länsförsäkringar Sak's office property is environmentally classified as energy-efficient and designed to promote health and sustainability, in line with the Sweden Green Building Council's certification scheme and the GreenBuilding system. Only Good Environmental Choice electricity and district heating that is largely produced from renewable fuels are used. The staff canteen offers organic and locally produced food and meat-free Mondays. The operations' greatest direct impact on the environment is from business travel and paper consumption in the form of print-outs and customers documentation. Rail travel is used instead of flying or driving, and travel is replaced by digital meeting technology wherever possible. The company car policy was revised during the year and imposes strict environmental regulations on company cars.



A separate sustainability report is not provided for Länsförsäkringar Sak, although a joint sustainability report for the Länsförsäkringar AB Group is available in Länsförsäkringar AB's Annual Report.

### Responsible investments

Länsförsäkringar Sak's ethical guidelines are based on international conventions on the areas of environment, human rights, child labour, labour law, corruption and controversial weapons. No direct investments are made in companies that conduct operations in controversial weapons, such as biological and chemical weapons, cluster munitions, landmines and nuclear weapons. Länsförsäkringar AB signed the United Nations-supported Principles for Responsible Investment (PRI). All investments in equities and credit bonds for the companies in the Länsförsäkringar AB Group are analysed with the assistance of an external consultant to identify companies that breach international conventions. There are two main alternatives in the event of contraventions of guidelines – divest the asset or seek to influence the company through lobbying and dialogue. Primarily dialogue and lobbying are used to influence companies to act responsibly.

Work began in 2016 on reducing the carbon footprint of the Länsförsäkringar AB Group's investments by divesting mining and energy companies that derive more than 50% of their income from coal. At the same time, activities were started to gradually increase the percentage of investments in green bonds. Länsförsäkringar AB supports the Carbon Disclosure Project (CDP), which collates environmental data from companies that is used by investors for financial analyses, including measuring carbon footprints. In 2016, Länsförsäkringar held talks with several other investors to persuade more companies to report to the CDP and to encourage companies to take action to reduce their impact on the environment.

### Asset Management

Asset management is handled within Länsförsäkringar AB on assignment from Länsförsäkringar Sak. Using an efficient and competitive management model that takes the selected risk levels into consideration, Länsförsäkringar Sak aims to create a stable return on the investment assets in the company in order to achieve favourable profitability over time. During the year, risk in the portfolio remained relatively low. Most of the total market risk was in strate-

gic property holdings, while the market risk in the more actively managed part of the portfolio was mainly found in interest-bearing assets with credit elements.

### Earnings and financial position

Profit before appropriations and tax for 2016 amounted to SEK 580 M (972). Profit from insurance operations amounted to SEK 103 M (501) and profit from financial operations to SEK 477 M (471).

### Profit from insurance operations

The combined ratio amounted to 96% (78). The claims costs trend in assumed international reinsurance was unfavourable, which, combined with the positive run-off result in accident and health insurance in the preceding year, was the main reason for the lower combined ratio. The earnings performance for health care insurance was positive, with the business reporting balanced earnings after premium adjustments and quality enhancements in claims adjustment.

Premiums earned after ceded reinsurance increased 4% to SEK 2,199 M (2,115). The increase was mainly the result of premium increases in the health care business.

Claims payments after ceded reinsurance increased to SEK 1,666 M (1,205) and the claims ratio was 76% (57). The increase was due to higher claims costs in the assumed international reinsurance business caused by a higher frequency of medium-sized claims and strengthened reserves for previous years' claims. The casualty business also incurred higher claims costs and reserves were strengthened in the annuities operations when the yield curve for discounting was changed. A large, positive run-off gain was in the accident and health care business was also realised in the preceding year, after reserves were reviewed when a decision was made to transfer part of the accident and health insurance from Länsförsäkringar Sak to the regional insurance companies.

Operating expenses amounted to SEK 443 M (444) and the expense ratio improved to 20% (21) due to higher premiums earned and lower acquisition costs.

### Profit from financial operations

The total return amounted to 5.7% (7.7). Properties, which at year-end amounted to about 30.6% of the investment assets, contributed 4.7 percentage points to the total return. In addition to the ongoing direct yield, the continued strength of the property market generated positive mar-

ket-value changes, primarily driven by lower yield requirements. Interest-rate levels on risk-free investments remained negative during the year. The company's fixed-income portfolio, which has a short duration, still contributed 0.9 percentage points to the return due to positive returns from corporate loans and housing credits in the portfolio. The lower total return year-on-year was due to a lower share of properties in 2016.

Investment income recognised in profit and loss also includes dividends from subsidiaries that are not included in the return figure above. The dividend received in the preceding year was SEK 450 M, while the dividend in 2016 was SEK 20 M. The revaluation of the value of owner-occupied property in the company Utile Dulci is also not included in profit or loss and is instead recognised directly in equity. The increase in value was higher in the preceding year.

### Proposed appropriation of profit

According to the balance sheet of Länsförsäkringar Sak Försäkringsaktiebolag (publ), the following non-restricted equity is at the disposal of the Annual General Meeting.

Retained earnings	153,605,683
Group contributions paid	-160,000,000
Tax on Group contributions	35,200,000
Net profit for the year	517,813,004
<b>Total</b>	<b>546,618,687</b>

The Board of Directors and the President propose that SEK 250.00 per share of this profit, corresponding to SEK 500,000,000, be distributed to the Parent Company and SEK 46,618,687 be carried forward. The Board of Directors believes that this distribution of profit and Group contribution paid are justified taking into consideration the demands on the amount of equity imposed by the nature, scope and risks associated with the operations, and the company's solvency requirements, liquidity and financial position, in accordance with Chapter 17, Section 3 of the Swedish Companies Act.

The result of the year's operations and the company's financial position at 31 December 2016 are presented in the following financial statements and the accompanying notes.

## Five-year summary

SEK M	2016	2015	2014	2013	2012
<b>EARNINGS</b>					
Premiums earned (after ceded reinsurance)	2,199	2,115	1,485	1,862	1,796
Investment income transferred from financial operations	14	36	115	137	144
Claims payments (after ceded reinsurance)	-1,666	-1,205	-861	-1,377	-1,268
Operating expenses	-443	-444	-412	-446	-453
Other income and expenses	-1	-	-19	19	-
<b>Technical result for insurance operations</b>	<b>103</b>	<b>501</b>	<b>308</b>	<b>195</b>	<b>219</b>
Remaining investment income	477	483	41	-17	151
Other non-technical expenses	-	-12	-29	-29	-29
<b>Profit before appropriations and tax</b>	<b>580</b>	<b>972</b>	<b>320</b>	<b>149</b>	<b>341</b>
Net profit for the year	518	817	217	108	230
<b>Premium income (after ceded reinsurance)</b>					
Non-life insurance	2,196	2,123	1,499	1,881	1,786
<b>FINANCIAL POSITION</b>					
Investment assets	5,997	6,373	6,093	13,704	14,321
Technical provisions (after ceded reinsurance)	4,075	3,913	4,172	11,284	12,059
<b>Solvency capital</b>					
Equity	751	828	580	1,326	1,262
Deferred tax	6	8	10	12	17
Untaxed reserves	1,271	1,255	1,205	1,165	1,155
Surplus values	1,370	1,551	1,149	1,150	1,104
<b>Solvency capital</b>	<b>3,398</b>	<b>3,642</b>	<b>2,944</b>	<b>3,653</b>	<b>3,539</b>
<b>Solvency margin, %</b>	<b>155</b>	<b>172</b>	<b>196</b>	<b>194</b>	<b>198</b>
Own funds (according to FRL wording on 31 Dec 2015)	-	3,144	2,588	3,252	3,385
Required solvency margin (according to FRL wording on 31 Dec 2015)	-	473	512	335	325
Own funds, insurance group Länsförsäkringar Sak Group (according to FRL wording on 31 Dec 2015)	-	3,371	3,020	3,319	3,281
Required solvency margin, insurance group Länsförsäkringar Sak Group (according to FRL wording on 31 Dec 2015)	-	1,050	1,050	840	826
Own funds, insurance group (according to FRL wording on 31 Dec 2015) <sup>5)</sup>	-	9,437	7,619	-	-
Required solvency margin, insurance group (according to FRL wording on 31 Dec 2015) <sup>5)</sup>	-	6,072	6,293	-	-
<b>Own funds</b>	<b>3,453<sup>4)</sup></b>	<b>3,330<sup>4)</sup></b>	-	-	-
<b>Minimum capital requirement</b>	<b>597</b>	<b>637<sup>2)</sup></b>	-	-	-
<b>Solvency capital requirement</b>	<b>1,326</b>	<b>1,415<sup>2)</sup></b>	-	-	-
<b>Solvency ratio, %</b>	<b>260</b>	<b>235<sup>2)</sup></b>	-	-	-
<b>Own funds for insurance group<sup>1)</sup></b>	<b>40,602</b>	<b>36,905<sup>2)</sup></b>	-	-	-
<b>Solvency capital requirement for insurance group<sup>1)</sup></b>	<b>30,121</b>	<b>28,233<sup>2)</sup></b>	-	-	-
<b>Solvency ratio, % for insurance group<sup>1)</sup></b>	<b>135</b>	<b>131<sup>2)</sup></b>	-	-	-
<b>KEY FIGURES</b>					
<b>Insurance operations</b>					
Claims ratio <sup>3)</sup>	76	57	58	74	71
Expense ratio	20	21	28	24	25
Combined ratio	96	78	86	98	96
<b>Asset management, %</b>					
Direct yield	0.1	5.7	0.6	2.3	2.8
Total return, including properties in Group companies	5.7	7.7	5.6	-1.2	3.7

<sup>1)</sup> The group under the insurance-operation rules comprises the Parent Company Länsförsäkringar AB, all of the insurance companies in the Group, Länsförsäkringar Bank AB, Wasa Kredit AB, Länsförsäkringar Hypotek AB and Länsförsäkringar Fondförvaltning AB. The financial conglomerate also includes Länsförsäkringar Liv Försäkrings AB, despite the Länsförsäkringar Liv Group not being consolidated in the Länsförsäkringar AB Group. As stated in the EU Solvency II Directive, the calculations are made in accordance with the consolidation method, except where the insurance-operation rules require deductions from profits in subsidiaries that are not transferable to another company unless the subsidiary in question is an insurance company.

<sup>2)</sup> Opening balance on 1 January 2016 under Solvency II. There are no comparative figures since the regulations came into effect on 1 January 2016.

<sup>3)</sup> Fees to Swedish Motor Insurers were previously recognised as claims payments. From 2014, these fees are recognised as Other technical expenses since the expense is not considered to be a transfer of insurance risk. When viewed in relation to the insurance operations, it is deemed more correct to recognise the expense as Other technical expenses. The claims ratio has been adjusted for 2013 but not for older periods since it is difficult to obtain data.

<sup>4)</sup> Of which SEK 3,453 M is Tier 1 capital.

<sup>5)</sup> An insurance group for Länsförsäkringar AB (publ) together with Länsförsäkringar Grupplivförsäkringsaktiebolag, Försäkringsaktiebolaget Agria, Länsförsäkringar Fondliv and Länsförsäkringar Liv due to the amendment of the Swedish Insurance Business Act (2010:204) effective 1 January 2014.

**Direct yield**

Direct yield refers to the total of rental income from properties, interest income, interest expense, dividends on shares and participations, administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year. The direct yield was restated in accordance with FFS 2015:12.

**Total return ratio**

Total return ratio refers to the sum of the 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 administration costs, in relation to the average value of these assets during the year. The change in value in assets for liability hedges is included in the figure, but the change in value of the discounted technical provisions is not included in the total return.

**Surplus values**

Items included in Surplus values, see note 20 Shares and participations in Group companies, with information about the valuation of shares in property companies. Surplus values are calculated as the difference between the Market Value and Carrying Amount of properties in subsidiaries, adjusted by the difference between the Carrying Amount of these shares/participations in subsidiaries and Equity in the subsidiaries.

# Financial statements

Income statement	11
Performance analysis	12
Balance sheet	14
Statement of changes in equity	16
Cash-flow statement	16
<b>Note 1</b> Accounting policies	18
<b>Note 2</b> Risks and risk management	24
<b>Note 3</b> Premium income	31
<b>Note 4</b> Investment income transferred from financial operations	31
<b>Note 5</b> Claims paid	31
<b>Note 6</b> Operating expenses	31
<b>Note 7</b> Fees and remuneration of auditors	31
<b>Note 8</b> Employees, staff costs and remuneration of senior executives	31
<b>Note 9</b> Other technical expenses	33
<b>Note 10</b> Investment income, revenue	33
<b>Note 11</b> Unrealised gains on investment assets	33
<b>Note 12</b> Investment income, expenses	33
<b>Note 13</b> Unrealised losses on investment assets	33
<b>Note 14</b> Investment income, per measurement category	34
<b>Note 15</b> Other non-technical expenses	34
<b>Note 16</b> Tax	34
<b>Note 17</b> Property and equipment	34
<b>Note 18</b> Goodwill	34
<b>Note 19</b> Other intangible assets	35
<b>Note 20</b> Shares and participations in Group companies	36
<b>Note 21</b> Interest-bearing securities issued by Group companies and loans to Group companies	36
<b>Note 22</b> Shares and participations in associated companies	36
<b>Note 23</b> Shares and participations	37
<b>Note 24</b> Bonds and other interest-bearing securities	37
<b>Note 25</b> Derivatives	37
<b>Note 26</b> Receivables, direct insurance	37
<b>Note 27</b> Other receivables	37
<b>Note 28</b> Accrued interest income	37
<b>Note 29</b> Prepaid acquisition costs	37
<b>Note 30</b> Other prepaid expenses and accrued income	37
<b>Note 31</b> Untaxed reserves	37
<b>Note 32</b> Unearned premiums and unexpired risks	38
<b>Note 33</b> Claims outstanding	38
<b>Note 34</b> Pensions and similar commitments	38
<b>Note 35</b> Other provisions	38
<b>Note 36</b> Liabilities, direct insurance	39
<b>Note 37</b> Other liabilities	39
<b>Note 38</b> Pensions	39
<b>Note 39</b> Other accrued expenses and deferred income	40
<b>Note 40</b> Information about offsetting	40
<b>Note 41</b> Financial assets and liabilities by category	41
<b>Note 42</b> Anticipated recovery and settlement periods, amounts expected to be recovered	43
<b>Note 43</b> Pledged assets and contingent liabilities	43
<b>Note 44</b> Disclosures on related parties	44
<b>Note 45</b> Supplementary disclosures on income-statement items by insurance class	44
<b>Note 46</b> Appropriation of profit	44

<b>Income statement</b>			
<b>Technical recognition of non-life insurance operations, SEK M</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Premiums earned (after ceded reinsurance)</b>			
Premium income	3	3,750.1	3,692.8
Premiums for ceded reinsurance		-1,554.4	-1,570.0
Change in Provision for unearned premiums and unexpired risks		-38.6	-14.5
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks		42.3	7.2
<b>Total</b>		<b>2,199.4</b>	<b>2,115.5</b>
Investment income transferred from financial operations	4	14.1	35.9
<b>Claims payments (after ceded reinsurance)</b>			
Claims paid			
Before ceded reinsurance		-2,426.1	-3,078.7
Reinsurers' portion		885.8	1,612.0
<b>Total</b>	<b>5</b>	<b>-1,540.3</b>	<b>-1,466.7</b>
<b>Change in Provision for claims outstanding</b>			
Before ceded reinsurance		360.8	946.9
Reinsurers' portion		-486.7	-685.5
<b>Total</b>		<b>-125.9</b>	<b>261.4</b>
<b>Claims payments (after ceded reinsurance)</b>			
		<b>-1,666.2</b>	<b>-1,205.3</b>
Operating expenses	6, 7, 8	-442.8	-444.3
Other technical expenses	9	-1.7	-0.7
<b>TECHNICAL RESULT FOR NON-LIFE INSURANCE OPERATIONS</b>		<b>102.8</b>	<b>501.1</b>
<b>NON-TECHNICAL RECOGNITION</b>			
Technical result for non-life insurance operations		102.8	501.1
Investment income, revenue	10	550.0	719.1
Unrealised gains on investment assets	11	198.1	5.1
Investment income, expenses	12	-247.8	-62.4
Unrealised losses on investment assets	13	-5.1	-141.9
Other non-technical expenses	15	-	-11.9
Investment income transferred to non-life insurance operations		-17.6	-37.0
<b>Profit before appropriations and tax</b>		<b>580.2</b>	<b>972.1</b>
<b>Appropriations</b>			
Tax allocation reserve	31	-16.5	-49.7
<b>Profit before tax</b>		<b>563.7</b>	<b>922.4</b>
Tax on net profit for the year	16	-45.9	-105.3
<b>Net profit for the year</b>		<b>517.8</b>	<b>817.1</b>

<b>Statement of comprehensive income</b>		
<b>SEK M</b>	<b>2016</b>	<b>2015</b>
Net profit for the year	517.8	817.1
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>517.8</b>	<b>817.1</b>

## Performance analysis 2016

SEK M	Total	Accident and health	Health care	Commercial	Legal expenses	Liability	Motor third-party liability
<b>Technical result for non-life insurance operations</b>							
Premiums earned (after ceded reinsurance)	2,199.4	537.9	701.4	58.5	3.2	125.2	40.4
Investment income transferred from financial operations	14.0	4.1	0.3	0.1	0.0	5.7	1.2
Claims payments (after ceded reinsurance)	-1,666.2	-285.0	-562.0	-56.8	-4.4	-115.2	-37.1
Operating expenses	-442.7	-102.4	-123.2	-11.6	-0.1	-28.2	-9.7
Other technical expenses	-1.7	-	-	-	-	-	-1.7
<b>Technical result, non-life insurance operations, 2016</b>	<b>102.8</b>	<b>154.6</b>	<b>16.5</b>	<b>-9.8</b>	<b>-1.3</b>	<b>-12.5</b>	<b>-6.9</b>
Technical result for non-life operations, 2015	501.1	462.1	-50.7	-5.7	1.4	9.0	-1.7
Net run-off profit/loss, 2016	95.6	42.6	0.0	-11.4	-2.2	14.6	1.9
<b>Technical provisions before ceded reinsurance</b>							
Provision for unearned premiums and unexpired risks	547.0	125.3	168.2	26.7	1.0	74.8	10.4
Provision for claims outstanding	13,919.6	1,070.3	205.8	79.5	5.6	974.9	2,231.5
<b>Total technical provisions, before ceded reinsurance</b>	<b>14,466.6</b>	<b>1,195.6</b>	<b>374.0</b>	<b>106.2</b>	<b>6.6</b>	<b>1,049.7</b>	<b>2,241.9</b>
<b>Reinsurers' portion of technical provisions</b>							
Provision for unearned premiums and unexpired risks	57.9	-	-	3.0	0.0	1.6	0.0
Provision for claims outstanding	10,334.0	-	-	13.8	-	49.3	2,078.2
<b>Total reinsurers' portion of technical provisions</b>	<b>10,391.9</b>	<b>0.0</b>	<b>0.0</b>	<b>16.8</b>	<b>0.0</b>	<b>50.9</b>	<b>2,078.2</b>

## Notes to Performance analysis

SEK M	Total	Accident and health	Health care	Commercial	Legal expenses	Liability	Motor third-party liability
<b>Note A Premiums earned (after ceded reinsurance)</b>							
Premium income	3,750.0	540.3	722.5	76.4	3.2	137.8	47.5
Premiums for ceded reinsurance	-1,554.3	-2.4	-	-17.8	-0.1	-6.3	-4.6
Change in Provision for unearned premiums and unexpired risks	-38.6	-0.1	-21.1	0.3	-	-7.0	-2.4
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	42.3	-	-	-0.4	-	0.8	-
<b>Note B Claims payments (after ceded reinsurance)</b>							
<b>Claims paid</b>							
Before ceded reinsurance	-2,274.5	-256.8	-495.3	-46.6	-1.9	-79.0	-118.3
Reinsurers' portion	885.8	-	-	2.8	-	0.4	97.7
<b>Change in provision for claims outstanding</b>							
Before ceded reinsurance	360.7	11.2	-29.3	-5.1	-2.5	-55.5	-78.8
Reinsurers' portion	-486.7	-	-	-0.2	-	45.3	68.5

Motor	Transit	Hull	Household and homeowner	Credit and Guarantees	Direct insurance Swedish risks	Direct insurance foreign risks	Total assumed reinsurance
120.1	105.0	0.0	0.0	0.2	1,691.9	2.0	505.5
0.1	0.1	0.0	0.0	0.0	11.6	0.0	2.4
-105.1	-53.3	2.8	0.0	-0.1	-1,216.2	0.9	-450.9
-19.3	-27.4	0.0	0.0	-1.4	-323.3	0.2	-119.6
-	-	-	-	-	-1.7	-	-
<b>-4.2</b>	<b>24.4</b>	<b>2.8</b>	<b>-</b>	<b>-1.3</b>	<b>162.3</b>	<b>3.1</b>	<b>-62.6</b>
-1.0	55.6	0.0	-0.2	-0.4	468.4	1.3	31.4
-0.5	18.0	-	-	0.0	63.0	0.9	31.7
104.2	32.3	0.0	1.1	2.2	546.2	1.9	-1.1
31.6	77.2	0.0	1.0	0.1	4,677.5	0.7	9,241.4
<b>135.8</b>	<b>109.5</b>	<b>0.0</b>	<b>2.1</b>	<b>2.3</b>	<b>5,223.7</b>	<b>2.6</b>	<b>9,240.3</b>
28.9	1.5	0.0	0.0	1.7	36.7	1.1	20.1
1.8	-	-	-	-	2,143.1	0.1	8,190.8
<b>30.7</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>1.7</b>	<b>2,179.8</b>	<b>1.2</b>	<b>8,210.9</b>

Motor	Transit	Hull	Household and homeowner	Credit and Guarantees	Direct insurance Swedish risks	Direct insurance foreign risks	Total assumed reinsurance
134.1	115.9	-	-	2.7	1,780.4	4.7	1,964.9
-32.7	-7.6	-	-	-2.0	-73.5	-2.6	-1,478.2
-6.1	-3.6	-	-	-2.2	-42.2	-0.1	3.7
24.8	0.3	-	-	1.7	27.2	-	15.1
-103.9	-41.0	-	-	-	-1,142.8	0.3	-1,132.0
8.7	0.4	-	-	-	110.0	-	775.8
-1.8	2.9	2.8	-	-0.1	-156.2	0.9	516.0
0.9	-	-	-	-	114.5	-0.4	-600.8

## Balance sheet

SEK M	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	18	0.0	0.0
Other intangible assets	19	18.3	20.1
<b>Total</b>		<b>18.3</b>	<b>20.1</b>
<b>Investment assets</b>			
Investments in Group companies and associated companies			
Shares and participations in Group companies	20	1,869.0	2,099.4
Interest-bearing securities issued by Group companies and loans to Group companies	21	55.6	582.7
Shares and participations in associated companies	22	16.7	17.5
Other financial investment assets			
Shares and participations	23	88.9	35.9
Bonds and other interest-bearing securities	24	3,752.8	3,389.2
Derivatives	25, 40	22.8	28.2
Other financial investment assets		151.7	185.5
Deposits with companies that have ceded reinsurance		39.9	34.2
<b>Total</b>		<b>5,997.4</b>	<b>6,372.6</b>
<b>Reinsurers' portion of Technical provisions</b>			
Unearned premiums and unexpired risks	32	57.9	15.4
Claims outstanding	33	10,334.1	10,809.7
<b>Total</b>		<b>10,392.0</b>	<b>10,825.1</b>
<b>Receivables</b>			
Receivables, direct insurance	26	316.0	330.7
Receivables, reinsurance		164.6	271.7
Other receivables	27	811.2	588.9
<b>Total</b>		<b>1,291.8</b>	<b>1,191.3</b>
<b>Other assets</b>			
Property and equipment	17	3.0	5.0
Cash and bank balances		117.8	72.1
Deferred tax	16	1.9	2.4
<b>Total</b>		<b>122.7</b>	<b>79.5</b>
<b>Prepaid expenses and accrued income</b>			
Accrued interest income	28	38.1	10.4
Prepaid acquisition costs	29	16.8	9.9
Other prepaid expenses and accrued income	30	15.4	16.2
<b>Total</b>		<b>70.3</b>	<b>36.5</b>
<b>TOTALASSETS</b>	<b>42</b>	<b>17,892.5</b>	<b>18,525.1</b>



## Balance sheet, cont.

SEK M	Note	31 Dec 2016	31 Dec 2015
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>			
Share capital (2,000,000 shares)		200.0	200.0
Statutory reserve		4.0	4.0
Retained earnings		28.8	-193.5
Net profit for the year		517.8	817.1
<b>Total</b>		<b>750.6</b>	<b>827.6</b>
<b>Untaxed reserves</b>			
Contingency reserve		1,138.8	1,138.9
Tax allocation reserve		132.5	116.0
<b>Total</b>	31	<b>1,271.3</b>	<b>1,254.9</b>
<b>Technical provisions (before ceded reinsurance)</b>			
Unearned premiums and unexpired risks	32	547.0	505.0
Claims outstanding	33	13,919.6	14,232.8
<b>Total</b>		<b>14,466.6</b>	<b>14,737.8</b>
<b>Other provisions</b>			
Pensions and similar commitments	34	21.5	23.1
Deferred tax liabilities	16	7.7	10.2
Current tax liabilities		0.0	14.9
Other provisions	35	11.3	10.8
<b>Total</b>		<b>40.5</b>	<b>59.0</b>
<b>Deposits from reinsurers</b>			
		<b>21.3</b>	<b>19.1</b>
<b>Liabilities</b>			
Liabilities, direct insurance	36	587.3	593.2
Liabilities, reinsurance		310.4	397.6
Derivatives	25, 40	13.5	17.6
Other liabilities	37	288.5	464.2
<b>Total</b>		<b>1,199.7</b>	<b>1,472.6</b>
<b>Accrued expenses and deferred income</b>			
Other accrued expenses and deferred income	39	142.5	154.1
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	42	<b>17,892.5</b>	<b>18,525.1</b>

## Statement of changes in equity

SEK M	Share capital	Statutory reserve	Retained earnings	Net profit for the year	Total equity
<b>Opening equity, 1 January 2015</b>	<b>200.0</b>	<b>4.0</b>	<b>159.0</b>	<b>216.9</b>	<b>579.9</b>
Appropriation of profit			216.9	-216.9	-
Dividends to Parent Company			-312.0		-312.0
Group contributions paid/received			-257.4		-257.4
Net profit for the year/Comprehensive income				817.1	817.1
<b>Closing equity, 31 December 2015</b>	<b>200.0</b>	<b>4.0</b>	<b>-193.5</b>	<b>817.1</b>	<b>827.6</b>
<b>Opening equity, 1 January 2016</b>	<b>200.0</b>	<b>4.0</b>	<b>-193.5</b>	<b>817.1</b>	<b>827.6</b>
Appropriation of profit			817.1	-817.1	-
Dividends to Parent Company			-470.0		-470.0
Group contributions paid/received			-124.8		-124.8
Net profit for the year/Comprehensive income				517.8	517.8
<b>Closing equity, 31 December 2016</b>	<b>200.0</b>	<b>4.0</b>	<b>28.8</b>	<b>517.8</b>	<b>750.6</b>

Share capital and the statutory reserve are classified as restricted equity.

## Cash-flow statement

SEK M	Note	2016	2015
<b>Operating activities</b>			
Profit before tax		563.7	922.4
Adjustment for non-cash items		-148.5	-396.1
Tax paid		-27.7	-21.3
<b>Cash flow from operating activities before changes in working capital</b>		<b>387.5</b>	<b>505.0</b>
<b>Cash flow from changes in working capital</b>			
Investments in investment assets, net		-395.3	-557.1
Increase (-)/Decrease (+) in operating receivables		314.0	556.2
Increase (+)/Decrease (-) in operating liabilities		-442.3	-970.9
<b>Cash flow from operating activities</b>		<b>-136.1</b>	<b>-466.8</b>
<b>Investing activities</b>			
Divestment of participations in subsidiaries		998.0	-
Shareholders' contributions paid		-440.0	-
Repayment of loans granted		509.0	488.0
Investments in property and equipment		26.2	0.3
<b>Cash flow from investing activities</b>		<b>1,093.2</b>	<b>488.3</b>
<b>Financing activities</b>			
Dividends to Parent Company		-470.0	-312.0
Group contributions paid		-330.0	-188.0
<b>Cash flow from financing activities</b>		<b>-800.0</b>	<b>-500.0</b>
<b>Net cash flow for the year</b>		<b>157.1</b>	<b>-478.5</b>
Cash and cash equivalents, 1 January		661.5	1,140.0
Cash and cash equivalents, 31 December		818.6	661.5

## Supplementary information to cash-flow statement

SEK M	2016	2015
<b>Interest paid and received and dividends received</b>		
Dividends received	20.3	450.0
Interest received	35.8	40.0
Interest paid	-14.5	-9.8
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	2.6	14.1
Unrealised changes in currency	46.8	-76.1
Unrealised changes in value of investment assets	-564.9	-6.5
Capital gains/losses from partnerships	230.4	-133.7
Impairment of shares in Group companies	-	-
Technical provisions after ceded reinsurance	128.0	-253.3
Change in prepaid acquisition costs	-6.9	10.9
Pension provisions	-1.6	-1.0
Provision for tax allocation reserve	16.5	49.8
Other provisions	0.6	-0.3
	<b>-148.5</b>	<b>-396.1</b>
<b>Cash and cash equivalents</b>		
Cash and bank balances	117.8	72.1
<b>Receivables from Group companies</b>		
Länsförsäkringar Bank	661.5	521.0
Länsförsäkringar AB, Group bank account	39.3	68.4
	<b>818.6</b>	<b>661.5</b>

# Notes to the consolidated financial statements

All figures in SEK M unless otherwise stated.

## Note 1 Accounting policies

### Company information

The Annual Report for Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corp. Reg. No. 502010-9681 pertains to the fiscal year 1 January-31 December 2016. Länsförsäkringar Sak Försäkringsaktiebolag is an insurance company registered in Sweden, with its registered office in Stockholm. The address of the head office is Tegeluddsvägen 11-13, SE-106 50 Stockholm, Sweden.

The company is a wholly owned subsidiary of Länsförsäkringar AB (publ), Corp. Reg. No. 556549-7020, with its registered office in Stockholm. The Parent Company in the largest Group in which Länsförsäkringar Sak Försäkringsaktiebolag is the subsidiary and in which the consolidated financial statements are prepared is Länsförsäkringar AB (publ). Länsförsäkringar Sak Försäkringsaktiebolag does not prepare its own consolidated financial statements in accordance with Chapter 7, Section 2 of the Swedish Annual Accounts Act.

### Compliance with standards and legislation

Länsförsäkringar Sak's Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (ÅRFL), the Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual reports in insurance companies (FFFS 2015:12 with additions), and the Swedish Financial Reporting Board's recommendation RFR 2.

Länsförsäkringar Sak applies legally restricted IFRS. This means that all IFRS and interpretations 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 Financial Supervisory Authority's regulations refer to certain exceptions to and limitations in IFRS.

The Annual Report was approved for publication by the President and Board of Directors on 24 February 2017. Final adoption of the Annual Report will take place at the 2017 Annual General Meeting.

### Conditions relating to the preparation of the financial statements

The company's functional currency is Swedish kronor (SEK) and the financial statements are presented in SEK. All amounts are rounded to the nearest million with one decimal point (SEK M), unless otherwise stated. Assets and liabilities are recognised at cost, except for most of the company's financial assets and liabilities that are measured at fair value or amortised cost. The accounting policies stated below have been applied to all periods presented in the financial statements, unless otherwise stated.

### Judgements and estimates in the financial statements

The preparation of accounts in accordance with legally restricted IFRS requires that corporate management make judgements and estimates, and make assumptions that affect the application of the accounting policies and the recognised amounts of income, expenses, assets, liabilities and contingent liabilities presented in the financial statements. These judgements and estimates are based on previous knowledge and experiences and the information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates, but estimates are regularly evaluated to reduce deviations. Changes in the abovementioned estimates are recognised in the period in which the change is made if the change only affected that period, or in the period in which the change is made and future periods if the change affects the period in question and future periods.

### Significant judgements applied to the company's accounting policies

An area in which corporate management makes significant judgements is the classification of insurance contracts. Under IFRS 4, contracts that transfer significant insurance risk are classified as insurance contracts. Länsförsäk-

ringar Sak has assessed all insurance contracts, and the majority of these are classified as contracts with significant insurance risk. The level of insurance risk was assessed by considering whether one or more scenarios of commercial significance exist in which Länsförsäkringar Sak would be obligated to pay a significant amount of compensation. Other contracts total minor amounts and have thus, for materiality reasons, been classified as insurance contracts under IFRS 4. For further information, see the section on Insurance contracts below.

The company bases the classification of financial assets and liabilities on the purpose of the holding. The categories of financial assets and liabilities are described below under the section Financial assets and liabilities, which also describes the company's classification.

### Significant sources of estimation uncertainty

Provisions for claims outstanding and the depreciation period for prepaid acquisition costs are two areas that involve a certain level of uncertainty. When calculating technical provisions, an actuarial estimate of anticipated additional costs for claims incurred and expenses for claims that may be incurred during the remaining term of the insurance policy is made. The valuation of the company's provisions is described in the section below concerning the recognition of technical provisions and in note 2, which provides information on risks in the operations. The assumption for the depreciation period for prepaid acquisition costs is based on statistics relating to the terms of the insurance contracts.

The valuation techniques described below in the accounting policies for investment assets are used in the measurement of financial assets for which no observable market data is available. Measurement is based on the most recent information, which normally involves quarterly measurement, one quarter in arrears. Special follow-ups are performed during periods of major turbulence in the financial market.

Pension provisions are calculated on an actuarial basis according to insurance guidelines and assumptions on average annual pensions per age group and a probability assessment of the utilisation of early retirement. Accounting policies for defined-benefit pension plans are described below under the section Remuneration of employees and in note 34 Pensions and similar commitments.

The recoverable amount of the goodwill item is assessed when testing goodwill for impairment. This assessment makes use of assumptions about future circumstances.

### Amended accounting policies

New standards and amendments to standards adopted by the EU and that are to be applied from 1 January 2016 did not entail any significant changes to the company's earnings or financial position.

### Annual Accounts Act for Insurance Companies (1995:1560)

The Annual Accounts Act for Insurance Companies (1995:1560) has been amended and is to be applied to fiscal years beginning on or after 1 January 2016. These amendments mean, for example, that previously recognised impairment on goodwill may not be reversed and that Memorandum items and Disclosures on significant events after the balance-sheet date are moved to disclosures in the notes. Proposed appropriation of profit is also to be presented in the notes. Other than this, the new regulations did not entail any significant changes to the financial statements.

### Swedish Financial Supervisory Authority's regulations and general guidelines regarding annual reports in insurance companies (FFFS 2015:12)

Regulations and general guidelines regarding annual reports in insurance companies (FFFS 2015:12) have replaced the Financial Supervisory Authority's regulations and general guidelines regarding annual reports in insurance companies (FFFS 2008:26).

In the new regulations, the provisions on key figures have been adjusted to the requirements and concepts applied with the introduction of the Solvency II Directive and the division of the insurance classes has been adjusted to the national supervisory reporting. The regulations will take effect on 1 January 2016 and be applied for the first time to annual accounts, annual reports and consolidated financial statements for fiscal years beginning after 31 December 2015 and interim reports prepared for periods of such fiscal years. Other than the changed requirements regarding disclosures and key figures, the new regulations did not entail any significant changes to the financial statements.

### New accounting regulations that have not yet been applied

A number of new or amended accounting regulations will take effect in future fiscal years and were not applied in advance in the preparation of these financial statements. The expected effects that the application of these new or amended IFRSs may have on the company's earnings and financial position are described below.

#### IFRS 9 Financial instruments

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains new requirements for the classification and measurement of financial instruments, a forward-looking impairment model and simplified conditions for hedge accounting.

IFRS 9 will take effect for fiscal years beginning on or after 1 January 2018 and early adoption is permitted. The standard is to be applied retrospectively with certain exceptions.

The categories in IAS 39 will be replaced by three measurement categories: assets measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification for debt instruments is determined based on the company's business model for the holdings and the cash flow characteristics that the assets give rise to. Equity instruments are to be measured at fair value through profit and loss, with the option of recognising changes in value in other comprehensive income. The rules regarding financial liabilities are largely consistent with the IAS 39 rules. Based on the analysis performed, the classification of financial assets under IFRS 9 is determined as follows in the table below. With the exception of enhanced disclosure requirements, the effect of the classification of financial assets and liabilities under IFRS 9 is expected to have a minor impact on the consolidated financial statements.

Financial asset	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income
Bonds and other interest-bearing securities	X		
Shares and participations	X		X
Derivatives	X		
Cash and bank balances		X	
Other receivables		X	

New principles are introduced for the impairment of financial assets measured at amortised cost and for debt instruments measured at fair value through other comprehensive income. The impairment model requires recognition of a 12-month expected credit losses on initial recognition and, in the event of a significant increase in the credit risk, the loss allowance is to be based on the full lifetime expected credit losses. For other receivables measured at amortised cost, an analysis is conducted to produce the most appropriate model for calculating expected credit losses.

The rules on hedge accounting entail, for example, simplified assessments for the effectiveness of a hedging relationship, and expanded limits for what may be identified as a hedging instrument and a hedged item. Hedge accounting is not applied, and therefore these changes are not deemed to have any significant effect on the company's financial statements.

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers will take effect for fiscal years beginning on or after 1 January 2018 and will then replace all previously issued standards and interpretations on income. IFRS 15 contains a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other standards (for example, IFRS 4 or IFRS 9). The basis of the standard is a contract on the sale of goods or services between two parties. A customer agreement is initially to be identified, which generates an asset for the seller (rights, a promise to receive consideration) and a liability (obligations, a promise to transfer the goods or services). Under the model, income is to be recognised when an obligation to deliver the promised goods or services to the customers is fulfilled. The EU has adopted the standard. In the Group, Länsförsäkringar has performed an analysis of the effects of IFRS 15, and implementation is ongoing. The assessment is that the standard will not have any significant effect on the company's financial statements, although disclosure requirements will be enhanced. Since the effects of the standard are expected to be limited, comparative information will not be restated in the standard's first year of application.

#### IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard will take effect on 1 January 2019 and early adoption is permitted provided that IFRS 15 Revenue from Contracts with Customers is also applied. IFRS 16 has not yet been approved by the EU.

For lessees, the new standard means that essentially the same lease agreements are to be recognised in the statement of financial position. Leases are not to be classified as operating or finance. The standard provides certain recognition exemptions for lessees for assets of low value and for leases with a term of 12 months or less. The standard contains more extensive disclosure requirements. The evaluation of the effects of IFRS 16 on the company's reporting has not yet been completed.

#### Future amendments to IFRSs that have not yet been published

The expected effects that the application of these future new or amended IFRSs may have on the company's financial statements are described below.

#### IFRS 17 Insurance contracts

The IASB is working on a new version of IFRS 4 Insurance Contracts that will replace the existing standard. The new standard is called IFRS 17. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. The updated standard will also impose new disclosure requirements to increase comparability between different companies.

The final standard is not expected to be published until the first half of 2017. The amendment is expected to take effect for fiscal years beginning on or after 1 January 2021. Länsförsäkringar is running a project in the Group to analyse the effects of the new standard. The project is in the pilot study stage.

In September 2016, the IASB amended IFRS 4 to allow insurance companies to use an exception to start applying IFRS 9 which is to be applied for fiscal years beginning on or after 1 January 2018. This exemption means that insurance companies can instead choose to start applying IFRS 9 at the same time as the future standard IFRS 17, that is from the 2021 fiscal year. The standard has not yet been approved by the EU. Länsförsäkringar has tentatively decided not to make use of this exemption.

## Shareholders' and Group contributions

Shareholders' contributions are recognised in the equity of the recipient and in shares and participations in Group companies with the donor.

Group contributions are recognised in accordance with the main rule of RFR 2. Group contributions received from subsidiaries are recognised according to the same principles as for recognising dividends. Group contributions paid to a subsidiary are recognised as an increase in shares and participations in Group companies. Group contributions paid or received from the Parent Company aimed at reducing the Group's total tax are recognised in equity after deductions for current tax effects since in accounting terms the Group contributions are equated with dividends and shareholders' contributions.

## Related parties

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv Försäkrings AB Group's companies, all subsidiaries and associated companies, Länsförsäkringar Mäklarservice AB and the 23 regional insurance companies.

See note 44 Disclosures on related parties for further information

## Translation of foreign currencies

Transactions in foreign currency are translated to SEK at the exchange rate on the transaction date. Assets and liabilities in foreign currency are translated to SEK by applying the exchange rates on the balance-sheet date. Unrealised exchange-rate differences are recognised in profit and loss as exchange-rate gains/losses net under investment income, income or investment income, expenses. 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 both interest income and exchange-rate gains/losses.

## Insurance contracts

Insurance contracts are contracts in which Länsförsäkringar Sak undertakes a significant insurance risk for the policyholder by committing 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 the level of insurance risk. Insurance products that do not involve a 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.

## 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

Premiums earned are recognised as the portion of premium income attributable to the accounting period. The portion of premium income from insurance contracts pertaining to periods after the balance-sheet date is recognised as

Technical provisions in the statement of financial position. Provision for unearned premiums is usually calculated by strictly allocating premium income based on the term of the underlying insurance contract. Reinsurers' portion of premium income is also allocated and the portion attributable to the period after the balance-sheet date is recognised as a receivable, Reinsurers' portion of technical provisions.

## Claims payments

Claims payments correspond to the expense in the accounting period for incurred claims, both those reported to the company and those not reported, regardless of when the claim occurred. Total claims payments include claims paid during the period and changes in provisions for claims outstanding. Expenses for claims adjustment are also included in claims paid. Claims recoveries are recognised as a reduction of claims costs.

## 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 paid. Operating expenses for financial management are recognised under Investment income, expenses.

## Investment income

### *Investment income transferred from financial operations*

The insurance operations have been assigned an interest rate based on the total of half of the premiums earned after ceded reinsurance and the average of opening and closing provisions for claims outstanding after ceded reinsurance during the year. The interest rate is risk-free interest, which for 2016 was set at 0.05% for short-term contracts and 0.75% for long-term contracts. The portion of transferred investment income that corresponds to the indexation of annuities has been transferred to claims payments and is included in the change in provision for claims outstanding item. Subsequently, the net investment income that is transferred from the financial operations/to the insurance operations is an increased capital cost corresponding to the effect of the indexed annuities.

### *Investment income, revenue and expenses*

Investment income includes interest income, interest expense, exchange-rate gains and exchange-rate losses on investment assets, cash and cash equivalents and loans. Dividends received, any impairment of financial assets and external expenses for asset management are included in investment income. Investment income also includes realised gains or losses on investment assets. Realised gains and losses are calculated as the difference between the purchase consideration received and the cost of the asset.

In the insurance operations, provision for claims outstanding is discounted on annuities; the effect of interest-rate revaluations on annuities is recognised in Investment income, net.

## Unrealised gains and losses on investment assets

Unrealised gains and losses on investment assets and derivatives are included in the items unrealised gains and unrealised losses on investment assets. Unrealised gains and losses comprise changes for the year in the difference between cost and fair value. In the event of a sale, the accumulated unrealised changes in value is reversed as unrealised gain and loss.

## Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in profit and loss, except when the underlying transaction is recognised directly against equity, whereby the related tax effect is recognised in equity.

Current tax is tax to be paid or received in the current year, with the application of the tax rates established or decided in practice on the balance-sheet date, and any 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. Temporary differences are not taken into account for initial recognition of goodwill or for initial recognition of assets and liabilities that are not business combinations and, at the time of the transaction, do not affect recognised or taxable earnings. The valuation of deferred tax is based on how underlying assets and liabilities are expected to be realised or settled. Deferred tax is calculated with application of the tax rates and tax rules established or decided in practice 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 it will be possible to utilise these. The value of the deferred tax assets is reduced when it is no longer considered likely that they can be utilised.

Any additional income tax arising on dividends is recognised at the time when the dividend is recognised as a liability.

## **Intangible assets**

### **Goodwill**

Goodwill represents the difference between the cost of the acquisition of operations and the fair value of acquired identifiable assets and liabilities. Goodwill is measured at cost less any accumulated impairment. Goodwill is distributed to cash-generating units and is tested for impairment annually. The periods of amortisation are determined based on a useful life of five years.

### **Other intangible assets**

Other intangible assets comprise proprietary and acquired IT systems and customer-based assets with determinable useful lives. These assets are recognised at cost less accumulated amortisation and impairment. Amortisation is commenced when the asset becomes available for use. The company's proprietary intangible assets are recognised only if the asset is identifiable and if the company has control of the asset.

The carrying amount of proprietary intangible assets includes all directly attributable expenses. Other development expenses are recognised as an expense when they arise. Additional expenses for capitalised intangible assets are recognised as an asset in the balance sheet only when these expenses increase the future economic benefits of the specific asset to which they pertain. The amortisation period is determined based on the useful life which is five years, except for the customer register for group accident insurance and group health insurance, which has a useful life of eight years. Amortisation takes place in the income statement according to the straight-line method. Impairment testing takes place annually.

The corresponding amount for capitalised development expenditures is reserved in equity to the Development Expenditures Fund.

## **Investment assets**

### **Shares and participations in Group and associated companies**

Shares and participations in Group and associated companies are recognised at cost adjusted for impairment requirements.

## **Financial assets and liabilities**

### **Recognition and derecognition in the balance sheet**

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contract in accordance with the instrument's contractual conditions. A financial asset is derecognised from the balance sheet when the rights in the contract are realised, expire or the company loses control of the asset. A financial liability is derecognised from the balance sheet when the obligation in the contract is met or extinguished in another manner.

Business transactions in the monetary, bond and equities markets are recognised in the balance sheet on the transaction date, which is the time when the significant risks and rights are transferred between the parties.

## **Offsetting financial assets and liabilities**

A financial asset and a financial liability are offset and reported as a net amount in the balance sheet only when a legal right exists to offset the amounts and the intention is present to simultaneously realise the asset and settle the liability or to settle the items in a net amount.

### **Classification and measurement**

A financial instrument is classified on initial recognition on the basis of the purpose of the acquisition of the instrument and on the options contained in IAS 39. After initial recognition, the classification determines how the financial instrument is measured. For instruments classified as Financial assets measured at fair value through profit and loss, the cost corresponds to the fair value without additions for transaction costs.

Financial instruments are continuously measured at fair value, cost or amortised costs depending on the category that the instrument belongs to.

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

This category comprises two sub-groups: Held for trading and Financial assets measured according to fair value option. The "Held for trading category" comprises derivatives that have a positive market value.

The "Financial assets measured according to fair value option" category includes assets that are managed and valued based on the fair values of the assets. The fair value which also forms the basis of internal monitoring and reporting to senior executives. Since these assets are managed and valued at fair value, the company has chosen to classify these instruments as financial assets measured at fair value through profit and loss. The category of Financial assets measured according to fair value option comprises the items of Interest-bearing securities issued by Group companies and loans to Group companies, Shares and participations, Bonds and other interest-bearing securities and Other financial investment assets. Changes in fair value of these assets are recognised in profit and loss as Unrealised gains and unrealised losses on investment assets.

### **Loans and receivables**

Loans and receivables are financial assets that have fixed or fixable payments and that are not derivatives or quoted in an active market. Assets in this category are measured at amortised cost. Loans and receivables in the balance sheet comprise the items of Other receivables, Cash and bank balances and Prepaid expenses and accrued income.

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

This category comprises two sub-groups: Held for trading and Financial liabilities measured according to fair value option. A financial liability held for trading is classified in this category if acquired principally for the purpose of selling in the short term. The company has chosen to classify derivatives that have a negative market value in the category of Held for trading. Changes in fair value of financial liabilities measured at fair value through profit and loss are recognised as Unrealised gains and Unrealised losses on investment assets, respectively. The company has no financial liabilities in the Financial liabilities measured according to fair value option category.

### **Other financial liabilities**

The category of Other financial liabilities comprises Other liabilities and Accrued expenses and deferred income. Liabilities in this category are measured at amortised cost.

### **Methods for determining fair value**

The note on Fair value valuation techniques states the financial instruments measured at fair value and the level of the valuation hierarchy from which inputs are used for determining the fair value.

### **Financial instruments quoted in an active market**

The largest portion of the company's financial instruments are measured at fair value using prices quoted in an active market. No additions for transac-

tion costs (for example, brokerage commission) or future transaction costs in connection with potential divestment are made. A financial instrument is considered to be quoted in an active market when transactions take place at sufficient frequency and volume in order to provide continuous price information. If the market for the asset or liability is the most advantageous market and if a company on the measurement date can perform a transaction with the asset or liability at this price on this market, the holding is classified as Level 1 in the fair value hierarchy.

Instruments quoted in an active market and found in Level 1 of the fair value hierarchy are found in the balance sheet as Interest-bearing securities issued by Group companies and loans to Group companies, Bonds and other interest-bearing securities, Derivatives and Other financial investment assets.

### Financial instruments not quoted in an active market

If the market for a financial instrument is not active, the fair value is determined by using a valuation technique. The company has OTC derivatives, for example, that are not traded in an active market. The valuation techniques applied are based on market data as far as possible, while company-specific information is used as little as possible. The instruments for which all material inputs required for measurement at fair value are observable are found in Level 2 of the fair value hierarchy. Instruments whose fair value has been determined by using a valuation technique based on market data are found in the balance sheet as the items Interest-bearing securities issued by Group companies and loans to Group companies (loans to Group companies are quoted in an active market and are measured according to Level 1, debt securities in issue are partly measured by using valuation techniques), Shares and participations and Derivatives. If one or more significant inputs are not based on observable market data, the instrument in question is classified as Level 3 in the fair value hierarchy. Instruments whose fair value has not been able to be determined based on observable market data are found in the balance sheet as the items Shares and participations and Bonds and other interest-bearing securities.

### Property and equipment

Property and equipment are recognised in the balance sheet if it is probable that the company will receive future economic benefits and the cost can be calculated reliably.

Property and equipment are recognised at cost after deductions for accumulated depreciation and any impairment loss, plus any revaluations.

The carrying amount of a tangible asset is derecognised from the balance sheet in connection with disposal or divestment, or when no future economic benefits are expected from the use, disposal or divestment of the asset. Gains or losses arising on the divestment or disposal of an asset comprise the difference between the sales price and the carrying amount of the asset, less direct selling expenses, and are recognised as other non-technical income or expenses. Depreciation takes place according to the straight-line method over the asset's estimated useful life, commencing when the asset becomes available for use, and is recognised as operating expenses in profit and loss. IT equipment is depreciated over three years according to plan. Other machinery and equipment is depreciated over five years according to plan. The depreciation method, the residual values and useful lives are re-tested at every year-end.

### Impairment tests for property and equipment and intangible assets and participations in subsidiaries and associated companies

If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated. The recoverable amounts of goodwill and intangible assets that are not finished for use are calculated annually. If it is not possible to determine the substantially independent cash flow of a specific asset, the assets are to be grouped in the impairment test at the lowest value where it is possible to identify the substantially independent cash flows known as a cash-generating unit.

An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in profit and loss. The impairment of assets attributable to a cash-generating unit is initially distributed to goodwill. Proportional

impairment losses on the other assets included in the unit are subsequently recognised.

The recoverable amount is the higher of fair value less selling expenses and value in use.

### Impairment tests for financial assets

On each reporting occasion, the company assesses whether a financial asset is in need of impairment by evaluating objective evidence of a need for impairment of a financial asset. Objective evidence comprises observable circumstances that have occurred and affect the possibility of recovering the cost.

The recoverable amount for assets belonging to the category of Loans and receivables, which are recognised at amortised cost, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognised. Assets with a duration of less than one year are not discounted. Impairment losses are charged against profit and loss.

### Reversal of impairment losses

Recognised impairment is reversed when there is no longer an indication that the impairment requirement still exists and a change has occurred in the assumptions that formed the basis of the calculation of the recoverable amount. Impairment losses on goodwill are never reversed. A reversal is made only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, less depreciation/amortisation where applicable, if no impairment had been applied.

Impairment of loans and receivables recognised at amortised cost are reversed if a later increase of the recoverable amount can objectively be attributed to an event that occurred after the impairment was applied.

### Cash and bank balances

Cash and cash equivalents comprise cash funds and immediately available balances at banks and similar institutions. Balances in Group account and balances with Länsförsäkringar Bank AB (publ) are recognised as "Other receivables" in the balance sheet.

### Prepaid acquisition costs for insurance contracts

Selling expenses that have a clear connection to underwriting insurance contracts are capitalised as Prepaid acquisition costs in the balance sheet and are depreciated over the useful life. A condition for capitalisation is that the acquisition costs are attributable to a certain insurance contract, or homogeneous 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.

### Untaxed reserves

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

Untaxed reserves are offset, where appropriate, against loss carryforwards or are subject to taxation when they are dissolved.

The contingency reserve is a collective contingency-related strengthening of technical provisions. Access is limited and requires official permission in certain cases. Reversal can only take place against losses in the insurance operations or for lower volumes in the insurance operations.

An accounting unit can make a provision to the tax allocation reserve to reduce its taxable earnings during an income year, but must reverse the same tax allocation reserve for taxation during the sixth year following the provision year.

### Technical provisions

Technical provisions comprise Unearned premiums and unexpired risks and Claims outstanding and correspond to commitments in accordance with signed insurance contracts. All changes in technical provisions are recognised in profit and loss.



### **Unearned premiums and unexpired risks**

The provision for unearned premiums and unexpired risks is designed to cover the expected claims cost and operating expenses during the remaining time to maturity of insurance contracts already in force. Normally, the provision is strictly proportional to time, referred to as a pro rata temporis calculation. If the provision for unearned premiums is deemed to be insufficient to cover expected remaining claims costs and operating expenses, it is strengthened with a supplement for unexpired risks.

### **Claims outstanding**

The provision for claims outstanding should cover anticipated future payments for all claims incurred, including claims that have not yet been reported to the company, known as IBNR provisions. The provision also includes anticipated future payments including all expenses for claims adjustment. Accepted actuarial methods are generally used as a basis for estimating provision requirements. Individual assessments are made in the case of major separate claims and claims involving complex liability conditions. With the exception of annuities and certain insignificant amounts of accident insurance, the provision for claims outstanding is not discounted. The provision for annuities is estimated in line with customary life-assurance methods whereby the indexation is estimated using break even inflation and discounting takes place using the Solvency II nominal yield curve. The effect of interest-rate revaluations is recognised as a financial expense or income.

Provisions for claims outstanding are significant to assessments of the company's reported earnings and financial position since a deviation from actual future payments will lead to a run-off result being reported in future years. An account of the company's run-off result is found in the performance analysis. The risk of making incorrect provisions is described in more detail in note 2, which is where current provisions for claims outstanding are clarified by descriptions of the trend in claims costs over time.

### **Review of losses**

The sufficiency of technical provisions is tested on an ongoing basis in conjunction with the annual accounts. The provisions established for claims outstanding and for unearned premiums are evaluated individually. Provisions for claims outstanding are based on estimated future payment flows. Accepted actuarial methods for the basis of forecasts of provision requirements. These methods include assessments of the current status of all contractual cash flows and other associated cash flows, for example, claims adjustment costs. Future cash flows are calculated without discounting, with the exception of annuities and certain insignificant amounts of accident insurance. If testing reveals that the provisions are insufficient, the change is recognised in profit and loss.

The sufficiency of provisions for unearned premiums is tested by line of business. Any insufficiency observed in the premium liability is corrected by establishing a provision for unexpired risks.

### **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 when the company assumes risks from other companies' insurance contracts.

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical provisions 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 provisions corresponds to the reinsurers' liability for technical provisions in accordance with signed contracts.

Länsförsäkringar Sak assesses impairment requirements of assets for reinsurance contracts. 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 profit and loss.

### **Remuneration of employees**

#### **Current remuneration**

Current remuneration of employees is calculated without discount and recognised as an expense when the related services are received. No variable remuneration is paid to employees of Länsförsäkringar Sak.

#### **Remuneration for termination of employment**

A cost for remuneration in connection with termination of employment of personnel is recognised at the earliest point in time at which the company can no longer withdraw the offer to the employees or when the company recognises expenses for restructuring. Remuneration expected to be paid after 12 months is recognised at its present value. Remuneration not expected to be fully paid within 12 months are recognised in accordance with long-term remuneration.

#### **Defined-contribution pension plans**

The company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The company'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.

The pension agreement for the insurance industry, the FTP plan, is a multi-employer pension plan. The plan is a defined-benefit plan for employees born in 1971 or earlier and a defined-contribution plan for employees born in 1972 or after. The defined-benefit portion is insured through the Insurance Industry's Pension Fund (FPK). This pension plan entails that a company, as a rule, recognises its proportional share of the defined-benefit pension commitment and of the plan assets and expenses associated with the pension commitment. The accounts should also include information in accordance with the requirements for defined-benefit pension plans.

The FPK is currently unable to provide necessary information, which is why the pension plan above is recognised as a defined-contribution plan.

Nor is any information available on future surpluses and deficits in the plan, and whether these surpluses and deficits would then affect the contributions for the plan in future years.

#### **Defined-benefit pension plans**

The company has a defined-benefit pension plan. The plan is a pension agreement from 2006 for the insurance sector whereby 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 about 65% of the pensionable salary at the age of 62. The company has established provisions for the potential future cost that will arise if an employee takes advantage of the benefit of retiring between the ages of 62 and 65. Provisions are calculated on an actuarial basis according to assumptions on average annual pensions per age group and a probability assessment of the utilisation of early retirement.

#### **Cash-flow statement**

The cash-flow statement is reported using the indirect method, which means that operating profit is adjusted for transactions that do not involve receipts or payments during the period specified by the various insurance classes.

#### **Contingent liabilities**

A contingent liability is recognised when there is a possible commitment originating from events that have occurred and whose occurrence is confirmed only by one or several uncertain future events or when there is a commitment that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required, or cannot be measured with sufficient reliability.

## Note 2 Risks and risk management

### Principles of Länsförsäkringar Sak's risk management

Conducting insurance operations involves risk-taking. Knowledge about risks is a core area of expertise in the insurance industry. An increasingly volatile financial market, and more detailed regulations, impose more rigorous demands on financial companies, particularly risk management. The main purpose of risk management is to ensure that risks are identified and managed, that risk assessment is impartial, and that own funds are adequate in relation to the risks taken. This is important for being able to guarantee, with a high degree of reliability, the commitments made to customers. The ultimate owners of the Länsförsäkringar Alliance are also its customers and, accordingly, efforts to govern, manage and control risks are of immediate importance to customers.

### Risk-management system at Länsförsäkringar Sak

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. Risk-management activities are implemented as part of the daily work of all units at Länsförsäkringar Sak, and the aim is to fulfil all established commitments to customers by a healthy margin. Another of the company's targets is to maintain a credit rating of a minimum of level A.

Länsförsäkringar Sak is to have an efficient and robust risk-management system to continuously identify, measure, monitor, manage and report the risks associated with the business activities. The company's risk-management system comprises an organisation with well-defined authorities and responsibilities, and includes risk strategy, risk tolerance, risk-management processes, risk-measurement methods, the process for an Own Risk and Solvency Assessment (ORSA) governance documents and reporting procedures. Continuous risk-management work includes handling known risks and also identifying new risks, for example, due to a change in the range of products and services. Prospective analyses of the scope of risk are performed within the ORSA framework.

A variety of analysis tools and simulation models are used at Länsförsäkringar Sak in its risk management activities. An aggregated risk profile for the company including subsidiaries is calculated and reported to the Board every quarter. Capital requirements are calculated using a partial internal model approved by the Swedish Financial Supervisory Authority. Using the partial internal model, Länsförsäkringar Sak can work with measures of capital requirement for market and non-life insurance risks that are better aligned with the specific risks of the company than those in the standard formula of the Solvency II rules. Other risks are modelled in accordance with the standard formula.

### Risk management organisation

The Board of Directors of Länsförsäkringar Sak is responsible for ensuring appropriate risk management and follow-up of the company's risks. Risk management contains strategies, processes and reporting procedures necessary for continuously identifying, measuring, monitoring, managing and reporting the risks associated with the business activities. The risk-management process comprises continuous work and annual activities, and can differ between the various types of risk. Continuous risk-management work includes handling risk and also identifying new risks. An ORSA is performed every year and in conjunction with major changes in the operations or economic environment. Following applicable regulations, the Board establishes the frameworks for the company's risk management and risk control based on internal rules in various governance documents. The President is responsible for incorporating these governance documents into the operations. Examples of Group-wide governance documents for Länsförsäkringar are the

Group manual for Länsförsäkringar AB, guidelines on finance and capital control, guidelines for handling ethical issues, authorisation manual and security policy. In addition to the Group-wide governance documents in the Länsförsäkringar AB Group, the Länsförsäkringar Sak Group and the companies included in the Länsförsäkringar Sak Group have their own governance documents, such as the Länsförsäkringar Sak company manual, risk policy, authorisation manual, investment guidelines and insurance policy. The governance documents are updated and then approved by the Board once each year. The Board of Länsförsäkringar Sak decides on the framework for risk-taking, for example, by adopting investment guidelines with maximum market risk, and up-to-date sub-limits for various market-risk categories in the company. Furthermore, the Board decides on the extent and direction of reinsurance cover.

Länsförsäkringar Sak has a Risk and Capital Committee whose duties include supporting the Board's work by examining and assessing risk-taking and capital requirements.

There is an Investment Committee at management level at Länsförsäkringar Sak which prepares decisions on asset management issues. The Committee examines and prepares proposals regarding management of the company's investment assets. Representatives for Länsförsäkringar Sak's corporate management and the Asset Management Unit sit on the Committee. The Risk Control function and Compliance are co-opted to meetings.

Ongoing management and follow-ups of different risks are performed in the business operations. Each business area at Länsförsäkringar Sak is responsible for identifying, measuring, monitoring, handling and reporting risks in their own specific areas. Risks inherent in Länsförsäkringar Sak's investment assets (market risks) are managed by the Group-wide Asset Management Unit. Asset Management also manages counterparty risk in financial derivatives and operational risks in the area of asset management. Insurance risks and counterparty risk other than counterparty risk in financial derivatives are managed by each business area.

The Risk Control function is responsible for the independent risk control, which is separate from the business operations and reports to the President and Board. The Risk Control function is also responsible for keeping the President and Board continuously informed of the company's overall risk profile by submitting risk reports at least four times a year. Furthermore, the function is to ensure that annual risk analyses of operational risks are conducted in all business areas and at management level in Länsförsäkringar Sak.

Compliance is an independent control function responsible for monitoring, controlling and providing support in ensuring operations are conducted in full regulatory compliance as regard internal and external regulations. The task of the function is to identify and report on risks that may arise as a result of non-compliance with regulations and provide recommendations for action to relevant personnel, the President and the Board.

Internal Audit, which reports directly to the company's Board, is an independent review function that comprises the Board's support in quality assurance of the organisation's risk management, governance and controls.

The Audit Committee monitors the quality of the financial reporting including the effectiveness of the internal control over the financial reporting. Operational risks and the corporate governance system including the systems for internal governance and control are also monitored.

### Capital planning

The management of risk-taking is closely related to the control of the use of the Non-life Group's capital. An Own Risk and Solvency Assessment (ORSA) including a plan for financing the company's operations is prepared in conjunction with the annual business planning, and in the interim wherever necessary. The aim of this plan, which sets out the planned structure of own funds and risks, is to ensure that, at any given time, the Non-life Group has a sufficient buffer of capital to meet the risks generated by the operations.

The Non-life Group has own funds that exceed the statutory solvency capital requirement by a healthy margin. The overall risk profile under Solvency II is also reported quarterly to the Board and regulatory requirements are taken into account to a great extent in the governance and follow-up of business decisions.

### Risk profile

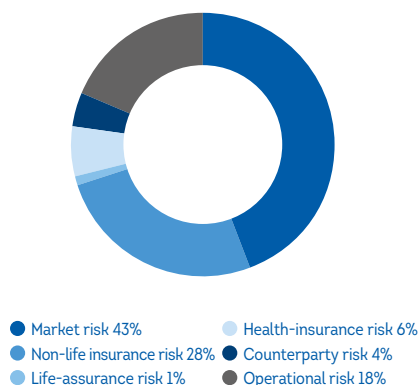
Länsförsäkringar Sak is exposed to a variety of risks that impact the company's financial position, earnings and target fulfilment. The following points describe Länsförsäkringar Sak's operations and risk-taking:

- Conducts non-life insurance operations and annuities operations.
- The operations primarily focus on small and medium-sized businesses and private individuals.
- The operations are primarily conducted in Sweden. The company also conducts internationally assumed reinsurance.
- The risks taken in non-life insurance are reinsured to a relatively high extent; retention is low.
- Extensive reinsurance operations are conducted on behalf of the Länsförsäkringar Alliance. The operations involve a significantly high gross level of counterparty exposure but are not deemed to entail any major net risks.
- The risks in the investment assets managed by Länsförsäkringar Sak for own account are held at a relatively low level.
- Länsförsäkringar Sak is indirectly exposed to insurance risk, market risks and property risk that arises in its holdings in subsidiaries. The Non-life Group includes Agria, Länsförsäkringar Gruppliv and the property companies Utile Dulci and Länsförsäkringar Sak Fastighets AB.

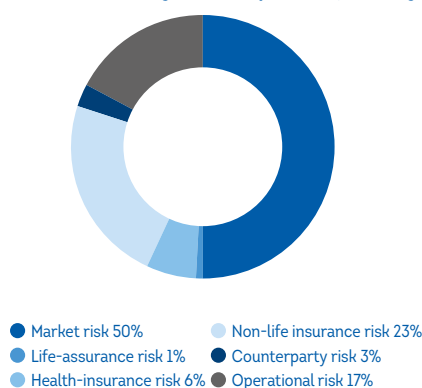
The Länsförsäkringar Sak Group's overall risks are measured in the quarterly risk report, meaning that the risks for the subsidiaries, insurance risks and market risks are included in the calculation.

The figures below (figure 1 and 2) show the allocation of risk in the Länsförsäkringar Sak Group, which includes the Parent Company's subsidiaries and transparency to present the company's risk profile that takes into account each subsidiary's underlying on 30 September 2016, classified by risk categories. As seen in figure 1, 43% of the capital requirement comprises market risks, primarily the company's investment assets where the company's property holdings account for about 70%, but also a certain amount of interest-rate risk from technical provisions. The insurance operations represent 35% and the operational risk and counterparty risk jointly comprise 22%.

**Figure 1. Classification of total capital requirement in the Länsförsäkringar Sak Group Q3 2016**



**Figure 2. Classification of total capital requirement in the Länsförsäkringar Sak Group Q3 2015 (according to Shapley)**



### Classification of risk at Länsförsäkringar Sak

Non-life insurance risk	Life-assurance risk	Market risk	Counterparty risk
<ul style="list-style-type: none"> <li>▪ Premium risk</li> <li>▪ Reserve risk</li> <li>▪ Catastrophe risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mortality risk</li> <li>▪ Longevity risk</li> <li>▪ Catastrophe risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Interest-rate risk</li> <li>▪ Equities risk</li> <li>▪ Property risk</li> <li>▪ Spread risk</li> <li>▪ Currency risk</li> <li>▪ Concentration risk in investment assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Counterparty risk in ceded reinsurance</li> <li>▪ Counterparty risk in financial derivatives</li> <li>▪ Other counterparty risk</li> </ul>
Operational risk	Health-insurance risk	Liquidity risk including financing risk	Concentration risk
<ul style="list-style-type: none"> <li>▪ Internal fraud</li> <li>▪ External crime</li> <li>▪ Labour practices and work environment</li> <li>▪ Business conditions</li> <li>▪ Compliance risk</li> <li>▪ Damage to physical assets</li> <li>▪ Interruptions and disturbances to operations and systems</li> <li>▪ Transaction management and process control</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic risk</li> <li>▪ Earnings risk</li> <li>▪ Reputation risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strategic risk</li> <li>▪ Earnings risk</li> <li>▪ Reputation risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Concentration risk in insurance operations</li> </ul>

The following sections describe Länsförsäkringar Sak's risks (excluding subsidiaries) and their governance and management. A brief description is provided for each specific risk and information about the level of exposure to the risk if it is possible to quantify.

### Non-life insurance risk

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. Reinsurance is a strong instrument for reducing the fluctuation in the earnings of insurance operations.

The insurance operations in Länsförsäkringar Sak comprise the insurance classes Accident and Health, Commercial, Motor, Motor Third-Party Liability, Marine, Air and Cargo, and Assumed Reinsurance. In 2016, business was underwritten in the insurance classes of health, health care, accident, property, cargo and liability insurance. In addition, insurance cover is provided for nationwide customers in the commercial automotive area (motor third-party liability insurance and motor insurance). The company also handles the Länsförsäkringar Alliance's internal and external reinsurance and underwrites assumed international 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.

Non-life insurance risks can be divided into premium risks, reserve risks and catastrophe risks. The implications of these terms and Länsförsäkringar Sak's general methods for handling these types of risk are described below.

Table 1 shows how changed premiums earned, increased claims costs and higher claims inflation impact Länsförsäkringar Sak's earnings.

**Table 1. Sensitivity analysis, non-life insurance risks, SEK M**

	Impact on profit before tax		Impact on equity	
	2016	2015	2016	2015
10% lower premium level	-220	-212	-172	-165
10% increased claims frequency or higher average claim	-167	-120	-130	-94
1% higher annual claims inflation	-186	-141	-145	-110

**Table 3. Estimated claims costs before and after reinsurance**

	2010	2011	2012	2013	2014	2015	2016	Total
At end of claim year	1,084,174	1,023,993	912,935	1,002,941	1,058,520	1,108,923	1,179,357	
One year later	1,272,092	1,094,613	915,087	884,270	881,892	959,830		
Two years later	1,228,420	1,036,084	962,603	916,932	996,311			
Three years later	1,181,347	1,038,473	923,890	938,686				
Four years later	1,165,171	997,050	934,690					
Five years later	1,147,262	997,741						
Six years later	1,122,248							
Seven years later								
Eight years later								
Nine years later								
Ten years later								
Eleven years later								
Twelve years later								
Estimated claims costs	1,122,248	997,741	934,690	938,686	996,311	959,830	1,179,357	
Accumulated claims payments	976,108	881,581	797,391	776,016	747,889	716,088	500,431	
Provision for claims payments	146,140	116,160	137,298	162,670	248,422	243,743	678,926	2,193,325
Provision for claims payments, older year classes								609,594
Provision for claims payments for assumed reinsurance								9,234,145
<b>Total provision for claims payments, gross</b>								<b>12,037,064</b>
Annuity reserve, gross								1,662,440
Claims adjustment reserve, gross								220,090
<b>Provision for claims outstanding, gross</b>								<b>13,919,594</b>
Provision for claims payments, reinsurers' portion								8,915,112
Annuity reserve, reinsurers' portion								1,418,955
Claims adjustment reserve, reinsurers' portion								0
<b>Provision for claims outstanding, reinsurers' portion</b>								<b>10,334,068</b>
<b>Provision for claims outstanding, for own account</b>								<b>3,585,526</b>

## Premium risk

Premium risk is the risk of losses arising due to the coming year's claims being greater than expected.

In the lines of business such as accident and health 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 between 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 are the key instruments for monitoring premium risk, alongside premium calculation. The company follows detailed internal underwriting guidelines (risk selection rules) to ensure correct assessment and quantification of the risk that is being underwritten. Claims-prevention measures in the form of, for example, advisory services, further improve the company's risk.

The business activities conducted by Länsförsäkringar Sak and its subsidiaries entail that insurance risks (risk of having to pay claims, morbidity risk and life-assurance risk including catastrophe risk) are consciously taken as part of performing the business operations. Accordingly, such risks are desirable, provided that they are taken as part of executing an approved business strategy and in accordance with the regulations that have been established for each operation. The company endeavours to maintain a favourable risk balance between different types of business and within each line of business. Insurance risk is limited by structuring insurance terms and individual insurance contracts to give a desirable level of risk exposure and by using reinsurance cover to limit risk-taking in the necessary lines of business. Catastrophe risk in insurance risk is managed through reinsurance cover. Reinsurance needs are specified based on risk analyses in the business operations with support from Business Area Reinsurance. The total risk exposure (risk tolerance) in insurance risk is calculated as a part of the company's total risk in the ORSA.

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, as described above. 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. The "Guidelines for ceded reinsurance document" states the limits per counterparty and limits for retention and also limits the use of reinsurers to companies with high credit ratings. Reinsurance for motor third-party liability insurance is managed on the basis of a pool solution in the Länsförsäkringar Alliance, which in turn is protected with external reinsurance cover.

Table 2. Reinsurance per claim incident, SEK M

	2016		2015	
	Retention	Cover	Retention	Cover
Motor third-party liability insurance	40	300	40	300
Liability insurance	20	300	20	300
Cargo insurance	5	800	5	1,000
Accident insurance	20	750	20	600

The reinsurance cover described in table 2 pertains to external counterparties. The external retention for motor third-party liability cover amounts to SEK 40 M, although the retention is reduced to SEK 2 M on the basis of reinsurance in the Länsförsäkringar Alliance of SEK 38 M. In addition to the information stated in the table, reinsurance cover is also purchased for internationally assumed reinsurance.

In the case of individual risks with a risk amount exceeding the reinsurance cover, reinsurance is purchased on an individual risk basis. Most reinsurance contracts extend for one calendar year. Cover for motor 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 of losses arising due to a negative outcome in the settlement of provisions for claims outstanding. The total undertaking for current insurance policies and for claims outstanding gross amounted to approximately SEK 14.5 billion (16.5). An estimate of the cost of claims outstanding gross – about SEK 13.9 billion (14.7) – is associated with uncertainty as to how much claims, perhaps many years ahead, may cost. The reinsurance cover described above limits risk and the provision for gross claims outstanding as per 31 December 2016 amounted to SEK 3.6 M (3.7).

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. A significant element in the follow-up work is also the regular reviews of individual claims outstanding that are performed.

The average duration of Länsförsäkringar Sak's insurance portfolio is 3.7 years (4.6) and was slightly lower year-on-year. The following diagram shows how the expected payments of claims outstanding are distributed according to tenure. Table 3 shows the trend in estimated claims costs before reinsurance.

## Catastrophe risk

Catastrophe risk refers to the risk of losses arising due to natural disasters, epidemics or disasters caused by human activities leading to very large claims payments.

Länsförsäkringar Sak has a certain level of exposure to catastrophe risks for own account. Länsförsäkringar Sak manages common reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural catastrophes where Länsförsäkringar Sak assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to certain catastrophe risk is in the internationally assumed reinsurance.

## Life-assurance risk

Life-assurance risk at Länsförsäkringar Sak derives from the annuities operations which are subject to longevity risk. Longevity risk is the risk of losses arising due to the insured living longer than assumed.

## Market risk

Market risk is the risk that the fair value will vary due to changes in market prices.

In the management of Länsförsäkringar Sak's assets, assessments are made of the potential for favourable returns and the risk level involved for investment strategies. The aim of the company's investments is to contribute to stable positive earnings. Assets are to be invested with a suitable risk diversification to ensure that the expected returns are sufficient for the company to be able to meet its obligations and generate additional returns on the investment assets based on the approved risk level. The risk level is to be adjusted to the available capital and approved risk tolerance.

The investing activities are always to be conducted in the best interests of the policyholders. The degree of matching between assets and commitments is taken into account when investing the company's investment assets and is determined by the Board. The nature and term of the commitments are taken into account in the governance of the company's liquidity risk. Satisfactory access to funds must always be maintained.

The classes of assets in asset management are equities, interest-bearing securities and property. The aim of management is to generate the highest possible returns given the selected level of risk within the framework of legal restrictions and guidelines resolved by the Board. The Board assumes the overall responsibility by making decisions on the maximal market risk for the company that may not be exceeded.

The Board of Länsförsäkringar Sak decides on the framework for risk-taking, for example, by adopting investment guidelines, allocation mandates including up-to-date sub-limits for various market-risk categories in the company.

Asset management is responsible for the daily risk monitoring in accordance with the sub-limits for the various risk categories decided by the Board, in addition to the total maximum market risk. 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 utilised in the management of investment assets in order to enhance the efficiency of management and to hedge risk.

The sensitivity analysis in table 4 below shows the effect on profit before tax and the impact on equity of several different negative outcomes for Länsförsäkringar Sak. The table shows how changes in the financial markets affect the asset values in the portfolio and in the case of the real interest rate also the effect on annuities, which impacts the value of liabilities.

**Table 4. Sensitivity analysis, market risks**

SEK M		Impact on profit before tax		Impact on equity	
		2016	2015	2016	2015
Interest-rate risk <sup>1)</sup>	1% higher interest rate	-26	-15	-20	-12
Equities risk <sup>2)</sup>	10% low share prices	-24	-4	-19	-3
Credit-spread risk	1% higher credit spread	-82	-88	-64	-69
Interest-rate risk	1% higher real interest rate	5	1	4	1

<sup>1)</sup> Interest-rate risk from transparent investment assets and from annuities in the technical provision. Other technical provisions are not recognised in profit and loss.

<sup>2)</sup> Shares and participations transparent assets, including derivatives and equities in hedge funds.

<sup>3)</sup> Net of the effect on investment assets and effect on reserves. The nominal interest rate is assumed to remain unchanged.

### Interest-rate risk

Interest-rate risk is the risk of losses arising due to changes in the level or volatility of market interest rates.

For the majority of Länsförsäkringar Sak's insurance undertakings, the value is not determined based on the market interest rate, according to applicable accounting rules, meaning that technical provisions are not discounted. One exception is insurance undertakings for annuities that are discounted and for which the interest-rate risk in annuities operations was managed during the year using fixed-income hedges that provide relatively sound matching of the real interest-rate risk in the reserve. However, the sensitivity to changes in interest-rate levels on all technical provisions is taken into account according to the Solvency II valuation principles and in risk calculations.

The company governs its own risk-taking with sub-limits for interest-rate risk decided by the Board, by taking into account the sensitivity of the insurance undertakings to changes in interest rates, and with conscious choices about the extent to which the undertakings are matched against assets with corresponding properties. Derivative instruments can be used to manage interest-rate risk. The insurance undertakings are presented in table 8 at the end of this note.

### Equities risk

Equities risk is the risk of losses arising due to changes in the level or volatility of share prices or prices of alternative assets. As stated in the balance sheet, equities exposure in Länsförsäkringar Sak is low. The significant exposure that exists is primarily attributable to strategic holdings, direct exposure to equities and indirect holdings via hedge funds. See notes 22, 23 and 25 for more information.

### Credit-spread risk

Credit-spread risk is the risk of losses arising due to changes in the level or volatility of the difference between market interest rates on bonds with credit risks and government securities' rates. Decisions on the size of the portion of the portfolio that is to comprise bonds or other interest-bearing instruments

with credit risk are made in light of prevailing market conditions and the sub-limits for credit-spread risk decided by the Board.

As table 5 shows, the predominant proportion of Länsförsäkringar Sak's bond investments are invested in AAA-rated, Swedish government and mortgage-backed securities.

**Table 5. Credit quality of assets**

Specification of financial assets	SEK M	
	2016	2015
<b>Loans to credit institutions</b>		
A	779	593
<b>Total</b>	<b>779</b>	<b>593</b>
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA - Swedish Government	901	782
AAA - Government securities other than those issued by the Swedish Government	0	0
AAA	1,806	700
AA	97	111
A	125	183
BBB	347	338
BB	74	324
B	34	220
CCC	4	33
CC	1	1
NR	340	437
<b>Total</b>	<b>3,729</b>	<b>3,129</b>

<sup>1)</sup> Market values including accrued interest.

**Table 6. Impact on earnings at year-end of a 10% change in the exchange rate with SEK**

Currency	Impact on earnings before tax, SEK M	
	2016	2015
AUD	0	0
CHF	1.6	0.2
DKK	0.0	-0.3
EUR	0.9	0.1
GBP	-0.1	0.0
JPY	-0.3	0.3
KRW	-1.4	-1.4
NOK	0.5	0.3
RUB	-0.4	0.3
USD	-0.7	1.2
PLN	0.1	-0.4
Other currencies	0	0

### Property risk

Property risk is the risk of losses arising due to changes in the level or volatility of property prices. The property prices are primarily an effect of the assumptions made on applicable yield requirements and rental levels.

The property risk in Länsförsäkringar Sak derives from the interest in the office property in Stockholm that the Länsförsäkringar AB Group utilises for its operations, and holdings in a property company wholly owned by the Länsförsäkringar Alliance. The property holdings are the company's largest risk. A 10% lower market value would have a negative effect of SEK 217 M that would be offset against surplus values in the solvency capital.

## Counterparty risk

Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and that any collateral provided not covering the receivable. Länsförsäkringar Sak's exposure to counterparty risk primarily arises through ceded reinsurance and the use of financial derivatives and cash in hand.

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. For business with long-term claims in run-off, reinsurers are to have a minimum A rating from the Standard & Poor's rating agency or equivalent from AM Best or Fitch, and a minimum BBB or equivalent rating for other types of business. In addition, efforts are made to ensure a spread of ceded reinsurance between many reinsurers, which guarantees overall high quality receivables. Table 7 shows the specification of rating category for purchased reinsurance cover for the Länsförsäkringar Sak Group, which includes Länsförsäkringar Sak, Agria and Länsförsäkringar Gruppliv.

The largest total exposure to a single insurance company in 2016 was Länsförsäkringar Skåne and comprised 2.0% of the total external reinsurance exposure. The 10 largest reinsurance exposures comprising 41% of the total external reinsurance exposure all had an A or equivalent rating or higher.

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.

**Table 7. Distribution of exposure of externally purchased reinsurance cover for the Länsförsäkringar Sak Group**

Exposure for externally purchased cover for 2015 and 2016	Percentage distribution per rating category according to S&P Global	
	2016	2015
AAA		-
AA	80	39
A	17	45
BBB	0	13
Alternative rating <sup>1)</sup>	3	3
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>1)</sup> AM Best, Fitch.

## 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. Operational risks are a part of Länsförsäkringar Sak's operations. By conducting preventive measures and applying suitable risk management and control, Länsförsäkringar Sak can reduce the probability of operational risks materialising and thus reduce their consequences. The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting.

Operational risk analyses are performed annually both at company level and in the operating activities. A joint method and reporting format are used in these analyses. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter. The Risk Control function facilitates analyses and aggregates results to each company's management group and Board. Risk Control also monitors and reports the implementation of the action plans during the year and performs checks to ensure the quality of the results of actions performed.

Shared system support for the entire Länsförsäkringar AB Group is used for incident management. Furthermore, a continuity plan is adopted annually by executive management. Business-critical processes and their associated risks have been analysed and documented to strengthen the internal control. In conjunction with this, the most important controls, known as key controls, were also documented.

## Business risk

Business risk pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. Business risk is the risk of losses arising due to business strategies and business decisions proving to be misdirected, actions by competitors, changes in the external environment, negative rumours about the company and an unexpected downturn in income, for example, from volume decreases.

Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations, and in the annual business planning process and also when trends in the Länsförsäkringar Sak Group's markets require management actions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

## Concentration risk

Concentration risk pertains to the risk of the company's risk exposure not being sufficiently diversified, leading to a single exposure, homogeneous group of exposures or a specific market event threatening the solvency of the company or its financial position.

Concentration risk is primarily counterbalanced by decisions determining the maximum exposure per reinsurer, per counterparty in financial derivatives, discretionary reinsurance of the insured, very large individual risks and by the diversification of the Group's investment assets. Länsförsäkringar Sak's management and Board frequently study reports on the Group's major areas of exposure and risk concentrations.

Länsförsäkringar Sak's investment assets are divided into several different classes of assets, however the focus is the strategic property holdings, which comprises the properties in which the company's office is located (Tegeluddsvägen in central Stockholm).

The largest single investment asset on 31 December 2016 was the properties in Stockholm that is owned indirectly through subsidiaries and that the Group utilises. The holding decreased during the year with the Parent Company acquiring part of the subsidiary. The properties' market value amounted to SEK 1,447 M (2,470) at year-end, corresponding to 15.8% (28.6) of the investment assets. The other major exposures pertain to the four largest Swedish bank groups and mainly derive from investments in mortgage bonds.

## Liquidity risk including financing risk

Liquidity risk is the risk of losses arising due to the company's undertakings not being fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss. The non-life insurance companies' liquidity risks are low since premiums are received in advance and large claims payments are known well in advance of their maturity dates. In addition, most of the investment assets are available at short notice. Länsförsäkringar Sak's liquidity was very high at year-end with cash and cash equivalents amounting to SEK 818.6 M (661.5). The investment guidelines stipulate limits for the desired level of liquidity.

Table 8 shows the actual cash flows that will occur in each period, based on the remaining contractual maturities. The amounts presented in maturities are undiscounted cash flows.

Table 8. Maturity analysis for financial assets and liabilities and insurance undertakings

SEK M	2016					2015				
	<3 months	3 months- 1 year	1-5 years	> 5 years	Total	<3 months	3 months- 1 year	1-5 years	> 5 years	Total
<b>Assets</b>										
Interest-bearing securities issued by Group companies and loans to Group companies	-14	1	68	-	55	8	1	62	514	585
Bonds and other interest-bearing securities <sup>1)</sup>	1,015	436	1,559	59	3,069	714	81	1,078	94	1,967
Reinsurers' portion of technical provisions	237	659	2,206	7,290	10,392	319	893	2,689	6,295	10,196
Other receivables	144	-	-	-	144	11	-	-	-	11
Prepaid expenses and accrued income	43	-	-	-	43	15	-	-	-	15
<b>Liabilities</b>										
Technical provisions	658	1,681	3,839	8,288	14,466	722	1,858	4,364	7,794	14,738
Other liabilities	276	-	-	-	276	444	-	-	-	444
Accrued expenses and deferred income	11	-	-	-	11	11	-	-	-	11
<b>Total cash flows, net</b>	<b>480</b>	<b>-585</b>	<b>-6</b>	<b>-939</b>	<b>-1,050</b>	<b>-110</b>	<b>-883</b>	<b>-535</b>	<b>-891</b>	<b>-2,419</b>
Derivatives, in and outflows, net	3	3	14	20	40	14	3	13	21	51
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>483</b>	<b>-582</b>	<b>-8</b>	<b>-919</b>	<b>-1,010</b>	<b>-96</b>	<b>-880</b>	<b>-522</b>	<b>-870</b>	<b>-2,638</b>

<sup>1)</sup> The balance-sheet item Bonds and other interest-bearing securities includes Fixed-income funds. These have no contractual maturities and have been excluded from the table. The recovery periods for securities do not reflect the liquidity in the portfolio but rather the final maturity of the securities. These are realisable at any time.

## Solvency II

Länsförsäkringar Sak applies Solvency II to its entire operations and from the first quarter of 2016 has reported to the Swedish Financial Supervisory Authority in accordance with these regulations. It has thus ceased to report in accordance with the Financial Supervisory Authority's traffic-light model. The Financial Supervisory Authority approved the partial internal model for Länsförsäkringar AB companies to calculate their capital requirements under Solvency II. Using the partial internal model, Länsförsäkringar Sak can work with measures of capital requirement for market and insurance risks that are better aligned with the specific risks of the company than those in the standard formula of the rules.



<b>Note 3</b>	<b>Premium income</b>		
		<b>2016</b>	<b>2015</b>
	Direct insurance, Sweden	1,780.4	1,645.2
	Direct insurance, other EEA	4.7	5.2
	Assumed reinsurance	1,964.9	2,042.4
	<b>Total</b>	<b>3,750.1</b>	<b>3,692.8</b>

<b>Note 4</b>	<b>Investment income transferred from financial operations</b>		
		<b>2016</b>	<b>2015</b>
	Transferred investment income	14.1	35.9

#### Interest rates, %

Provisions for insurance policies with long-term claims in run-off, SEK	0.75	1.25
Provisions for insurance policies with short-term claims in run-off, SEK	0.05	0.5

The estimated return on the assets corresponding to the technical provisions is transferred from the financial operation to the technical result. 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. The investment income is divided into two parts. Part is added to the annuities result by reducing the cost for the upward adjustment of the provision for annuities, and part is recognised as transferred investment income (see also Accounting policies).

<b>Note 5</b>	<b>Claims paid</b>		
		<b>2016</b>	<b>2015</b>
	Claims paid	-1,388.7	-1,327.0
	Operating expenses for claims adjustment	-151.6	-139.7
	<b>Total</b>	<b>-1,540.2</b>	<b>-1,466.7</b>

<b>Note 6</b>	<b>Operating expenses</b>		
		<b>2016</b>	<b>2015</b>
	<b>Total operating expenses by type of cost</b>		
	Staff costs	-210.6	-192.0
	Costs for premises	-14.0	-15.0
	Depreciation/amortisation	-3.1	-3.3
	Service income	33.6	27.8
	Other expenses	-430.7	-432.9
	<b>Total</b>	<b>-624.8</b>	<b>-615.4</b>

		<b>2016</b>	<b>2015</b>
	<b>Total operating expenses by function</b>		
	Operating expenses in asset management	-30.4	-31.4
	Operating expenses for claims adjustment	-151.6	-139.7
	Operating expenses for procurement and administration	-442.8	-444.3
	<b>Total</b>	<b>-624.8</b>	<b>-615.4</b>

		<b>2016</b>	<b>2015</b>
	<b>Operating expenses</b>		
	Acquisition costs <sup>1)</sup>	-320.5	-322.8
	Change in Prepaid acquisition costs	6.9	-10.9
	Administration expenses	-142.9	-140.8
	Commission and profit shares in ceded reinsurance	13.8	30.2
	<b>Total</b>	<b>-442.8</b>	<b>-444.3</b>

<sup>1)</sup> Of which, commission for direct insurance -92.3 -88.6  
Of which, expenses for the leasing of premises, equipment and IT equipment -80.2 -99.2

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

<b>Note 7</b>	<b>Fees and remuneration of auditors</b>		
		<b>2016</b>	<b>2015</b>
	The following fees have been paid to auditors		
	KPMG AB, audit assignments	1.3	1.3
	KPMG AB, tax consulting	-	-
	KPMG AB, other services	-	-

Audit assignments pertain to a review of the Annual Report and accounts, and the administration by the Board of Directors and President, other work assigned to the company's auditors, and advice or other assistance required due to observations made during the review or implementation of such other assignments. Everything else comes under Other assignments.

<b>Note 8</b>	<b>Employees, staff costs and remuneration of senior executives</b>		
		<b>2016</b>	<b>2015</b>
	<b>Average number of employees, Sweden</b>		
	Men	63	61
	Women	106	98
	<b>Total number of employees</b>	<b>169</b>	<b>159</b>

		<b>2016</b>	<b>2015</b>
	<b>Salaries and other remuneration, as well as social security expenses, other employees</b>		
	Salaries and remuneration	107.1	95.5
	of which, variable salary	-	-
	Social security expenses	70.4	65.6
	of which, pension costs	29.1	28.5
	<b>Total</b>	<b>177.5</b>	<b>161.1</b>

		<b>2016</b>	<b>2015</b>
	<b>Board of Directors and senior executives, 13 (15)</b>		
	Salaries and remuneration	8.6	9.9
	of which, fixed salary to President	3.5	3.4
	of which, variable salary to President	-	-
	of which, fixed salary to other senior executives	3.9	5.2
	of which, variable salary to other senior executives	-	-
	Social security expenses	7.3	7.3
	of which, pension costs	3.6	3.4
	<b>Total</b>	<b>15.9</b>	<b>17.2</b>

		<b>2016</b>	<b>2015</b>
	<b>Total salaries, other remuneration and social security expenses</b>		
	Salaries and remuneration	115.7	105.3
	of which, variable salary	-	-
	Social security expenses	77.7	73.0
	of which, pension costs	32.7	31.9
	<b>Total</b>	<b>193.4</b>	<b>178.3</b>

#### Remuneration of the Board

Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. Employee representatives and employees of the Länsförsäkringar AB Group do not receive any directors' fees.

One Board member does not receive any directors' fees. The fees determined by the Annual General Meeting are instead paid to the regional insurance companies in which the individual is employed.

#### Remuneration of senior executives

Remuneration of the President and other senior executives comprises basic salary and other benefits. Pension benefits and other benefits paid to the President and other senior executives are included as part of total remuneration. Other senior executives are the individuals who, together with the President, comprise corporate management.

**Note 8 Employees, staff costs and remuneration of senior executives**  
**Remuneration and other benefits for senior executives (Amount in SEK 000s)**

	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
<b>2016</b>					
Ann Sommer, President	3,482	4	1,395	4,881	40
Ricard Robbstål, Board member	255	-	-	255	
Göran Spetz, Board member	255	-	-	255	
Mariette Nicander, Board member	266	-	-	266	
Henrietta Hansson, Board member	191	-	-	191	
Jan-Olof Thorstensson, Board member	150	-	-	150	
Magnus Olsson, former Board member	68	-	-	68	
Carl Henrik Ohlsson, former Board member	72	-	-	72	
Other senior executives					
Parent Company (4 individuals)	3,853	1	2,230	6,084	39
Subsidiaries (2 individuals)	4,353	5	2,077	6,435	37
<b>Total 2016</b>	<b>12,945</b>	<b>10</b>	<b>5,702</b>	<b>18,657</b>	
<b>Total remuneration from Parent Company</b>	<b>8,592</b>	<b>5</b>	<b>3,625</b>	<b>12,222</b>	
<b>Total remuneration from subsidiaries</b>	<b>4,353</b>	<b>5</b>	<b>2,077</b>	<b>6,435</b>	

	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
<b>2015</b>					
Ann Sommer, President	3,365	2	1,329	4,696	39
Ricard Robbstål, Board member	149	-	-	149	
Göran Spetz, Board member	256	-	-	256	
Mariette Nicander, Board member	262	-	-	262	
Carl Henrik Ohlsson, Board member	260	-	-	260	
Magnus Olsson, Board member	256	-	-	256	
Ingemar Larsson, former Board member	137	-	-	137	
Other senior executives					
Parent Company (4 individuals)	4,949	247	2,089	7,285	39
Subsidiaries (2 individuals)	4,276	4	1,940	6,220	37
<b>Total 2015</b>	<b>13,910</b>	<b>253</b>	<b>5,358</b>	<b>19,521</b>	
<b>Total remuneration from Parent Company</b>	<b>9,634</b>	<b>249</b>	<b>3,418</b>	<b>13,301</b>	
<b>Total remuneration from subsidiaries</b>	<b>4,276</b>	<b>4</b>	<b>1,940</b>	<b>6,220</b>	

Pension costs pertain to the impact on net profit for the year.

**Pensions**

The retirement age for the President is 60. The pension between 60 and 65 is a defined-contribution plan and the pension premium is to amount to 18% of the pensionable salary. Pensionable salary refers to fixed salary. Pension from the age of 65 is subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). The retirement age for other senior executives is 65. The terms comply with pension agreements between the FAO and the FTF/SACO. Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year for each senior executive.

**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 is also to be entitled to severance pay corresponding to 24 monthly salaries during the period of notice. For other senior executives, the period of notice follows applicable collective agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

**Preparation and decision-making process applied in relation to the issue of remuneration of corporate management**

A Remuneration Policy for the Länsförsäkringar AB Group regulates the preparation and decision-making process for remuneration of corporate management. The Remuneration Committee prepares important remuneration decisions and decisions on measures for following up the application of the Remuneration Policy. The Board decides on remuneration and other terms of employment for corporate management and employees with overall responsibility for one of the company's control functions.

**Composition and mandate of Remuneration Committee**

The composition and duties of the Remuneration Committee are regulated in the Board's formal work plan. The Remuneration Committee comprises the Chairman and one Board member.

**Policies for remuneration of corporate management**

Senior executives in the Länsförsäkringar AB Group are to have market-based employment terms and conditions. The total remuneration must be on par with the industry. The structure and level of remuneration should correspond to the company's values, meaning that it should be reasonable, moderate and well-balanced, and also contribute to good ethics and organisational culture, characterised by openness and transparency.

**Fixed remuneration**

Fixed remuneration is paid according to the general policy above.

**Pensions**

Pensions should comply with the terms of the collective agreements between the Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO).

**Other benefits**

In addition to the above benefits, a company car is offered in accordance with applicable conditions, individual health care insurance and other benefits offered to all employees.

Number of women among senior executives, %	31 Dec 2016	31 Dec 2015
Board members	33	38
Other senior executives	29	29

**Note 9 Other technical expenses**

31 Dec 2016

Specification	Premiums & Motor third-party liability fees	Claims payments net after deductible	Investment income	Total deduction from Swedish Motor Insurers Other technical expenses
Forecast	2.5	-4.0	0.0	-1.5
Deduction	-0.6	0.4	0.0	-0.2
<b>Total</b>	<b>1.9</b>	<b>-3.6</b>	<b>0.0</b>	<b>-1.7</b>

31 Dec 2015

Specification	Premiums & Motor third-party liability fees	Claims payments net after deductible	Investment income	Total deduction from Swedish Motor Insurers Other technical expenses
Forecast	2.7	-3.4	0.0	-0.7
Deduction	-0.2	0.2	-0.0	-0.0
<b>Total</b>	<b>2.5</b>	<b>-3.2</b>	<b>-0.0</b>	<b>-0.7</b>

The Swedish Motor Traffic Damage Act and the Swedish Motor Liability Insurance Ordinance stipulate that insurance companies underwriting motor third-party liability insurance in Sweden must be members of Swedish Motor Insurers. The rules state that the member companies have a joint and several liability to finance the operations of Swedish Motor Insurers. This takes place by the annual net deficit for Swedish Motor Insurers being distributed between the member companies

based on the companies' premium volumes for motor third-party liability insurance by applying an annual settlement model adopted by the Meeting of Swedish Motor Insurers. The joint and several liability entails that individual member companies may have a potential additional obligation to Swedish Motor Insurers if any other member company is unable to fulfil its own obligations or if the reserves for claims outstanding held by Swedish Motor Insurers prove to be insufficient.

**Note 10 Investment income, revenue**

	2016	2015
<b>Dividends</b>		
Dividends received from Group companies	20.3	450.1
<b>Interest income</b>		
Bonds and other interest-bearing securities <sup>1)</sup>	20.4	18.3
Derivatives	15.2	9.9
Interest-bearing securities issued by Group companies and loans to Group companies	0.3	2.6
Interest income for financial assets that are not measured at fair value in profit and loss <sup>1)</sup>	-0.3	10.0
Translation gain, annuity reserve	0.0	0.3
Exchange-rate gains, net	0.0	1.6
<b>Capital gains</b>		
Shares and participations in associated companies	0.3	0.0
Shares and participations in Group companies	347.9	-
Profit from participations in partnerships (Group companies)	92.5	133.8
Bonds and other interest-bearing securities	50.8	82.1
Interest-bearing securities issued by Group companies and loans to Group companies	0.1	7.4
Other financial investment assets	2.5	3.0
<b>Total</b>	<b>550.0</b>	<b>719.1</b>

<sup>1)</sup> Of which negative interest rate on interest-bearing securities of SEK 3.5 M.

**Note 11 Unrealised gains on investment assets**

	2016	2015
Shares and participations	145.2	5.1
Interest-bearing securities issued by Group companies	0.6	-
Bonds and other interest-bearing securities	41.7	-
Derivatives	10.6	-
<b>Total</b>	<b>198.1</b>	<b>5.1</b>

Unrealised gains and losses are recognised net per type of instrument, meaning that the net effect is recognised in either the note on unrealised gains or in the note on unrealised losses.

**Note 12 Investment income, expenses**

	2016	2015
Asset management expenses	-30.4	-31.4
<b>Interest expense</b>		
Derivatives	-14.0	-9.5
Bonds and other interest-bearing securities	-0.0	-0.3
Interest expense for financial liabilities that are not measured at fair value in profit and loss	-0.2	-0.6
Other interest expense	-0.4	-
Exchange-rate losses, net	-8.1	-
Translation, annuity reserve	-2.3	-
<b>Capital losses</b>		
Shares and participations	-150.2	-0.0
Derivatives	-42.2	-20.6
<b>Total</b>	<b>-247.8</b>	<b>-62.4</b>

**Note 13 Unrealised losses on investment assets**

	2016	2015
Bonds and other interest-bearing securities	-	-117.1
Interest-bearing securities issued by Group companies	-	-8.3
Derivatives	-	-5.5
Other financial investment assets	-5.1	-11.0
<b>Total</b>	<b>-5.1</b>	<b>-141.9</b>

<b>Note 14</b>	<b>Investment income, per measurement category</b>
----------------	--

Gain/loss by measurement category

	2016	2015
Financial assets measured according to fair value option	106.5	-8.4
Held for trading	-30.5	-25.5
Loans and receivables	-0.5	-0.2
Other financial liabilities	0	-0.4
<b>Items not specified by category</b>		
Exchange-rate gains	-8.1	1.6
Value-preserving interest rate, annuity reserve	3.6	-
Translation, annuity reserve	-2.3	0.3
Dividends to subsidiaries and associated companies	460.5	-
Asset management expenses	-30.4	-31.4
Non-financial items included in investment income, net	-0.2	-582.8
<b>Total</b>	<b>498.6</b>	<b>518.8</b>

<b>Note 15</b>	<b>Other non-technical expenses</b>
----------------	-------------------------------------

	2016	2015
Amortisation, goodwill	-	-11.9
<b>Total</b>	<b>-</b>	<b>-11.9</b>

<b>Note 16</b>	<b>Taxes</b>
----------------	--------------

	2016	2015
Current tax	-48.0	-107.5
<b>Total current tax</b>	<b>-48.0</b>	<b>-107.5</b>
<b>Deferred tax</b>		
Deferred tax expense pertaining to temporary differences	2.1	2.1
<b>Total deferred tax</b>	<b>2.1</b>	<b>2.1</b>
<b>Total recognised tax income/expense</b>	<b>-45.9</b>	<b>-105.3</b>
<b>Reconciliation of effective tax rate</b>	<b>2016</b>	<b>2015</b>
Profit before tax	563.7	922.4
Tax at applicable tax rate	-124.0	-202.9
Tax on non-deductible costs	-1.7	-4.2
Tax on non-taxable income	80.9	103.7
Tax attributable to earlier years	-1.1	-1.9
<b>Total tax on net profit for the year</b>	<b>-45.9</b>	<b>-105.3</b>
Current tax rate, %	22%	22.0%
Effective tax rate, %	8.1%	11.4%

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

	Deferred tax assets		Deferred tax liabilities		Net	
	2016	2015	2016	2015	2016	2015
<b>31 December</b>						
Receivables	-1.9	-2.4	-	-	-1.9	-2.4
Liabilities	-	-	7.7	10.2	7.7	10.2
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-1.9</b>	<b>-2.4</b>	<b>7.7</b>	<b>10.2</b>	<b>5.8</b>	<b>7.8</b>
Offset	-	-	-	-	-	-
<b>Net deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>-1.9</b>	<b>-2.4</b>	<b>7.7</b>	<b>10.2</b>	<b>5.8</b>	<b>7.8</b>

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

**Note 16 Taxes, cont.**

Change in deferred tax in temporary differences and loss carryforwards

	Amount at 1 January	Recognised in equity	Recognised in profit and loss	Amount at 31 December
Receivables	-2.4	-	0.5	-1.9
Liabilities	10.2	-	-2.5	7.7
<b>Deferred tax assets (-)/deferred tax liabilities (+)</b>	<b>7.8</b>	<b>-</b>	<b>-2.0</b>	<b>5.8</b>

<b>Note 17</b>	<b>Property and equipment</b>
----------------	-------------------------------

	31 Dec 2016	31 Dec 2015
<b>Cost</b>		
Opening cost, 1 January	7.3	7.7
Acquisitions for the year	-	1.8
Divestments during the year	-1.1	-2.2
<b>Closing cost, 31 December</b>	<b>6.2</b>	<b>7.3</b>
<b>Depreciation</b>		
Opening accumulated depreciation, 1 January	-2.3	-1.9
Depreciation for the year	-1.2	-1.3
Accumulated depreciation for divestments	0.3	0.9
<b>Closing accumulated depreciation, 31 December</b>	<b>-3.2</b>	<b>-2.3</b>
<b>Carrying amount, 31 December</b>	<b>3.0</b>	<b>5.0</b>

No impairment losses were recognised.

<b>Note 18</b>	<b>Goodwill</b>
----------------	-----------------

	31 Dec 2016	31 Dec 2015
<b>Capitalised acquisition cost of goodwill</b>		
Opening cost	144.4	144.4
<b>Closing cost</b>	<b>144.4</b>	<b>144.4</b>
<b>Amortisation</b>		
Opening accumulated amortisation	-144.4	-132.5
Amortisation for the year	-	-11.9
<b>Closing accumulated amortisation</b>	<b>-144.4</b>	<b>-144.4</b>
<b>Carrying amount at year-end</b>	<b>0.0</b>	<b>0.0</b>

<b>Note 19</b>	<b>Other intangible assets</b>
----------------	--------------------------------

	Internally developed IT systems	Acquired IT systems	Acquired customers- based assets	Total
<b>Accumulated cost</b>				
Opening cost, 1 January 2015	142.4	26.5	322.8	491.7
Acquisitions for the year	-	-	-	-
<b>Closing cost, 31 December 2015</b>	<b>142.4</b>	<b>26.5</b>	<b>322.8</b>	<b>491.7</b>
Opening cost, 1 January 2016	142.4	26.5	322.8	491.7
Acquisitions for the year	-	-	-	-
<b>Closing cost, 31 December 2016</b>	<b>142.4</b>	<b>26.5</b>	<b>322.8</b>	<b>491.7</b>
<b>Accumulated amortisation</b>				
Opening amortisation, 1 January 2015	-67.8	-4.7	-322.8	-395.3
Amortisation for the year	-	-1.7	-	-1.8
<b>Closing amortisation, 31 December 2015</b>	<b>-67.8</b>	<b>-6.4</b>	<b>-322.8</b>	<b>-397.0</b>
Opening amortisation, 1 January 2016	-67.8	-6.4	-322.8	-397.0
Amortisation for the year	-	-1.8	-	-1.8
<b>Closing amortisation, 31 December 2016</b>	<b>-67.8</b>	<b>-8.2</b>	<b>-322.8</b>	<b>-398.8</b>
<b>Accumulated impairment</b>				
Opening impairment, 1 January 2015	-74.6	-	-	-74.6
<b>Closing impairment, 31 December 2015</b>	<b>-74.6</b>	<b>-</b>	<b>-</b>	<b>-74.6</b>
Opening impairment, 1 January 2016	-74.6	-	-	-74.6
<b>Closing impairment, 31 December 2016</b>	<b>-74.6</b>	<b>-</b>	<b>-</b>	<b>-74.6</b>
<b>Carrying amount</b>				
<b>31 Dec 2015</b>	<b>0.0</b>	<b>20.1</b>	<b>0.0</b>	<b>20.1</b>
<b>31 Dec 2016</b>	<b>0.0</b>	<b>18.3</b>	<b>0.0</b>	<b>18.3</b>

**Note 20** Shares and participations in Group companies

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Carrying amount, property	Market value, property	Equity 31 Dec 2016	Of which profit 2016	Carrying amount 31 Dec 2016	Fair value
Försäkringsaktiebolaget Agria (publ)	516401-8003	Stockholm	40,000	100	-	-	502.5	175.1	823.8	1,134.3
Länsförsäkringar Sak Fastighets AB	556683-6416	Stockholm	1,000	100	342.9	724.8	343.0	0.0	68.0	724.9
Länsförsäkringar Grupplivförsäkrings AB (publ)	516401-6692	Stockholm	28,000	100	-	-	224.5	26.1	238.8	259.5
Utile Dulci 2 HB	916601-0067	Stockholm	2,176	54.4	1,234.0	2,660.0	1,281.6	141.3	738.3	1,451.9
<b>Total 31 Dec 2016</b>							<b>2,351.6</b>	<b>342.5</b>	<b>1,868.9</b>	<b>3,570.6</b>
<b>Total 31 Dec 2015</b>							<b>1,382.9</b>	<b>307.4</b>	<b>2,099.4</b>	<b>3,815.7</b>

All of the shares and participations in Group companies are unlisted.

Cost	31 Dec 2016	31 Dec 2015
Opening balance	2,199.4	2,065.7
Sale of participations in Utile Dulci 2 HB	-210.3	-
Withdrawals from partnership	-39.2	-
Capital gains from partnerships	19.0	133.7
<b>Closing balance</b>	<b>1,968.9</b>	<b>2,199.4</b>

Accumulated impairment	31 Dec 2016	31 Dec 2015
Opening balance	-100.0	-100.0
<b>Closing balance</b>	<b>-100.0</b>	<b>-100.0</b>
<b>Carrying amount</b>	<b>1,868.9</b>	<b>2,099.4</b>

**Note 21** Interest-bearing securities issued by Group companies and loans to Group companies

	31 Dec 2016	31 Dec 2015
Promissory notes to Utile Dulci 2 HB	-	509.0
Commercial papers issued by Länsförsäkringar Bank AB (publ)	-	8.0
Listed bonds, Länsförsäkringar Hypotek AB (publ)	42.6	26.9
Listed bonds, Länsförsäkringar Bank AB (publ)	13.0	38.7
<b>Total</b>	<b>55.6</b>	<b>582.7</b>

**Note 22** Shares and participations in associated companies

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Equity 31 Dec 2016	Of which profit 2016	Carrying amount 31 Dec 2016	Carrying amount 31 Dec 2015	Fair value
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	0.0	0.0	0.0	0.0	0.0
CAB Group AB	556131-2223	Örebro	1,582	28.8	133.9	10.5	10.7	10.7	38.5
European Alliance Partners Company AG <sup>1)</sup>	CH-0203026423-1	Zürich	10,569	12.5	78.0	2.2	6.0	6.8	9.8
<b>Total</b>					<b>211.9</b>	<b>12.7</b>	<b>16.7</b>	<b>17.5</b>	<b>48.3</b>

<sup>1)</sup> 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.

All shares and participations are unquoted.

Cost	31 Dec 2016	31 Dec 2015
Opening balance	17.5	17.5
Added and deducted assets	-0.8	-
<b>Closing balance</b>	<b>16.7</b>	<b>17.5</b>
<b>Carrying amount</b>	<b>16.7</b>	<b>17.5</b>
<b>Fair value</b>	<b>48.3</b>	<b>37.1</b>

**Summary of financial information pertaining to associated companies**

Information pertains to Länsförsäkringar Sak's participating interest

	2016	2015
Income	77.3	59.1
Earnings	3.3	2.6
Assets	71.4	59.9
Liabilities	23.1	22.8
Equity	48.3	37.1

<b>Note 23</b> Shares and participations		
	31 Dec 2016	31 Dec 2015
Quoted shares and participations	46.8	-
Unquoted shares and participations	42.1	35.9
<b>Total</b>	<b>88.9</b>	<b>35.9</b>
Fair value	88.9	35.9
Cost	50.3	155.3

<b>Note 24</b> Bonds and other interest-bearing securities		
	31 Dec 2016	31 Dec 2015
<b>Issued by</b>		
Swedish government	884.5	781.3
Swedish mortgage institutions	1,287.3	411.0
Other Swedish issuers	1,022.1	879.9
Other foreign issuers	558.9	1,317.0
<b>Total</b>	<b>3,752.8</b>	<b>3,389.2</b>
Amortised cost	3,660.3	3,293.7
<b>Market status</b>		
Securities quoted	3,752.8	3,289.2
Securities unquoted	-	100.0
<b>Total</b>	<b>3,752.8</b>	<b>3,389.2</b>
<b>Carrying amounts compared with nominal amounts</b>		
<b>Total surplus</b>	<b>219.7</b>	<b>108.7</b>
<b>Total deficit</b>	<b>-0.8</b>	<b>-5.3</b>

<b>Note 25</b> Derivatives				
	Fair value 31 Dec 2016	Nominal amount 31 Dec 2016	Fair value 31 Dec 2015	Nominal amount 31 Dec 2015
<b>Derivatives with positive values or valued at zero</b>				
Equity derivatives	-	-	0.0	0.0
Interest-rate derivatives	7.5	-1,045.7	0.8	-266.2
Currency derivatives	15.3	831.6	27.4	1,474.9
	<b>22.8</b>	<b>214.1</b>	<b>28.2</b>	<b>1,208.7</b>
<b>Derivatives with negative values</b>				
Equity derivatives	0	0	0.1	1.0
Interest-rate derivatives	0	-1.4	3.8	66.3
Currency derivatives	13.5	-492.3	13.7	-440.0
	<b>13.5</b>	<b>-493.7</b>	<b>17.6</b>	<b>-372.7</b>

<b>Note 26</b> Receivables, direct insurance		
	31 Dec 2016	31 Dec 2015
Receivables, policyholders	304.9	310.2
Receivables, insurance brokers	0.6	6.7
Receivables, insurance companies	10.5	13.8
<b>Total</b>	<b>316.0</b>	<b>330.7</b>

<b>Note 29</b> Prepaid acquisition costs		
	31 Dec 2016	31 Dec 2015
Opening prepaid costs	9.9	20.8
Depreciation/amortisation for the year	-9.9	-20.8
Provision for the year	16.8	9.9
<b>Total</b>	<b>16.8</b>	<b>9.9</b>

All acquisition costs have an amortisation period of less than one year.

<b>Note 27</b> Other receivables		
	31 Dec 2016	31 Dec 2015
Receivables, Group companies	748.8	529.6
Receivables, Parent Company	50.9	80.0
Other receivables	11.5	-20.7
<b>Total</b>	<b>811.2</b>	<b>588.9</b>

<b>Note 30</b> Other prepaid expenses and accrued income		
	31 Dec 2016	31 Dec 2015
Other accrued income	1.7	2.4
Other prepaid expenses	13.7	13.8
<b>Total</b>	<b>15.4</b>	<b>16.2</b>

<b>Note 28</b> Accrued interest income		
	31 Dec 2016	31 Dec 2015
Accrued interest pertaining to Group companies	0.5	0.4
Other accrued interest	37.6	10.0
<b>Total</b>	<b>38.1</b>	<b>10.4</b>

<b>Note 31</b> Untaxed reserves		
	2016	2015
Contingency reserve	1,138.8	1,138.9
Tax allocation reserve		
Reserve for 2013	16.7	16.7
Reserve for 2014	10.0	10.0
Reserve for 2015	39.6	39.6
Reserve for 2016	49.7	49.7
Reserve for 2017	16.5	-
Closing balance, 31 December	132.5	116.0
<b>Total</b>	<b>1,271.3</b>	<b>1,254.9</b>

<b>Note 32</b>		<b>Unearned premiums and unexpired risks</b>				
	<b>31 Dec 2016</b>			<b>31 Dec 2015</b>		
	<b>Gross</b>	<b>Reinsurers portion</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurers portion</b>	<b>Net</b>
<i>Unearned premiums</i>						
Opening balance	500.3	15.4	484.9	479.3	8.3	471.0
Provisions during the period	41.6	42.3	-0.7	19.5	7.2	12.3
Exchange-rate changes	3.4	0.2	3.3	1.5	-0.1	1.6
<b>Closing balance</b>	<b>545.3</b>	<b>57.9</b>	<b>487.5</b>	<b>500.3</b>	<b>15.4</b>	<b>484.9</b>
<i>Unexpired risk</i>						
Opening balance	4.7	-	4.7	9.7	-	9.7
Provisions during the period	-3.0	-	-3.0	-5.0	-	-5.0
<b>Closing balance</b>	<b>1.7</b>	<b>-</b>	<b>1.7</b>	<b>4.7</b>	<b>-</b>	<b>4.7</b>
<b>Total of unearned premiums and unexpired risks</b>	<b>547.0</b>	<b>57.9</b>	<b>489.2</b>	<b>505.0</b>	<b>15.4</b>	<b>489.6</b>

<b>Note 33</b>		<b>Claims outstanding</b>				
	<b>31 Dec 2016</b>			<b>31 Dec 2015</b>		
	<b>Gross</b>	<b>Reinsurers portion</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurers portion</b>	<b>Net</b>
Claims incurred and reported	5,392.7	3,749.0	1,643.7	6,183.1	4,362.7	1,820.4
Claims incurred and not reported	7,105.7	5,754.8	1,350.9	7,197.2	5,780.9	1,416.3
Annuities	1,515.5	1,305.8	209.7	1,568.9	1,359.5	209.4
Claims adjustment costs	218.9	-	218.9	245.0	-	245.3
<b>Total opening balance</b>	<b>14,232.8</b>	<b>10,809.6</b>	<b>3,423.1</b>	<b>15,194.2</b>	<b>11,503.0</b>	<b>3,691.2</b>
Provisions for the period	-360.8	-486.7	125.9	-946.9	-685.4	-261.5
Exchange-rate changes	41.7	11.1	30.6	-15.4	-	-15.4
Effect of interest-rate revaluations for annuities	5.9	-	5.9	0.9	-7.9	8.8
<b>Total change for the year</b>	<b>313.2</b>	<b>475.6</b>	<b>162.4</b>	<b>-961.4</b>	<b>-693.3</b>	<b>-268.1</b>
Claims incurred and reported	4,883.4	3,176.0	1,707.4	5,392.7	3,749.0	1,643.7
Claims incurred and not reported	7,153.7	5,739.1	1,414.6	7,105.7	5,754.8	1,350.9
Annuities	1,662.4	1,418.9	243.5	1,515.5	1,305.9	209.6
Claims adjustment costs	220.1	-	220.1	218.9	-	218.9
<b>Total closing balance</b>	<b>13,919.6</b>	<b>10,334.1</b>	<b>3,585.5</b>	<b>14,232.8</b>	<b>10,809.7</b>	<b>3,423.1</b>

The discount rate curve defined by the EIOPA is used to calculate annuities, including assumed reinsurance for annuities. This curve has been produced to correspond to interest rates for relevant durations and is based on market data for Swedish swap rates. A macroeconomic assumption of a long-term interest rate of 4.20% is also included. Other insurance is not discounted except for certain insignificant amounts of accident insurance.

<b>Note 34</b>		<b>Pensions and similar commitments</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>	
<b>Provision for early retirement in accordance with pension agreement</b>			
Opening balance	23.1	24.1	
Provision(+)/reversal(-) for the year	-1.6	-1.0	
<b>Closing balance</b>	<b>21.5</b>	<b>23.1</b>	

Of pension provisions, SEK 6.0 M (8.0) pertains to the 62-years-of-age rule. According to the pension agreement for the insurance sector, persons born in 1955 or earlier can voluntarily retire at the age of 62. The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on a summary of the ages and annual pensions calculated as an average per age group. A probability assessment has determined that 40% will utilise the option for early retirement.

<b>Note 35</b>		<b>Other provisions</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>	
Provision for contractual obligations	9.7	9.4	
Other provisions	1.6	1.4	
<b>Total</b>	<b>11.3</b>	<b>10.8</b>	



<b>Note 36</b>	<b>Liabilities, direct insurance</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Liabilities to policyholders	293.2	297.5
Liabilities, insurance brokers	4.1	6.5
Liabilities, insurance companies	290.0	289.2
<b>Total</b>	<b>587.3</b>	<b>593.2</b>

<b>Note 37</b>	<b>Other liabilities</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Liabilities, Group companies	67.4	61.1
Liabilities to the Parent Company	195.3	365.7
Liabilities, Länsförsäkringar Liv Försäkrings AB	0.5	0.4
Other liabilities	25.3	37.0
<b>Total</b>	<b>288.5</b>	<b>464.2</b>

<b>Note 38</b>	<b>Pensions</b>	
----------------	-----------------	--

#### 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 about 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 upward adjustment of the pension has been agreed, the Group follows the norms applied by the Insurance Industry's Pension Fund (FPK).

	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
<b>Pension commitments</b>		
Provisions for pensions	3.9	4.1
Other provisions	8.9	11.0
<b>Total</b>	<b>12.8</b>	<b>15.1</b>

Of the amounts recognised as Pension provisions, only the following amounts are encompassed by the Swedish Pension Obligations Vesting Act.

	3.9	4.1
--	-----	-----

#### The year's change in capital value of own commitments for which there are no separated assets

Opening capital value on 1 January in accordance with Swedish principles for calculation of pension commitments	11.0	11.6
Income/expense excluding interest expense that impacted earnings	-2.1	-0.6
Interest expense	0.0	0.0
<b>Capital value at 31 December</b>	<b>8.9</b>	<b>11.0</b>

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

Opening capital value on 1 January in accordance with Swedish principles for calculation of pension commitments	4.1	4.6
Pensions paid	-0.9	-0.9
Other change in capital value	0.6	0.4
<b>Capital value at 31 December</b>	<b>3.9</b>	<b>4.1</b>

#### Change for the year in the total capital value of the company's own commitments

Opening capital value on 1 January in accordance with Swedish principles for calculation of pension commitments	15.1	16.2
Income/expense excluding interest expense that impacted earnings	-2.1	-0.6
Interest expense	0.0	0.0
Pensions paid	-0.9	-0.9
Other change in capital value	0.6	0.4
<b>Capital value at 31 December</b>	<b>12.8</b>	<b>15.1</b>

#### Fair value of separated assets

Fair value at 1 January	13.3	14.2
Return on separated assets	0.0	0.0
Payments to and from pension foundations	-0.9	-0.9
Surplus in separated assets (Fair value of separated assets to the extent that the value does not affect the company's accounts)	-8.8	-8.6
<b>Fair value at 31 December</b>	<b>3.6</b>	<b>4.7</b>
<b>Net pension commitments at 31 December</b>	<b>9.1</b>	<b>10.4</b>

**31 Dec 2016**   **31 Dec 2015**

#### Costs regarding pensions

##### The company's own pensions

Income/expense excluding interest expense	-2.1	-0.6
Interest expense	0.0	0.0
Return on separated assets	0.0	0.0
<b>Cost of the company's own pensions</b>	<b>-2.1</b>	<b>-0.6</b>
Costs covered by surplus in separated assets	0.0	0.0
<b>Recognised net cost attributable to pensions</b>	<b>-2.1</b>	<b>-0.6</b>

##### Fair value of separated assets

Participations in fixed-income funds	10.9	17.5
Cash and bank balances	2.5	2.5
Other assets	0.1	0.2
Liabilities	-3.8	-4.1
<b>Total</b>	<b>9.7</b>	<b>16.1</b>

**Return on separated assets**   **0.3%**   **0.2%**

##### Assumptions pertaining to defined-benefit commitments

Discount rate	0.6%	0.7%
Percentage expected to retire voluntarily at age 62	0.0%	40.0%
Future salary increases	2.5%	2.5%

Capital in separated assets that exceeds the capital value of pension commitments to employees.

This surplus is not recognised in the balance sheet.	8.8	8.7
--	-----	-----

#### 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 FPK, is a multi-employer defined-benefit pension plan. According to IAS 19 Employee Benefits, this pension plan entails that a company is, as a rule, to recognise its proportional share of the defined-benefit pension commitment and the plan assets and expenses associated with the pension commitment. FTP plan contributions for 2016 are expected to total SEK 18.4 M.

	<b>2016</b>	<b>2015</b>
Expenses for defined-contribution plans	18.4	26.5

**Note 39 Other accrued expenses and deferred income**

	31 Dec 2016	31 Dec 2015
Premiums, received but not due	100.3	109.8
Other deferred income	1.0	7.6
Accrued holiday and overtime remuneration	13.0	11.1
Other accrued expenses	28.2	25.6
<b>Total</b>	<b>142.5</b>	<b>154.1</b>

**Note 40 Information about offsetting**

The table shows the financial instruments covered by a legally binding agreement regarding netting or a similar agreement, together with related collateral. The company has ISDA and CSA agreements with all derivative counterparties, which means that all exposures are covered by both types of agreements. The agreements entitle the parties

to offset liabilities and receivables in the event of suspension of payment or insolvency. The net amount comprises the amount that in the event of suspension of payment or insolvency would be received if the amount is an asset, or paid if the amount is a liability.

**Financial assets and liabilities that are offset or subject to netting agreements**

31 Dec 2016	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Related amounts not offset in the balance sheet		Net amount
				Netting framework agreement	Collateral Received(-) / Pledged(+)	
<b>Assets</b>						
Derivatives	22.8	-	22.8	-6.4	-5.8	10.6
<b>Liabilities</b>						
Derivatives	-13.5	-	-13.5	6.4	5.9	-1.2
<b>Total</b>	<b>9.3</b>	<b>-</b>	<b>9.3</b>	<b>-</b>	<b>0.1</b>	<b>9.4</b>

**Financial assets and liabilities that are offset or subject to netting agreements**

31 Dec 2015	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Related amounts not offset in the balance sheet		Net amount
				Netting framework agreement	Collateral Received(-) / Pledged(+)	
<b>Assets</b>						
Derivatives	28.2	-	28.2	-17.6	-8.5	2.1
<b>Liabilities</b>						
Derivatives	-17.6	-	-17.6	17.6	-	0.0
<b>Total</b>	<b>10.6</b>	<b>-</b>	<b>10.6</b>	<b>0.0</b>	<b>-8.5</b>	<b>2.1</b>

**Note 41** Financial assets and liabilities by category

	Financial assets measured at fair value through profit and loss				Fair value
	Financial assets measured according to fair value option	Held for trading	Loans and receivables	Total carrying amount	
<b>31 Dec 2016</b>					
<b>ASSETS</b>					
Interest-bearing securities issued by Group companies and loans to Group companies	55.6	-		55.6	55.6
Shares and participations	88.9	-		88.9	88.9
Bonds and other interest-bearing securities	3,752.8	-		3,752.8	3,752.8
Derivatives	-	22.8		22.8	22.8
Other financial investment assets	151.7	-		151.7	151.7
Other receivables	-	-	810.2	810.2	810.2
Cash and bank balances	-	-	117.8	117.8	117.8
Prepaid expenses and accrued income	-	-	43.3	43.3	43.3
<b>Total</b>	<b>4,049.0</b>	<b>22.8</b>	<b>971.3</b>	<b>5,043.1</b>	<b>5,043.1</b>

	Financial liabilities measured at fair value through profit and loss			Fair value
	Held for trading	Other financial liabilities	Total carrying amount	
<b>LIABILITIES</b>				
Derivatives	13.5	-	13.5	13.5
Other liabilities	-	276.3	-	276.3
Accrued expenses and deferred income	-	11.3	-	11.3
<b>Total</b>	<b>13.5</b>	<b>287.6</b>	<b>13.5</b>	<b>301.1</b>

The fair value of assets classified as Loans and receivables and liabilities classified as Other financial liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.

	Financial assets measured at fair value through profit and loss				Fair value
	Financial assets measured according to fair value option	Held for trading	Loans and receivables	Total carrying amount	
<b>31 Dec 2015</b>					
<b>ASSETS</b>					
Interest-bearing securities issued by Group companies and loans to Group companies	582.7	-	-	582.7	582.7
Shares and participations	35.9	-	-	35.9	35.9
Bonds and other interest-bearing securities	3,389.2	-	-	3,389.2	3,389.2
Derivatives	-	28.2	-	28.2	28.2
Other financial investment assets	185.5	-	-	185.5	185.5
Other receivables	-	-	588.2	588.2	588.2
Cash and bank balances	-	-	72.1	72.1	72.1
Prepaid expenses and accrued income	-	-	14.6	14.6	14.6
<b>Total</b>	<b>4,193.3</b>	<b>28.2</b>	<b>674.9</b>	<b>4,896.4</b>	<b>4,896.4</b>

	Financial liabilities measured at fair value through profit and loss			Fair value
	Held for trading	Other financial liabilities	Total carrying amount	
<b>LIABILITIES</b>				
Derivatives	17.6	-	17.6	17.6
Other liabilities	-	444.3	444.3	444.3
Accrued expenses and deferred income	-	11.3	11.3	11.3
<b>Total</b>	<b>17.6</b>	<b>455.6</b>	<b>473.2</b>	<b>473.2</b>

The fair value of assets classified as Loans and receivables and liabilities classified as Other financial liabilities comprises a reasonable approximation of the fair value based on the cost of the assets and liabilities since these assets and liabilities have short terms.

## Note 41 Financial assets and liabilities by category, cont.

### Fair value valuation techniques

Financial assets and liabilities measured at fair value in the statement of financial position are presented in the table based on the valuation techniques applied:

Level 1 refers to prices determined from prices quoted in an active market.

Level 2 refers to prices determined by calculated prices of observable market data.

Level 3 refers to prices based on own assumptions and judgements.

	31 Dec 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total carrying amount	Level 1	Level 2	Level 3	Total carrying amount
<b>ASSETS</b>								
Interest-bearing securities issued by Group companies and loans to Group companies	55.6	-	-	55.6	73.6	509.0	-	582.6
Shares and participations	46.8	4.3	37.8	88.9	-	5.1	30.8	35.9
Bonds and other interest-bearing securities	3,603.7	-	149.1	3,752.8	3,289.2	-	100.0	3,389.2
Derivatives	0.7	22.1	-	22.8	0.3	27.9	-	28.2
Other financial investment assets	151.7	-	-	151.7	185.5	-	-	185.5
<b>LIABILITIES</b>								
Derivatives	0.0	13.5	-	13.5	0.3	17.3	-	17.6

There were no significant transfers between Level 1 and Level 2 during 2015 or during 2014. There were no transfers from Level 3 in 2015 or 2014. Shares and participations in Level 3 are measured at equity per share based on the most recent company report. Delisted, insolvent companies are measured at zero, if no other listing can be found.

Gains and losses are recognised in profit and loss under Investment income, revenue and Investment income, expenses. For information on determination of fair value, valuation techniques and inputs, see note 1 Accounting policies.

Bonds and other interest-bearing securities that are not quoted in an active market comprise interest-bearing, unquoted loans that are valued using unobservable market

data and are classified according to measurement Level 3. Valuations are performed by external managers based on generally accepted valuation techniques, which means that the underlying holdings held by the issuer of the loan are valued based on relevant observable market data wherever available, and holdings for which market data is not available are measured at a fair value corresponding to the cost adjusted for any impairment.

The measurement of Other financial investment assets in Level 3 comprises a reasonable approximation of the fair value based on the cost of the assets, since these assets have short terms.

Change Level 3	Shares and participations	Bonds and other interest-bearing securities	Other financial investment assets	Total
Opening balance, 1 January 2015	33.4	30.6	0.6	64.6
Acquisitions	0.1	69.4	-	69.5
Divestments	-2.7	-	-0.6	-3.3
Transfer to Level 3	-	-	-	-
<b>Closing balance, 31 December 2015</b>	<b>30.8</b>	<b>100.0</b>	<b>0.0</b>	<b>130.8</b>
Opening balance, 1 January 2016	30.8	100.0	0.0	130.8
Acquisitions	2.5	34.5	-	37.0
Divestments				
Recognised in profit and loss	4.5	14.6	-	19.0
Transfer to Level 3	-	-	-	-
<b>Closing balance, 31 December 2016</b>	<b>37.8</b>	<b>149.1</b>	<b>0.0</b>	<b>186.8</b>

**Note 42** Anticipated recovery and settlement periods, amounts expected to be recovered

	31 Dec 2016			31 Dec 2015		
	Not more than 1 year	More than 1 year	Total	Not more than 1 year	More than 1 year	Total
<b>ASSETS</b>						
Goodwill	-	-	-	-	-	-
Other intangible assets	1.8	16.5	18.3	1.8	18.3	20.1
Shares and participations in Group companies	-	1,869.0	1,869.0	-	2,099.4	2,099.4
Shares and participations in associated companies	-	16.7	16.7	-	17.5	17.5
Interest-bearing securities issued by Group companies and loans to Group companies	17.1	38.5	55.6	559.8	22.9	582.7
Shares and participations	-	88.9	88.9	-	35.9	35.9
Bonds and other interest-bearing securities	1,131.9	2,620.9	3,752.8	1,249.8	2,139.4	3,389.2
Derivatives	16.0	6.8	22.8	27.7	0.5	28.2
Other financial assets	-	151.7	151.7	-	185.5	185.5
Deposits with companies that have ceded reinsurance	39.9	-	39.9	34.2	-	34.2
Reinsurers' portion of technical provisions	896.1	9,495.9	10,392.0	1,211.4	9,613.7	10,825.1
Receivables, direct insurance	316.0	-	316.0	330.7	-	330.7
Receivables, reinsurance	164.6	-	164.6	271.7	-	271.7
Other receivables	811.2	-	811.2	588.9	-	588.9
Deferred tax assets	-	1.9	1.9	-	2.4	2.4
Property and equipment	1.2	1.8	3.0	1.4	3.6	5.0
Cash and bank balances	117.8	-	117.8	72.1	-	72.1
Prepaid expenses and accrued income	70.3	-	70.3	36.5	-	36.5
<b>Total assets</b>	<b>3,538.9</b>	<b>14,308.6</b>	<b>17,892.5</b>	<b>4,386.0</b>	<b>14,139.1</b>	<b>18,525.1</b>
<b>LIABILITIES</b>						
Technical provisions	2,339.0	12,127.6	14,466.6	2,579.9	12,157.9	14,737.8
Other provisions	-	32.8	32.8	-	33.9	33.9
Deposits from reinsurers	21.3	-	21.3	19.1	-	19.1
Current tax liabilities	-	-	-	-	14.9	14.9
Deferred tax liabilities	-	7.7	7.7	-	10.2	10.2
Liabilities, direct insurance	587.3	-	587.3	593.2	-	593.2
Liabilities, reinsurance	310.4	-	310.4	397.6	-	397.6
Derivatives recognised as liabilities	13.5	-	13.5	14.0	3.6	17.6
Other liabilities	288.5	-	288.5	464.2	-	464.2
Accrued expenses and deferred income	142.4	-	142.4	154.1	-	154.1
<b>Total liabilities</b>	<b>3,702.4</b>	<b>12,168.1</b>	<b>15,870.5</b>	<b>4,222.1</b>	<b>12,220.5</b>	<b>16,442.6</b>

The recovery periods for securities do not reflect the liquidity in the portfolio but rather the final maturity of the securities.

**Note 43** Pledged assets and contingent liabilities

	31 Dec 2016 <sup>1)</sup> 31 Dec 2015 <sup>2)</sup>		31 Dec 2016 31 Dec 2015	
<b>Pledged assets</b>				
Assets registered on behalf of policyholders	4,074.7	4,973.7		
<b>Total</b>	<b>4,074.7</b>	<b>4,973.7</b>		
<b>Contingent liabilities</b>				
Part-owner of Utile Dulci 2 HB			16.5	13.9
<b>Total</b>			<b>16.5</b>	<b>13.9</b>

<sup>1)</sup> Assets pledged for the benefit of policyholders to cover technical provisions in the balance sheet in accordance with Chapter 6, Section 11 of the Swedish Insurance Business Act. The amount recognised as pledged assets corresponds to the technical liabilities after deductions for reinsurers' portion. All assets recognised in the benefit register amounted to SEK 8,760 M.

<sup>2)</sup> The technical liabilities, which correspond to registered assets, amount to SEK 4,023.4 M. Registered assets in accordance with Chapter 6, Section 30 of the Swedish Insurance Business Act amount to SEK 4,973.7 M. In the event of insolvency, the policyholders have preferential rights 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 Swedish Insurance Business Act in accordance with the wording at the end of 2015.

**Note 44 Disclosures on related parties****Organisation**

Länsförsäkringar Sak is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 23 customer-owned regional insurance companies and 16 local insurance companies. Joint operations are conducted in Länsförsäkringar AB, which provides services to Länsförsäkringar Sak. This pertains to such services as asset management, legal, finance, safety, personnel and development of a joint IT system. The organisation means that there are a large number of ongoing transactions and a few non-recurring transactions between Länsförsäkringar Sak and Länsförsäkringar AB, subsidiaries and the regional insurance companies.

**Related parties**

Legal entities closely related to Länsförsäkringar Sak include all of the companies in the Länsförsäkringar AB Group, Länsförsäkringar Mäklarservice AB, the regional insurance companies with subsidiaries and the local insurance companies. All of these companies combined comprise the Länsförsäkringar Alliance. Related key persons are Board members, senior executives and their close family members and companies owned by them.

**Pricing**

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

**Agreements**

Significant agreements for Länsförsäkringar Sak are primarily outsourcing agreements with Länsförsäkringar AB regarding asset management, IT, service and development. Furthermore, agreements have been entered into with Länsförsäkringar Mäklarservice regarding sales and with the regional insurance companies regarding commission for sales, claims adjustment and reinsurance management. Additional agreements that have been entered into are with Humlegården Fastigheter AB regarding the administration of Utile Dulci 2 HB and partnership agreements with Länsförsäkringar AB regarding Utile Dulci 2 HB. Länsförsäkringar Sak leases its office premises from the Parent Company Länsförsäkringar AB, which in turn leases from the property owner Utile Dulci 2 HB. Länsförsäkringar Sak's participating interest in Utile Dulci 2 HB is 54.4%.

**Related-party transactions 2016**

	Income	Expenses	Receivables	Liabilities
Parent Company	6.5	231.1	50.9	196.6
Group companies	546.5	14.4	815.7	68.9
Life Group	-	-	0.9	0.5
Regional insurance companies	2,168.7	1,457.3	8,447.3	8,175.0
Other related parties	0.1	14.4	5.9	10.9

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

Cash and cash equivalents with Länsförsäkringar Bank AB	661.5
Interest income received	-

**Note 45 Supplementary disclosures on income-statement items by insurance class**

2016	Total	Accident and health	Motor third-party liability	Motor, other classes	Marine, air and cargo	Fire and other property damage	General liability	Legal expenses	Credit and guarantee insurance	Total, direct insurance	Assumed reinsurance
Premiums earned, gross	3,711.5	1,241.6	45.1	1,279	112.9	79.0	132.4	3.5	0.4	1,742.9	1,968.6
Claims payments, gross	-2,065.3	-847.0	-203.2	-114.6	-50.7	-80.1	-139.1	-4.4	-0.2	-1,439.5	-625.8
Operating expenses, gross	-456.5	-225.5	-9.8	-20.8	-27.4	-13.8	-28.5	-0.2	-1.7	-327.7	-128.8
Profit/loss from ceded reinsurance	-1,099.2	-2.4	161.6	3.2	-6.9	-15.5	39.6	-0.2	0.2	179.8	-1,279.0
<b>Profit/loss</b>	<b>90.5</b>	<b>166.7</b>	<b>-6.4</b>	<b>-4.2</b>	<b>27.8</b>	<b>-30.4</b>	<b>4.5</b>	<b>-1.2</b>	<b>-1.2</b>	<b>155.5</b>	<b>-65.0</b>
Premium income, gross	3,750.1	1,262.8	47.5	134.1	116.5	78.5	139.6	3.4	2.7	1,785.1	1,964.9

**Note 46 Appropriation of profit**

According to the balance sheet of Länsförsäkringar Sak Försäkringsaktiebolag (publ), the following non-restricted equity is at the disposal of the Annual General Meeting.

Retained earnings	153,605,683
Group contributions paid	-160,000,000
Tax on Group contributions	35,200,000
Net profit for the year	517,813,004
<b>Total</b>	<b>546,618,687</b>

The Board of Directors and the President propose that SEK 250.00 per share of this profit, corresponding to SEK 500,000,000, be distributed to the Parent Company and SEK 46,618,687 be carried forward. The Board of Directors believes that this distribution of profit and Group contribution paid are justified taking into consideration the demands on the amount of equity imposed by the nature, scope and risks associated with the operations, and the company's solvency requirements, liquidity and financial position, in accordance with Chapter 17, Section 3 of the Swedish Companies Act.

The Annual Report was approved for publication by the Board of Directors on 24 February 2017.  
The company's income statement and balance sheet will be adopted at the 2017 Annual General Meeting.

Johan Agerman  
*Chairman*

Ricard Robbstål  
*Board member*

Mariette Nicander  
*Board member*

Sven Eggefalk  
*Board member*

Göran Spetz  
*Board member*

Jan-Olof Thorstensson  
*Board member*

Henrietta Hansson  
*Board member*

Anna Sandqvist  
*Employee representative*

Linnéa Niklasson  
*Employee representative*

Ann Sommer  
*President*

My audit report was submitted on 24 February 2017

Gunilla Wernelind  
*Authorised Public Accountant*

# Auditor's Report

To the general meeting of the shareholders of Länsförsäkringar Sak Försäkringsaktiebolag (publ), corp. id 502010-9681

Translation from the Swedish original

## Report on the annual accounts

### Opinions

I have audited the annual accounts of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2016. The Annual report comprises pages 4–45 in this document.

In my opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies, and present fairly, in all material respects, the financial position of Länsförsäkringar Sak Försäkringsaktiebolag (publ) as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Insurance Companies.

I therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

### Basis for Opinions

I conducted my audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of Länsförsäkringar Sak Försäkringsaktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### Other Information than the annual accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises this Annual Report (but does not include the annual accounts and my auditor's report thereon pages 1–4).

My opinion on the annual accounts does not cover this other information and I do not express any form of assurance conclusion regarding this other information.

In connection with my audit of the annual accounts, my responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure I also take into account my knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If I, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

My objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to my audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.



I must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. I must also inform of significant audit findings during my audit, including any significant deficiencies in internal control that I identified.

## **Report on other legal and regulatory requirements**

### **Opinions**

In addition to my audit of the annual accounts, I have also audited the administration of the Board of Directors and the Managing Director of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

I recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### **Basis for Opinions**

I conducted the audit in accordance with generally accepted auditing standards in Sweden. My responsibilities under those standards are further described in the Auditor's Responsibilities section. I am independent of Länsförsäkringar Sak Försäkringsaktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled my ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### **Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### **Auditor's responsibility**

My objective concerning the audit of the administration, and thereby my opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

My objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby my opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, I exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my professional judgment with starting point in risk and materiality. This means that I focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. I examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to my opinion concerning discharge from liability. As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss I examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm 24 February 2017

Gunilla Wernelind  
Authorized Public Accountant

## Board of Directors and auditor



### 1 Johan Agerman

Chairman. Born 1962. President of Länsförsäkringar AB. Elected 2017. **Education:** Business Administration, Uppsala. AMPT, Stockholm School of Economics. **Other Board appointments:** Chairman of Länsförsäkringar Bank and Länsförsäkringar Fondliv, Board member of Länsförsäkringar Liv, Insurance Sweden, Swedish Insurance Employers' Association (FAO), European Alliance Partners Company AG. **Previous experience:** CEO of Trygg-Hansa, Board Chairman of IDUR, Personal Lines Director Scandinavia RSA, IS&Change director and CIO RSA, CEO of Know IT Consulting AB.

### 2 Ricard Robbstål

Born 1970. President of Länsförsäkringar Göteborg och Bohuslän. Elected: 2015. **Education:** MBA Harvard/Stanford and Behavioural sciences. **Other Board appointments:** Chairman of Länsförsäkringar Fastighetsförmedling, Board member of Platzer Fastigheter and Länsförsäkringar Gruppliv. **Previous experience:** President/CEO of Göteborgsposten and Stampen Local Media.

### 3 Mariette Nicander

Born 1960. President of Länsförsäkringar Gotland. Elected 2012. **Education:** Bachelor of Legal Science **Other Board appointments:** Brandförebyggarna Gotland and Tillväxt Gotland, Board member of Föreningen Gotlands Fornvänner. **Previous experience:** Worked in the insurance industry since 1984.

### 4 Sven Eggefalk

Born 1969. President of Länsförsäkringar Östgöta. Elected 2016. **Education:** BA in Economics from North Park University Chicago. **Other Board appointments:** Chairman of Länsförsäkringar Fondförvaltning AB and Östgöta Brandstodsbolag Fastighet AB. Board member of Östgöta Brandstodsbolag Kapitalförvaltning AB. **Previous experience:** President of Wasa Kredit between 2011 and 2015 and other senior positions at SEB.

### 5 Henrietta Hansson

Born 1964. President of Länsförsäkringar Göinge-Kristianstad. Elected: 2016 **Education:** Bachelor of Science in Business and Economics, local government administration Lund University. **Other Board appointments:** Board member of Krinova-Science Park, Flyinge AB and Ridskolan Strömsholm. **Previous experience:** President of Agria, worked at Länsförsäkringar since 2000.

**Auditor:** Gunilla Wernelind. Elected by the Annual General Meeting: Authorised Public Accountant, KPMG.



## 6 Göran Spetz

Born 1956. President of Länsförsäkringar Västerbotten. Elected 2010.  
**Education:** Mechanical engineer. **Other Board appointments:** Chairman of Länsförsäkringar i Norr Holding AB. **Previous experience:** Head of Claims Department at Länsförsäkringar Västerbotten since 1979.



## 7 Jan-Olof Thorstensson

Born 1959. Forest farmer. Elected: 2016 **Education:** Mechanical engineer.  
**Other Board appointments:** Chairman of Länsförsäkringar Kalmar län and Kalmar Hamn AB. **Previous experience:** Södra Skogsägarna.



## 8 Linnéa Niklasson

Born 1958. Object specialist Integration. Employee representative  
Elected: 2014. **Education:** Systems developer, upper-secondary school business diploma. **Other Board appointments:** Länsförsäkringar AB, Agria Djurförsäkring, Chairman of Länsförsäkringar AB FTF club. **Previous experience:** Test Manager, Change Management at Länsförsäkringar AB, Systems Developer Agria, Chairman of Agria employee club, Group Manager accounts receivable ledger/IT Esselte Meto.



## 9 Anna Sandqvist

Born 1963. Compliance Employee representative. Elected: 2014.  
**Education:** Bachelor of Arts. **Other Board appointments:** Employee representative of Swedish Confederation of Professional Associations (SACO) on the Board of Länsförsäkringar AB, Chairman of SACO association at Länsförsäkringar AB. **Previous experience:** AMF Pension, Wasa Försäkringar.

Employee representatives

**Deputy:** Mirek Swartz.

# Management

## Ann Sommer

President

## Thomas Abrahamsson

The Health Business Area

## John Nyman

Business Area Reinsurance and Commercial  
Special Insurance

## Carina Bodesand

Business Support unit

## Gunnel Karlsson

CFO

## Göran Laurén

Asset Management

## Birger Lövgren

Business Area Agria

## Totte Pikanen

Corporate Senior Actuary

## Michael Truwert

Head of Legal Affairs

## Pernilla Fredriksson

HR

# Definitions

## After ceded reinsurance

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

## Claims payments

The cost during the fiscal year for claims incurred, including costs for claims that have not yet been reported to the insurance company. The cost also includes the run-off result, meaning the profit and loss arising in the provision for claims outstanding made in the immediately preceding year-end accounts.

## Claims ratio

The ratio between claims payments, including claims adjustment costs and premiums earned after ceded reinsurance, expressed as a percentage.

## Combined ratio

The sum of operating expenses in the insurance operations and claims payments as a percentage of premiums earned after ceded reinsurance.

## Contingency reserve

Provisions for contingency reserve is an appropriation. The contingency reserve is to equalise fluctuations in the risk process and the uncertainty in the calculation basis for provisions for unearned premiums and claims outstanding.

## Deferred tax

Deferred tax liabilities/assets pertain to temporary taxable differences.

## Direct insurance

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

## Direct yield

Direct yield refers to the balance of interest income, interest expense, dividends on shares and participations, administration costs in asset management and operating expenses in properties for the assets encompassed by the investment principles in relation to the average value of these assets during the year.

## Discounting of claims outstanding

Present value calculation of future claims payments in insurance transactions with long-term settlement periods.

## Expense ratio

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

## Investment income transferred from financial operations

Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest (the cost of capital) on these investments is transferred from investment income to the insurance operations. With the amendment of the accounting policies for indexed annuities, this is recognised as an increased capital cost for investment income transferred from financial operations, to the change in provision for claims outstanding reducing the total claims payments.

**Minimum capital requirement**

The minimum capital requirement comprises the minimum amount of eligible Tier I capital and is calculated by taking into account all or part of technical provisions, premium income, positive risk amounts, deferred taxes, administrative costs, ceded reinsurance and the solvency capital requirement.

**Operating expenses**

Operating expenses is a collective term for expenses for sales, management and administration.

**Own funds**

Own funds comprise Tier I capital and additional capital. Tier I capital is the difference between assets and liabilities measured in accordance with the Solvency II rules and subordinated liabilities. Additional capital comprises items not recognised in the statutory balance sheet but that could be required to cover losses. Own funds for Länsförsäkringar main comprises equity and untaxed reserves according to the legal accounts adjusted by revaluation items arising on the remeasurement of the balance sheet in accordance with Solvency II.

**Premium income**

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

**Premiums earned**

The proportion of premium income attributable to the fiscal year.

**Reinsurance**

Risk distribution method entailing that an insurance company purchases coverage for a portion of its liability commitment for insurance and reinsurance contracts, known as ceded reinsurance. Assumed reinsurance from other insurance companies in the form of reinsurance.

**Required solvency margin**

The lowest permitted level of own funds for insurance companies. The required solvency margin is calculated in accordance with the rules laid down in the Swedish Insurance Business Act.

**Run-off result**

For claims for which final settlement has not been completed at the end of the fiscal year, funds are reserved in the provision for claims outstanding. The assessment of future payments implemented may however prove to be incorrect for various reasons. If the calculated compensation amount for a claim proves to be over-valued, run-off gains will arise when the compensation amount is re-assessed or when the claim has been settled. If the amount is under-valued, a corresponding run-off loss will arise.

**Solvency capital**

Recognised equity, plus untaxed reserves, deferred tax liabilities and surplus values on property.

**Solvency capital requirement**

Regulatory solvency capital requirement calculated using Länsförsäkringar's Internal Model.

**Solvency margin**

The ratio between solvency capital and premium income for own account, expressed as a percentage. The solvency margin, calculated in this manner, is the measure of capital strength of the insurance company normally used.

**Technical provisions**

Provision for unearned premiums and unexpired risks, and provision for claims outstanding and comparable commitments in accordance with signed insurance contracts.

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

Premiums earned less claims payments and operating expenses in the insurance operations plus profit/loss from ceded reinsurance and investment income transferred from financial operations.

**Total return ratio**

Total return ratio refers to the sum of the 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 administration costs, in relation to the average value of these assets during the year. The change in value in assets for liability hedges is included in the figure, but the change in value of the discounted technical provisions is not included in the total return.

**Unearned premiums**

A liability item, corresponding to the portion of premium income that pertains to the next year in the annual accounts.

# Address

## Länsförsäkringar Sak

SE-106 50 Stockholm

Visit: Tegeluddsvägen 11-13

Tel: +46 8-588 400 00

E-mail: [info@lansforsakringar.se](mailto:info@lansforsakringar.se)



