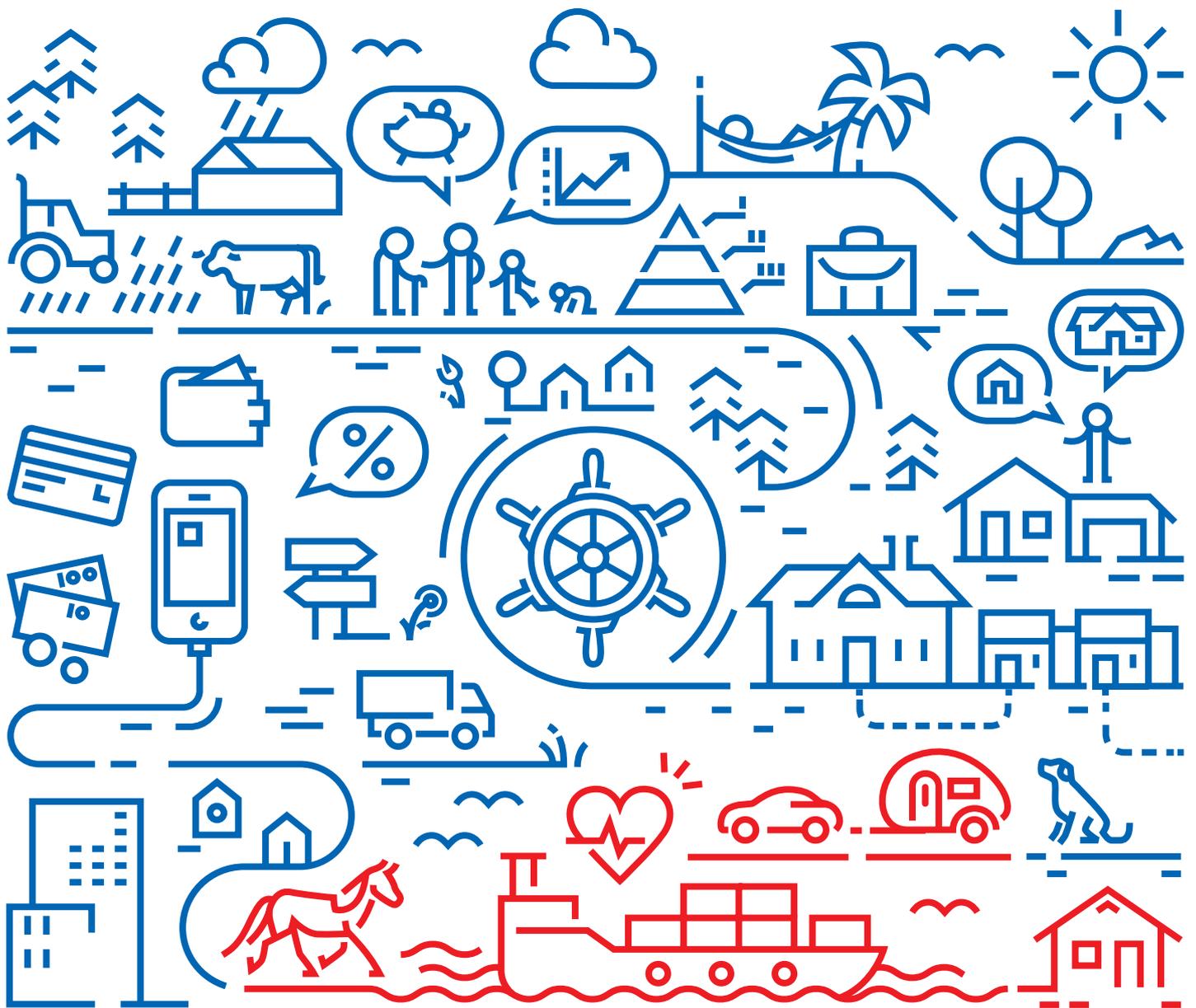


# Länsförsäkringar Sak

Annual Report

# 2017



Länsförsäkringar



# About us

## 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 Audit report

### Other information

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

## Länsförsäkringar Sak

The Non-life Insurance business unit of the Länsförsäkringar AB Group comprises Länsförsäkringar Sak Försäkrings AB and its subsidiaries Försäkringsaktiebolaget Agria and Länsförsäkringar Grupplivförsäkrings AB. The Non-life Insurance business unit is responsible for the non-life insurance operations, including pet 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

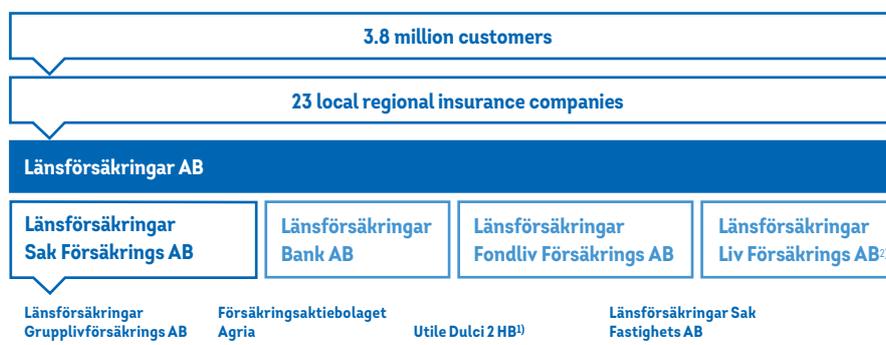
international reinsurance, as well as manages the Länsförsäkringar Alliance's overall reinsurance cover. Pet insurance is conducted in the subsidiary Agria Djurförsäkring and group life assurance is underwritten in the subsidiary Länsförsäkringar Gruppliv as an important part of the customer offering in the expanding Health Business Area.



## Länsförsäkringar in brief

### Local companies with customers who are owners and the only principal

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 task. Long-term respect for customers' money and their security is fundamental. The Länsförsäkringar Alliance jointly has slightly more than 3.8 million customers and approximately 6,400 employees.



#### Agria Pet Insurance Ltd

- UK branch
- Norway branch
- Finland branch
- Denmark branch

<sup>1)</sup> After the sale in March 2016, Länsförsäkringar Sak owns 54.4% and Länsförsäkringar AB owns 45.6% of Utile Dulci 2 HB, which is a property-owning company.

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

# The 2017 fiscal year

## Significant events

- Net profit for the year before appropriations and tax amounted to SEK 1,248 M (580).
- The technical result amounted to SEK 637 M (103).
- The combined ratio amounted to 84% (96).
- The technical result was impacted by run-off gains and remuneration for business that was transferred to the regional insurance companies.
- Investment income includes dividends of SEK 525 M from subsidiaries.

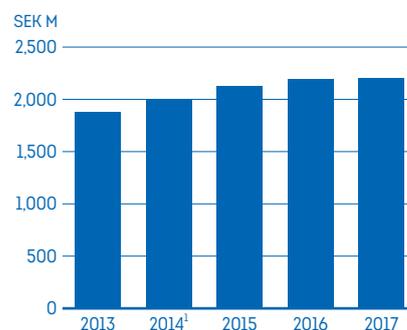
## Significant events

%	2017	2016	2015	2014	2013
Combined ratio	84	96	78	86	98
ROE <sup>1)</sup>	29	25	23	14	5
Total investment income	5.6	5.7	7.7	5.6	-1.2
Solvency ratio SII <sup>2)</sup>	221	260	235		

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

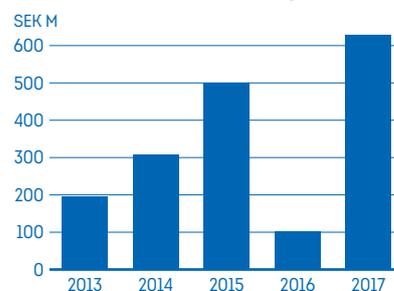
<sup>2)</sup> Solvency ratio according to Solvency II rules (SII), applicable from 1 January 2016. The ratio is calculated by SII-valued own funds being divided by the SII solvency capital requirement based on the partial internal model.

### Premium income



<sup>1)</sup> 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



Earnings for 2017 included non-recurring income of SEK 260 M and run-off gains totalling a net SEK 235 M.



# A society in change – our role is more important than ever

**Statement by the President.** Länsförsäkringar's vision is to create security and opportunities and offer a complete solution in banking, insurance, pension and real-estate brokerage services. Länsförsäkringar Sak plays a pivotal role since we complement and harmonise with the business of the regional insurance companies and develop new business so that customer needs can continue to be met in the future.

Many long-term trends in our business environment have an effect on us and the rate of change is accelerating. Both the global and Swedish economy seem to be performing well, yet with unusually many areas of concern. Examples include the many political uncertainties associated with Brexit, US domestic and foreign policy and the forthcoming general election in Sweden. The national security survey shows that more people are feeling less secure and globally, the ongoing climate change is critical. What happens locally or globally impacts our operations.

## Stable platform

Each year, we have to make sure that we win customers in our non-life insurance operations when they renew their insurance policies. The Non-life Insurance business unit is to generate profitable business and make business profitable within the scope of the targets set for Länsförsäkringar AB. Länsförsäkringar Sak has a stable platform with continued favourable conditions for sustainable and profitable growth. Operating profit for the Länsförsäkringar Sak Försäkringsaktiebolag amounted to SEK 1,248 M (580), including dividends from subsidiaries and operating profit for the non-life insurance company and its subsidiaries amounted to SEK 1,028 M (644). Many factors contributed to this result. The Health Business Area reported very strong profit, and Agria delivered stable, positive earnings. Despite a low interest-rate environment, Asset management succeeded in generating high returns on the company's assets.

Agria Djurförsäkring is a market leader in pet insurance in Sweden and the Nordic region, and our international focus is continuing. Agria now has operations in Norway, Denmark, Finland and the UK. Operations in France will also be initiated during the first quarter of 2018. This is absolutely fantastic! With its social commitment, Agria contrib-

Sweden. Länsförsäkringar Sak has access to a comprehensive claims statistics database to continuously monitor and assess risk. New technology and measurement methods are also applied. Länsförsäkringar Alliance's coverage for natural catastrophes has also developed over the years.

“ The widespread internal commitment and the close and productive collaboration with the regional insurance companies, customers and partners have been a prerequisite for our achievements in recent years.”

utes to a healthier society with animals and also reserves some of its premiums earned for veterinary research. The aim is for research to provide a solid basis for successful breeding and better animal health and animal keeping, and enhance knowledge about the importance of dogs, cats and other pets to us humans.

The Health Business Area has the vision of creating a healthier Sweden and is one of the country's leading players in health and health care insurance. In 2018, preventive measures related to ill health will continue, for example, by participating in partnerships that promote mental health among school children and young adults.

Reinsurance and Special Insurance manage the Länsförsäkringar Alliance's internal and external reinsurance. Länsförsäkringar Sak is one of the largest purchasers of reinsurance for property and forests in Europe and the regional insurance companies hold a large market share of forest insurance in

ringar. We have the most satisfied retail customers in non-life insurance, banking and real-estate brokerage. Our customer-owned model can, in many ways, be said to be based on the principles of the sharing economy – joint investments lead to greater value. We take responsibility, not only for our business but also for society. The aspects of local and mutual are the future.

## Dedicated employees at an attractive workplace

To offer the best customer experience, we need the best and most highly skilled employees in the industry. Involvement and expertise create profitable growth. I am proud of the strong commitment shown by our employees. This is largely the reason for the results we are delivering. It is important to have employees who have high job satisfaction in the workplace and are given the conditions needed to succeed in their various duties, and who share our fundamental

## Satisfied customers

Länsförsäkringar AB's overall objective is to help the regional insurance companies be successful and create the best value for customers. Hard work is rewarded by customers. Every year, the Swedish Quality Index surveys Sweden's most satisfied customers and they are often found at Länsförsäk-



values of how we are to conduct ourselves in all situations. We discuss our values and what they mean to us every year in connection with business planning activities. An e-course in Code of Conduct, safety and sustainability is also arranged every year. We are an attractive employer, for example, Sweden's young university economics graduates named us the best employer in insurance for the tenth consecutive year.

#### **Ecosystem**

All companies operate in an ecosystem and a context. Insurance forms a vital foundation for society and facilitates growth and development. The role of insurance companies is central, and always focuses on security for the customer. Länsförsäkringar makes a variety of contributions through our complete offering and by influencing and strengthening our customers and wider society. We take greater responsibility for society and sustainability than many other companies. Climate-related claims are becoming increasingly common. We also want to be able to offer comprehensive cover in the future, but this requires that the speed of climate adaptations increases.

#### **Länsförsäkringar at the UN**

Länsförsäkringar Sak was the first Swedish insurance company to follow the UN Principles for Sustainable Insurance (PSI). As a result, I was invited to attend the UN Private Sector Forum at the UN headquarters in

New York during the year. This year's theme was the role of the private sector in achieving the 17 Sustainable Development Goals (SDGs), Agenda 2030. It was important and an honour to represent Länsförsäkringar and our customers, and to highlight the work of the Länsförsäkringar Alliance to ensure a more secure future. The world is facing major challenges and it is absolutely essential that cooperation between the public and private business sectors is strengthened in efforts to achieve the SDGs.

#### **Customer value**

Demand for insurance increases as the economy grows. We completed a series of projects to enhance customer value during the year. For example, Agria launched customised dog insurance. The Health Business Area started to offer the "Senior" insurance policy for elderly customers who still need health care, life assurance and accident insurance cover after they have reached the maximum age for their group insurance. We have several offerings that provide financial security for customers' various life situations. One is the "Bo Kvar" insurance policy that provides cover in the event of death, illness or unemployment. It is now offered to customers that have their household insurance with Länsförsäkringar, in addition to customers with mortgages with Länsförsäkringar Bank. This improvement has been much sought-after and has been customised so that customers can do every-

thing digitally, from inquiring about the policy to purchasing the insurance.

Several central and extensive regulations that seek to increase security for customers recently came into effect or are expected to come into effect next year, for example, the EU Insurance Distribution Directive (IDD). This Directive addresses all distribution of insurance and applies to all distribution channels. Another regulation is the General Data Protection Regulation (GDPR), which means that customers will gain greater control and influence over their personal data, and we as a company must take additional measures to ensure compliance and offer customer value. These changes have perhaps never been as challenging, yet they also present many opportunities.

The widespread internal commitment and the close and productive collaboration with the regional insurance companies, customers and partners have been a prerequisite for our achievements in recent years. We are living in a society in change, where our role as an insurer is more important than ever. We will continue to create security and opportunities together in the future.

Stockholm, March 2018

**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 2017 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 property-owning 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 2017, business was underwritten in the lines of health, health care, accident, property, transportation, 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 occupational 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 growing concern that social insurance in Sweden will be insufficient and greater household debt. Personal-risk insurance provides an important supplement for increasing financial security in the event of illness, accident, unemployment and death. Companies are eager to prevent illness and sickness absence since sick leave has huge consequences for both profitability and delivery. Health care insurance fulfils an important role as a means for promoting a positive work environment and good health so as to reduce the vulnerability of employees to illness or claims and helps companies to assume their responsibility as regards the work environment.

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. Preventive initiatives and rehabilitation are becoming increasingly important in line with rising mental illness in society.

The market for accident and health insurance increased 4% and Länsförsäkringar's market share remained unchanged at just over 20%. The health care insurance market is continuing to grow, more than

600,000 people have health care insurance, of which about two-thirds are paid by the employer. Competition is most intense in the segment of companies with more than ten employees, where most distribution is via insurance brokers.

Competition remains fierce in cargo insurance, particularly in the large company segment.

In liability insurance, the trend of an increasing number of players showing interest in the small and medium-sized businesses segment is continuing, thus intensifying competition. By offering a high level of service and with its skilled employees in underwriting and claims processes, Länsförsäkringar Sak's business volumes have increased.

The total reinsurance capacity in the international reinsurance market remained large, resulting in pressed price levels. Low interest rates for several years have attracted new players looking for alternative returns to the industry. Globally, 2017 was a high claims year with several natural disasters. Hurricanes in the Caribbean, an earthquake in Mexico and forest fires in California impacted profitability in the reinsurance market, which contributed to the stagnation of falling price levels and a slight increase in price levels in mainly the US market.

## Significant events during the year Health Business Area

Claims costs for health care insurance reported a positive trend in recent years as an effect of quality enhancements in claims adjustment.

During the year, Länsförsäkringar Sak completed its work to transfer one of the business lines in accident and health insurance for adults to the regional insurance companies. This move involves active insurance business with a premium volume of about SEK 200 M and the claims portfolio was transferred on 1 December.

Sales of the Bo Kvar insurance policy, which comprises an important part of Länsförsäkringar Bank's offering, displayed a strong performance. This policy provides financial protection in the event of death, illness or unemployment and is an important component in providing financial security to customers.

Digital services were developed during the year, mainly focusing on data-driven marketing, customer care and services with offers for the Bo Kvar and health care insurance. It should be easy to find the right insurance cover that matches customer needs and to make use of the policy and receive service via digital channels. A brand new purchasing service for Bo Kvar was launched in November, allowing customers to take out home loan cover online.

### **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.

The portfolio premium in cargo insurance remained relatively unchanged both in terms of premium volume and number of policies. During the year, a simplified product in cargo insurance was launched where the customer receives price information online and applications are made digitally.

New, large insurance contracts were one of the reasons for the insurance portfolio in liability insurance performing positively during the year. The legal situation for professional indemnity insurance for life-assurance brokers remains uncertain. Länsförsäkringar Sak ceased underwriting new liability insurance for life-assurance brokers in 2014 and has taken the case to court to clarify the legal situation. Rulings on the cases before the European Court of Justice to be considered against the EU Directive, on which Swedish law is based, have not yet been handed down. After the European Court of Justice has heard these cases, they will be considered by a Swedish court for a final ruling. Rulings are expected in the first half of 2018. Sales of 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, are 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. Claims-prevention measures were successfully carried out during the year that will ultimately result in lower claims costs for more customers. The premium volume for the business increased during the year.

Länsförsäkringar Sak prices and administers the reinsurance pools that balance the risk of the earnings for the regional insurance companies. The Länsförsäkringar Alliance's internal reinsurance, to which Länsförsäkringar Sak contributes a 15% share of assumed reinsurance, noted few large claims during the year.

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.

Länsförsäkringar Sak's partnership with the International Network of Insurance (INI) continues to be developed. The number of customised and local insurance solutions for the Länsförsäkringar Alliance's Swedish corporate customers with international interests increased during the year.

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

On 2 February 2018, Johan Agerman left his position as President and CEO of Länsförsäkringar AB and as Board Chairman of Länsförsäkringar Sak. In connection with this, Sören Westin was appointed President and CEO of Länsförsäkringar AB and the new Board Chairman of Länsförsäkringar Sak.

### **Expectations regarding future development**

Personal-risk insurance is expected to remain affected by high sick leave figures, although the increase in sickness figures has slowed slightly. Mental health continues to dominate and is the most common cause of sick leave. Preventive and early measures at the workplace are the keys to succeeding in breaking this trend. Household indebtedness has steadily increased, which has now led to many people not having sufficient insurance cover. The need for personal-risk insurance in the form of benefits in the event of illness, accident or unemployment will continue to increase. Länsförsäkringar

Sak's sales trend in this area was favourable. With highly satisfied health care insurance customers and a large market share in commercial insurance, Länsförsäkringar is well-positioned for growth.

The government is preparing a fringe-benefit tax on health care insurance paid by employers. The proposal has been referred for consideration and parliament is expected to make decision in the spring of 2018. It mainly entails a cost increase for the employee who is insured under health care insurance paid by the employer. The health care insurance market will be affected if the proposal becomes a reality.

In cooperation with Insurance Sweden, Länsförsäkringar has actively raised awareness of the function of health care insurance and the consequences that fringe-benefit taxation would have on individuals, companies and society. The vast majority of companies that have taken out the insurance are small companies with up to nine employees. Health care insurance fulfils an important, and sometimes crucial, role in keeping personnel healthy and at work. The issue of preventive health has also been pursued and how it is supported by health care insurance. There are many advantages to be had from both a financial and a human perspective for taking preventive measures and action at an early stage when the risk of long-term sick leave arises.

Business Area Reinsurance and Special Insurance is continuing to develop new products and targeted efforts to meet new customer needs arising from an increasingly digitised world, so as to supplement the regional insurance companies' range of commercial insurance. 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.

Länsförsäkringar AB and its insurance subsidiaries have had permission from the Swedish Financial Supervisory Authority since May 2016 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 capital situation is expressed and measured in accordance with Solvency II as a ratio of own funds in relation to risk-based capital requirements. Länsförsäkringar Sak's solvency ratio, calculated using the partial internal model, on 31 December 2017 fell to 221% (260). Länsförsäkringar Sak's own funds declined SEK 147 M during the year to SEK 3,306 M. Own funds 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 750 M, which led to a net decline in own funds. The capital requirement declined during the year by SEK 172 M to SEK 1,498 M, primarily driven by higher market risk as a result of the increased value of property holdings. 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**

#### **An attractive employer**

Länsförsäkringar Sak's high ambition is to be a responsible and attractive employer. The workplace has dedicated and skilled employees and managers who share joint responsibility for the operations and their own development. Länsförsäkringar Sak's internal attractiveness as an employer is measured according to an Employee Net Promotor Score (eNPS). This year's eNPS in the employee survey increased from 30 to 44. The benchmark is 29, which was the score for high-performing companies.

The Länsförsäkringar Alliance is also considered externally to be an attractive workplace. Young university graduates named Länsförsäkringar the best employer

in insurance for the tenth consecutive year in the Career Barometer survey. In the Corporate Barometer, business students at Swedish universities and colleges ranked Länsförsäkringar as their dream employer in the insurance industry for the 15th year.

#### **Skills development and learning**

Employee skills are developed in accordance with the company's objectives and the short and long-term needs. Länsförsäkringar Sak endeavours to nurture the conditions for an organisational culture focusing on learning and development. All employees regularly discuss their performance, skills, work environment and health as part of the performance appraisal process. An e-coaching tool was introduced in 2017 to enhance employees' knowledge of change management.

80% (77) of Länsförsäkringar Sak employees believe that their skills are developed in pace with changed working requirements.

#### **Diversity and equality**

Diversity and integration centre on business value and help strengthen competitiveness and thus increase profitability. The importance of an inclusive culture is considered to be critical for benefiting from diversity and welcoming different perspectives and approaches. A current and external diversity analysis was performed in 2017 in order to realise a diversity shift. According to the employee survey, 85% (85) of employees believe that Länsförsäkringar Sak is an equal opportunity workplace. Länsförsäkringar Sak has long maintained a clear zero tolerance standpoint on victimisation in its personnel policy. Women managers develop and are coached as part of structured equality measures through the Onet network.

#### **Health and work environment**

Länsförsäkringar Sak applies a long-term approach to health and work environment, comprising the organisational, social and physical work environment as integrated parts of the operations, for many years. A structure has been established for work-environment cooperation between employees, managers, employees and health and safety representatives. The organisational and social work environment is regularly monitored to prevent stress and unhealthy work loads in accordance with the Swedish Work Environment Authority's provisions (AFS 2015:4). This year's Länsförsäkringar Sak employee survey showed a positive trend with 70% (64) of employees believing

that they have a reasonable stress level in their work and 83% (80) thinking that they have a good work/life balance. The company perspective of work environment activities is discussed in the Work Environment and Equality Committee.

#### **Sustainability**

Sustainability activities are based on the vision of "Together we create security and opportunities." Our starting point is that a sustainable enterprise is more profitable and adds value for our customers. Our extensive claims-prevention activities are central. Länsförsäkringar Sak can reduce its sustainability risks and also contribute to the positive development of society by taking economic, social and environmental aspects into consideration in business development and in business decisions.

To clarify governance and the development of sustainability activities, a decision was made during the year to appoint a Sustainability Manager who will be a member of Länsförsäkringar Sak's management group. Each business area also has an individual responsible for sustainability. The business plan includes well-defined ambitions on advances in sustainability and several activities that support these objectives. In the long term, our sustainability work is also to be linked to our efforts on achieving the UN's 17 Sustainable Development Goals, Agenda 2030. Länsförsäkringar Sak has actively made a standpoint and follows three UN initiatives: Global Compact, PRI (Principles for Responsible Investment) and PSI (Principles for Sustainable Insurance).

The company does not prepare a statutory sustainability report in accordance with Chapter 6, Section 10 of the Swedish Annual Accounts Act. Länsförsäkringar AB, Corporate Registration Number 556549-7020, with its registered office in Stockholm, prepares a Sustainability Report for the Group in which the company is included. The Group's Sustainability Report is available at [lansforsakringar.se/sustainability-report2017](http://lansforsakringar.se/sustainability-report2017)

#### **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 profit-

ability over time. During the year, risk in the portfolio remained relatively low. Most of the total market risk was in strategic 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 2017 amounted to SEK 1,248 M (580). Profit from insurance operations amounted to SEK 637 M (103) and profit from financial operations to SEK 611 M (477).

### Profit from insurance operations

The combined ratio amounted to 84% (96). Profit for the year and the claims ratio for the year were generally affected by run-off gains following the review of provision for claims payments in prior years, but with varying effects in individual business lines. The transfer of the claims portfolio for part of the accident and health insurance business to the regional insurance companies also led to run-off gains. Profit also included SEK 260 M, recognised as other income, in remuneration for the part of the accident and health insurance business that was transferred from Länsförsäkringar Sak to the regional insurance companies.

Earnings for health care insurance were stronger compared with the preceding year after premium adjustments and quality enhancements in claims adjustment. The accident and health insurance business reported improved earnings, mainly as a result of higher run-off losses in the preceding year. The liability insurance and assumed international reinsurance lines posted negative earnings due to strengthening of prior years' reserves. Earnings for assumed international reinsurance were also impacted by major natural disasters. The cargo insurance line continued to deliver stable, positive earnings, strengthened by run-off gains.

Premiums earned after ceded reinsurance increased 1% to SEK 2,218 M (2,199). The increase was primarily due to previous premium increases in health care insurance and new agreements in liability and motor insurance. In 2017, a portion of the accident and health insurance business was transferred to the regional insurance companies, which contributed to lower premiums earned in this business line year-on-year. Claims payments after ceded reinsurance fell to SEK 1,454 M (1,666) and the claims

ratio was 66% (76). This decline was due to higher run-off gains and the underlying positive trend in claims costs in several insurance lines.

Operating expenses amounted to SEK 410 M (443) and the expense ratio improved to 18% (20). Changes in the management of capitalised costs made a positive contribution.

### Profit from financial operations

The total return amounted to 5.6% (5.7). Properties, which at year-end amounted to about 34% of the investment assets, generated strong returns driven by positive changes in value during the year, and contributed 4.6 percentage points to the total return.

The fixed-income portfolio, which has a short duration, made a total contribution of 0.8 percentage points, with primarily US credits accounting for the largest contribution.

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 20 M, while the dividend in 2017 was SEK 525 M. The appreciation 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 at the same level as 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	-293,381,313
Group contributions paid	-290,000,000
Tax on Group contributions	63,800,000
Net profit for the year	1,012,678,828
<b>Total</b>	<b>493,097,515</b>

The Board of Directors and the President propose that SEK 230.00 per share of this profit, corresponding to SEK 460,000,000, be distributed to the Parent Company and SEK 33,097,515 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 2017 are presented in the following financial statements and the accompanying notes.

## Five-year summary

SEK M	2017	2016	2015	2014	2013
<b>EARNINGS</b>					
Premiums earned (after ceded reinsurance)	2,218	2,199	2,115	1,485	1,862
Investment income transferred from financial operations	24	14	36	115	137
Claims payments (after ceded reinsurance)	-1,454	-1,666	-1,205	-861	-1,377
Operating expenses	-410	-443	-444	-412	-446
Other income and expenses	-1	-1	-	-19	19
<b>Technical result for insurance operations</b>	<b>637</b>	<b>103</b>	<b>501</b>	<b>308</b>	<b>195</b>
Remaining investment income	611	477	483	41	-17
Other non-technical expenses	-	-	-12	-29	-29
<b>Profit before appropriations and tax</b>	<b>1,248</b>	<b>580</b>	<b>972</b>	<b>320</b>	<b>149</b>
Net profit for the year	1,013	518	817	217	108
<b>Premium income (after ceded reinsurance)</b>					
Non-life insurance	2,204	2,203	2,123	1,499	1,881
<b>FINANCIAL POSITION</b>					
Investment assets	5,954	6,035 <sup>4)</sup>	6,373	6,093	13,704
Technical provisions (after ceded reinsurance)	3,780	4,130	3,913	4,172	11,284
<b>Solvency capital</b>					
Equity	697	751	828	580	1,326
Deferred tax	4	6	8	10	12
Untaxed reserves	1,375	1,271	1,255	1,205	1,165
Surplus values	1,543	1,370	1,551	1,149	1,150
<b>Solvency capital</b>	<b>3,619</b>	<b>3,398</b>	<b>3,642</b>	<b>2,944</b>	<b>3,653</b>
<b>Solvency margin, %</b>	<b>164</b>	<b>155</b>	<b>172</b>	<b>196</b>	<b>194</b>
Own funds (according to FRL wording on 31 Dec 2015)	-	-	3,144	2,588	3,252
Required solvency margin (according to FRL wording on 31 Dec 2015)	-	-	473	512	335
Own funds, insurance group Länsförsäkringar Sak Group (according to FRL wording on 31 Dec 2015)	-	-	3,371	3,020	3,319
Required solvency margin, insurance group Länsförsäkringar Sak Group (according to FRL wording on 31 Dec 2015)	-	-	1,050	1,050	840
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>3,306<sup>4)</sup></b>	<b>3,453<sup>4)</sup></b>	<b>3,330<sup>2)</sup></b>	-	-
<b>Minimum capital requirement</b>	<b>674</b>	<b>597</b>	<b>637<sup>2)</sup></b>	-	-
<b>Solvency capital requirement</b>	<b>1,498</b>	<b>1,326</b>	<b>1,415<sup>2)</sup></b>	-	-
<b>Solvency ratio, %</b>	<b>221</b>	<b>260</b>	<b>235<sup>2)</sup></b>	-	-
<b>Own funds for insurance group<sup>1)</sup></b>	<b>44,172</b>	<b>40,602</b>	<b>36,905<sup>2)</sup></b>	-	-
<b>Solvency capital requirement for insurance group<sup>1)</sup></b>	<b>33,441</b>	<b>30,121</b>	<b>28,233<sup>2)</sup></b>	-	-
<b>Solvency ratio, % for insurance group<sup>1)</sup></b>	<b>132</b>	<b>135</b>	<b>131<sup>2)</sup></b>	-	-
<b>KEY FIGURES</b>					
<b>Insurance operations</b>					
Claims ratio <sup>3)</sup>	66	76	57	58	74
Expense ratio	18	20	21	28	24
Combined ratio	84	96	78	86	98
<b>Asset management</b>					
Direct yield, including properties in Group companies	-0.2	-0.1 <sup>7)</sup>	-0.0	0.5	1.8
Total return ratio, including properties in Group companies	5.6	5.7	7.7	5.6	-1.2

<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 surplus capital 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, partial internal model. 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 3,306 (3,453) M is Tier 1 capital.

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

<sup>6)</sup> Comparative figures for 2016 (but not 2013–2015) have been restated because accrued interest is recognised together with financial instruments measured at fair value. See note 1 for further information.

<sup>7)</sup> Comparative figures for 2013–2016 have not been restated since surplus values of properties in Group companies have been included and dividends from insurance companies have been excluded.

**Direct yield**

Direct yield refers to the total of rental income from properties, interest income, interest expense, other financial expenses, dividends on shares and participations (excluding dividends on participations in insurance subsidiaries), administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year, including surplus values of properties in Group companies. The direct yield was restated in accordance with FFFS 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 management 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 payments	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> Tax	34
<b>Note 16</b> Goodwill	34
<b>Note 17</b> Other intangible assets	35
<b>Note 18</b> Shares and participations in Group companies	36
<b>Note 19</b> Interest-bearing securities issued by Group companies and loans to Group companies	36
<b>Note 20</b> Shares and participations in associated companies	36
<b>Note 21</b> Shares and participations	37
<b>Note 22</b> Bonds and other interest-bearing securities	37
<b>Note 23</b> Derivatives	37
<b>Note 24</b> Receivables, direct insurance	37
<b>Note 25</b> Other receivables	37
<b>Note 26</b> Prepaid acquisition costs	37
<b>Note 27</b> Other prepaid expenses and accrued income	37
<b>Note 28</b> Untaxed reserves	37
<b>Note 29</b> Unearned premiums and unexpired risks	38
<b>Note 30</b> Claims outstanding	38
<b>Note 31</b> Pensions and similar commitments	38
<b>Note 32</b> Other provisions	39
<b>Note 33</b> Liabilities, direct insurance	39
<b>Note 34</b> Other liabilities	39
<b>Note 35</b> Other accrued expenses and deferred income	39
<b>Note 36</b> Information about offsetting	39
<b>Note 37</b> Financial assets and liabilities by category	40
<b>Note 38</b> Anticipated recovery and settlement periods, amounts expected to be recovered	42
<b>Note 39</b> Pledged assets and contingent liabilities	42
<b>Note 40</b> Disclosures on related parties	43
<b>Note 41</b> Supplementary disclosures on income-statement items by insurance class	44
<b>Note 42</b> Appropriation of profit	44

<b>Income statement</b>			
<b>Technical recognition of non-life insurance operations, SEK M</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Premiums earned (after ceded reinsurance)</b>			
Premium income	3	3,825.5	3,746.2
Premiums for ceded reinsurance		-1,621.1	-1,543.1
Change in Provision for unearned premiums and unexpired risks		-13.7	-34.7
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks		27.8	31.0
<b>Total</b>		<b>2,218.5</b>	<b>2,199.4</b>
Investment income transferred from financial operations	4	24.4	14.1
Other technical revenue		260.0	-
<b>Claims payments (after ceded reinsurance)</b>			
Claims paid			
Before ceded reinsurance		-2,426.7	-2,426.1
Reinsurers' portion		825.8	885.8
<b>Total</b>	5	<b>-1,600.9</b>	<b>-1,540.3</b>
<b>Change in Provision for claims outstanding</b>			
Before ceded reinsurance		139.8	360.8
Reinsurers' portion		7.3	-486.7
<b>Total</b>		<b>147.1</b>	<b>-125.9</b>
<b>Claims payments (after ceded reinsurance)</b>			
		<b>-1,453.8</b>	<b>-1,666.2</b>
Operating expenses	6, 7, 8	-410.3	-442.8
Other technical expenses	9	-1.4	-1.7
<b>TECHNICAL RESULT FOR NON-LIFE INSURANCE OPERATIONS</b>		<b>637.4</b>	<b>102.8</b>
<b>NON-TECHNICAL RECOGNITION</b>			
Technical result for non-life insurance operations		637.4	102.8
Investment income, revenue	10	695.8	549.9
Unrealised gains on investment assets	11	27.9	198.1
Investment income, expenses	12	-76.5	-247.8
Unrealised losses on investment assets	13	-7.0	-5.2
Investment income transferred to non-life insurance operations		-29.5	-17.6
<b>Profit before appropriations and tax</b>		<b>1,248.1</b>	<b>580.2</b>
<b>Appropriations</b>			
Tax allocation reserve	28	-103.3	-16.5
<b>Profit before tax</b>		<b>1,144.8</b>	<b>563.7</b>
Tax on net profit for the year	15	-132.1	-45.9
<b>Net profit for the year</b>		<b>1,012.7</b>	<b>517.8</b>

<b>Statement of comprehensive income</b>		
<b>SEK M</b>	<b>2017</b>	<b>2016</b>
Net profit for the year	1,012.7	517.8
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>1,012.7</b>	<b>517.8</b>

## Performance analysis 2017

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)	2,218.5	469.3	743.3	54.7	3.0	137.2	43.3
Investment income transferred from financial operations	24.4	6.6	0.5	0.3	0.1	10.2	2.0
Claims payments (after ceded reinsurance)	-1,453.8	-147.8	-483.2	-44.0	-2.4	-180.9	-37.5
Operating expenses	-410.3	-77.2	-122.8	-11.7	-0.4	-22.3	-7.7
Other technical revenue	260.0	260.0	-	-	-	-	-
Other technical expenses	-1.4	-	-	-	-	-	-1.5
<b>Technical result for non-life insurance operations, 2017</b>	<b>637.4</b>	<b>510.9</b>	<b>137.8</b>	<b>-0.8</b>	<b>0.3</b>	<b>-55.7</b>	<b>-1.5</b>
Technical result for non-life insurance operations, 2016	102.8	154.6	16.5	-9.8	-1.3	-12.5	-6.9
Run-off result (before ceded reinsurance) 2017	235.4	144.8	106.6	0.7	-1.1	-64.9	18.6
<b>Technical provisions before ceded reinsurance</b>							
Provision for unearned premiums and unexpired risks	617.4	39.2	179.0	32.7	0.9	90.2	13.4
Provision for claims outstanding	13,602.6	726.2	136.3	79.9	5.2	1,059.3	2,160.7
<b>Total technical provisions, before ceded reinsurance</b>	<b>14,220.0</b>	<b>765.4</b>	<b>315.3</b>	<b>112.6</b>	<b>6.1</b>	<b>1,149.5</b>	<b>2,174.1</b>
<b>Reinsurers' portion of technical provisions</b>							
Provision for unearned premiums and unexpired risks	91.3	-	-	5.9	0.1	1.7	-
Provision for claims outstanding	10,348.9	-	-	13.4	-	48.6	2,010.6
<b>Total reinsurers' portion of technical provisions</b>	<b>10,440.2</b>	<b>-</b>	<b>-</b>	<b>19.3</b>	<b>0.1</b>	<b>50.4</b>	<b>2,010.6</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	3,825.5	385.4	754.1	80.8	3.0	160.8	53.4
Premiums for ceded reinsurance	-1,621.1	-2.2	-	-23.1	-0.2	-8.3	-7.1
Change in Provision for unearned premiums and unexpired risks	-13.7	86.1	-10.8	-6.0	0.1	-15.4	-3.0
Reinsurers' portion of change in provision for unearned premiums and unexpired risks	27.8	-	-	3.0	0.0	0.1	-
<b>Premiums earned (after ceded reinsurance)</b>							
<b>Note B Claims payments (after ceded reinsurance)</b>							
<b>Claims paid</b>							
Before ceded reinsurance	-2,426.7	-309.5	-552.7	-59.5	-2.8	-101.4	-143.2
Reinsurers' portion	825.8	-	-	16.3	-	0.1	102.2
<b>Change in provision for claims outstanding</b>							
Before ceded reinsurance	139.8	161.7	69.4	-0.3	0.4	-78.5	71.1
Reinsurers' portion	7.3	-	-	-0.5	-	-1.1	-67.6
<b>Claims payments (after ceded reinsurance)</b>	<b>-1,453.8</b>	<b>-147.8</b>	<b>-483.3</b>	<b>-44.0</b>	<b>-2.4</b>	<b>-180.9</b>	<b>-37.5</b>

Motor	Transit	Hull	Household and homeowner	Credit and Guarantees	Direct insurance Swedish risks	Direct insurance foreign risks	Total assumed reinsurance
130.0	105.8	-	-	0.4	1,687.0	3.3	528.2
0.1	0.1	-	-	-	19.9	0.0	4.5
-116.0	-19.1	0.1	-0.3	-0.6	-1,031.7	-1.1	-421.0
-14.6	-23.5	-	-	-1.9	-282.1	-0.4	-127.8
-	-	-	-	-	260.0	-	-
0.1	-	-	-	-	-1.4	-	-
<b>-0.4</b>	<b>63.3</b>	<b>0.1</b>	<b>-0.3</b>	<b>-2.1</b>	<b>651.6</b>	<b>1.9</b>	<b>-16.1</b>
-4.2	24.4	2.8	-	-1.3	162.3	3.1	-62.6
-3.0	38.9	-	-0.3	-0.2	240.1	-0.4	4.3
116.6	33.5	-	1.1	7.2	513.8	2.2	101.4
35.0	43.5	-	1.3	1.3	4,248.7	0.4	9,353.5
<b>151.6</b>	<b>77.0</b>	<b>-</b>	<b>2.5</b>	<b>8.4</b>	<b>4,762.5</b>	<b>2.6</b>	<b>9,454.9</b>
54.6	1.5	-	-	5.6	69.4	1.1	20.8
1.5	-	-	-	0.7	2,074.8	0.2	8,273.9
<b>56.2</b>	<b>1.5</b>	<b>-</b>	<b>-</b>	<b>6.3</b>	<b>2,144.2</b>	<b>1.3</b>	<b>8,294.6</b>

Motor	Transit	Hull	Household and homeowner	Credit and Guarantees	Direct insurance Swedish risks	Direct insurance foreign risks	Total assumed reinsurance
152.4	113.7	-	-	6.6	1,710.2	6.7	2,108.6
-35.8	-6.6	-	-	-5.1	-88.4	-3.1	-1,529.6
-12.4	-1.2	-	-	-4.9	32.4	-0.3	-45.9
25.8	-0.1	-	-	3.9	32.7	0.0	-4.9
-122.9	-52.5	0.1	-	-0.1	-1,344.5	-1.5	-1,080.7
10.6	-0.1	-	-	-	129.1	0.0	696.7
-3.4	33.5	-	-0.3	-1.2	252.4	0.4	-113.0
-0.3	-	-	-	0.7	-68.8	0.0	76.1
<b>-116.0</b>	<b>-19.1</b>	<b>0.1</b>	<b>-0.3</b>	<b>-0.6</b>	<b>-1,031.7</b>	<b>-1.1</b>	<b>-421.0</b>

## Balance sheet

SEK M	Note	31 Dec 2017	31 Dec 2016
<b>ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	16	0.0	0.0
Other intangible assets	17	16.5	18.3
<b>Total</b>		<b>16.5</b>	<b>18.3</b>
<b>Investment assets</b>			
Investments in Group companies and associated companies			
Shares and participations in Group companies	18	1,949.3	1,869.0
Interest-bearing securities issued by Group companies and loans to Group companies	19	149.5	56.1
Shares and participations in associated companies	20	16.7	16.7
Other financial investment assets			
Shares and participations	21	537.1	88.9
Bonds and other interest-bearing securities	22	3,214.7	3,790.1
Derivatives	23, 38	35.2	23.1
Other financial investment assets		0.0	151.7
Deposits with companies that have ceded reinsurance		51.6	39.9
<b>Total</b>		<b>5,954.1</b>	<b>6,035.5</b>
<b>Reinsurers' portion of Technical provisions</b>			
Unearned premiums and unexpired risks	29	91.3	63.4
Claims outstanding	30	10,348.9	10,334.1
<b>Total</b>		<b>10,440.2</b>	<b>10,397.5</b>
<b>Receivables</b>			
Receivables, direct insurance	24	359.7	316.0
Receivables, reinsurance		280.6	225.1
Other receivables	25	594.9	811.2
<b>Total</b>		<b>1,235.2</b>	<b>1,352.3</b>
<b>Other assets</b>			
Tangible assets		3.7	3.0
Cash and bank balances		136.7	117.8
Deferred tax	15	1.6	1.9
<b>Total</b>		<b>142.0</b>	<b>122.7</b>
<b>Prepaid expenses and accrued income</b>			
Prepaid acquisition costs	26	49.0	16.8
Other prepaid expenses and accrued income	27	13.2	15.4
<b>Total</b>		<b>62.2</b>	<b>32.2</b>
<b>TOTAL ASSETS</b>	39	<b>17,850.2</b>	<b>17,958.5</b>

## Balance sheet, cont.

SEK M	Note	31 Dec 2017	31 Dec 2016
<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		-519.6	28.8
Net profit for the year		1,012.7	517.8
<b>Total</b>		<b>697.1</b>	<b>750.6</b>
<b>Untaxed reserves</b>			
Contingency reserve		1,138.8	1,138.8
Tax allocation reserve		235.8	132.5
<b>Total</b>	28	<b>1,374.6</b>	<b>1,271.3</b>
<b>Technical provisions (before ceded reinsurance)</b>			
Unearned premiums and unexpired risks	29	617.4	607.5
Claims outstanding	30	13,602.6	13,919.6
<b>Total</b>		<b>14,220.0</b>	<b>14,527.1</b>
<b>Other provisions</b>			
Pensions and similar commitments	31	19.4	21.5
Deferred tax liabilities	15	5.1	7.7
Current tax liabilities		30.8	0.0
Other provisions	32	11.3	11.3
<b>Total</b>		<b>66.6</b>	<b>40.5</b>
<b>Deposits from reinsurers</b>			
		<b>16.1</b>	<b>21.3</b>
<b>Liabilities</b>			
Liabilities, direct insurance	33	599.0	587.3
Liabilities, reinsurance		286.0	315.9
Derivatives	23, 38	11.8	13.5
Other liabilities	34	425.6	288.5
<b>Total</b>		<b>1,322.4</b>	<b>1,205.2</b>
<b>Accrued expenses and deferred income</b>			
Other accrued expenses and deferred income	35	153.4	142.5
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	39	<b>17,850.2</b>	<b>17,958.5</b>

## Statement of changes in equity

SEK M	Restricted equity		Non-restricted equity		Total equity
	Share capital	Statutory reserve	Retained earnings	Net profit for the year	
Opening equity, 1 January 2016	200.0	4.0	-193.5	817.1	827.6
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>
Opening equity, 1 January 2017	200.0	4.0	28.8	517.8	750.6
Appropriation of profit			517.8	-517.8	-
Dividends to Parent Company			-840.0		-840.0
Group contributions paid/received			-226.2		-226.2
Net profit for the year/ Comprehensive income				1,012.7	1,012.7
<b>Closing equity, 31 December 2017</b>	<b>200.0</b>	<b>4.0</b>	<b>-519.6</b>	<b>1,012.7</b>	<b>697.1</b>

## Cash-flow statement

SEK M	Note	2017	2016
<b>Operating activities</b>			
Profit before tax		1,144.8	563.7
Adjustment for non-cash items		-269.9	-148.5
Tax paid		-19.0	-27.7
<b>Cash flow from operating activities before changes in working capital</b>		<b>855.9</b>	<b>387.5</b>
<b>Cash flow from changes in working capital</b>			
Investments in investment assets, net		239.5	-395.3
Increase (-)/Decrease (+) in operating receivables		97.2	314.0
Increase (+)/Decrease (-) in operating liabilities		-161.7	-442.3
<b>Cash flow from operating activities</b>		<b>1,030.9</b>	<b>-136.1</b>
<b>Investing activities</b>			
Divestment of participations in subsidiaries		-	998.0
Distribution, partnership		-54.4	-
Shareholders' contributions paid		-	-440.0
Repayment of loans granted		-	509.0
Divestment/decrease in financial assets		-94.1	26.2
<b>Cash flow from investing activities</b>		<b>-148.5</b>	<b>1,093.2</b>
<b>Financing activities</b>			
Dividends to Parent Company		-840.0	-470.0
Group contributions paid		-160.0	-330.0
<b>Cash flow from financing activities</b>		<b>-1,000.0</b>	<b>-800.0</b>
<b>Net cash flow for the year</b>		<b>-117.6</b>	<b>157.1</b>
Cash and cash equivalents, 1 January		818.6	661.5
Cash and cash equivalents, 31 December		700.9	818.6

## Supplementary information to cash-flow statement

SEK M	2017	2016
<b>Interest paid and received and dividends received</b>		
Dividends received	527.5	20.3
Interest received	39.4	35.8
Interest paid	-23.9	-14.5
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation and impairment of assets	1.1	2.6
Unrealised changes in currency	-14.3	46.8
Unrealised changes in value of investment assets	-20.9	-564.9
Capital gains/losses from partnerships	-26.0	230.4
Impairment of shares in Group companies	-	-
Technical provisions after ceded reinsurance	-280.7	128.0
Change in prepaid acquisition costs	-32.3	-6.9
Pension provisions	-2.1	-1.6
Provision for tax allocation reserve	103.3	16.5
Other provisions	2.0	0.6
	<b>-269.9</b>	<b>-148.5</b>
<b>Cash and cash equivalents</b>		
Cash and bank balances	136.7	117.8
<b>Receivables from Group companies</b>		
Länsförsäkringar Bank	490.6	661.5
Länsförsäkringar AB, Group bank account	73.6	39.3
	<b>700.9</b>	<b>818.6</b>

# Notes to the 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 2017. 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) and its amendments, and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. 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 Board of Directors and President on 8 March 2018. Final adoption of the Annual Report will take place at the 2018 Annual General Meeting.

### Conditions relating to the preparation of the company's 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. 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. Länsförsäkringar 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 Risks and risk management. 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 31 Pensions and similar commitments.

### Changed estimates and judgements

The assessment of capitalised acquisition costs and allocation of prepaid acquisition costs changed during the accounting period. The earnings effect for the period in question is SEK 25.0 M. No disclosures are provided regarding the effect on future periods since this is not possible in practice.

### Amended accounting policies

In order to conform with the classification in the solvency regulations, Länsförsäkringar Sak has decided to recognise financial instruments measured at fair value including accrued interest from 1 January 2017. The change affects comparative figures in the balance sheet as per 31 December 2016. The asset items impacted are: bonds and other interest-bearing securities by SEK 37.3 M, interest-bearing securities issued by Group companies by SEK 0.5 M, derivatives by SEK 0.3 M and prepaid expenses and accrued income by SEK -38.1 M. Comparative figures and performance measures have been updated to the new reporting method. The amendment did not impact profit or equity.

The carrying amount of Länsförsäkringar Sak's participations in the Utile Dulci 2 HB partnership was changed in 2017 to an amount corresponding to the cost and the participation in the owning company's share in the partnership's profit. This resulted in previously accrued profit that was recognised in the balance sheet as "receivables from Group companies" instead being recognised as "shares and participations in Group companies." The effect of the

change was SEK 73 M for the fourth quarter of 2016. Profit was not affected by the change in accounting policy. The reason for the change is to follow dominant practice and to present a clearer connection between profit and the underlying balance-sheet item for participations in partnerships.

The company has changed its policy for recognising reinstatement premiums. The change affects the comparative figures in the statement of financial position for 31 December 2016. The assets impacted are: Reinsurers' portion of technical provisions by SEK 5 M and Receivables, reinsurance by SEK 61 M. The assets impacted are: Technical provisions by SEK 61 M and Liabilities, reinsurance by SEK 5 M. The income-statement items impacted are: Premium income by SEK -4 M, Change in Provision for unearned premiums and unexpired risks by SEK 4 M, Premiums for ceded reinsurance by SEK 11 M and Reinsurers' portion of change in provision for unearned premiums and unexpired risks by SEK -11 M. Comparative figures and performance measures have been updated to the new reporting method. The amendment did not impact profit.

New standards and amendments to standards adopted by the EU and that are to be applied from 1 January 2017 did not entail any significant changes to the company's earnings or financial position.

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

A number of new or amended standards and interpretations described below will not take effect until forthcoming fiscal years, and have not been applied in advance when preparing these financial statements. The expected effects that the application of these new or amended standards may have on the company's financial statements are described below. Other than those, no other new or revised IFRS and interpretations not yet in force are deemed to have any significant effect on the financial statements.

#### 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, an expected loss impairment model and simplified conditions for hedge accounting.

IFRS 9 has been approved by the EU and will take effect for fiscal years beginning on or after 1 January 2018 and early adoption is permitted. Länsförsäkringar Sak has chosen not to apply the standard in advance and does not intend to restate comparative figures for 2017 in the 2018 Annual Report caused by IFRS 9.

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 has been approved by the EU and 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. Länsförsäkringar Sak has not made use of this exemption.

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 financial assets 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
Interest-bearing securities issued by Group companies and loans to Group companies	X		
Shares and participations	X		X
Bonds and other interest-bearing securities	X		
Derivatives	X		
Other financial investment assets	X		
Other receivables		X	
Cash and bank balances		X	

New principles are introduced for the impairment of financial assets, which, based on the company's business model for the holdings and the cash flow characteristics that the assets give rise to, are measured at either amortised cost or fair value through other comprehensive income. The impairment model requires recognition of a 12-month expected credit losses 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. A method has been established for calculating expected credit losses for other receivables and cash and bank balances measured at amortised cost and is not deemed to have any material impact on Länsförsäkringar Sak's financial statements.

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 material impact 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. The standard contains a single, five-step model for recognising revenue from contracts with customers that is not encompassed by other standards.

Länsförsäkringar has carried out a Group-wide project on the implementation of IFRS 15 and analysed the effects. The analysis did not identify any effects that require adjustments of retained earnings.

#### IFRS 16 Leases

IFRS 16 Leases was issued on 13 January 2016 and is to replace IAS 17 Leases. The new standard comes into 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 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 for the lessee. 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 compared with the current standard. The evaluation of the effects of IFRS 16 on the company's reporting is under way and has not yet been completed.

### **IFRS 17 Insurance contracts**

IFRS 17 Insurance Contracts was published on 18 May 2017 and will replace the existing standard IFRS 4 Insurance Contracts. The new standard has not yet been approved by the EU but is expected to come into effect for fiscal years beginning on or after 1 January 2021. The standard will eliminate contradictions and weaknesses in the existing method by providing a principle-based set of rules for recognising insurance contracts. The new standard will also impose expanded disclosure requirements to increase comparability between different companies.

Länsförsäkringar is running a project in the Group to analyse the effects of the new standard. The project is in the pilot study stage.

### **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. Related key persons are Länsförsäkringar Sak's Board members, senior executives and their close family members and companies owned by them. See note 40 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. Non-monetary assets and liabilities are recognised at the rate in effect on the date of the transaction.

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 significant 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 that has fallen due for payment or can be credited to the company for insurance contracts for which the insurance period commenced prior to the end of the fiscal year.

Gross premium is the contractual premium for the entire insurance period after deductions for standard customer discounts. Renewal premiums for contracts with renewal before the end of the fiscal year but that are not confirmed by the policyholder and premiums for recently signed insurance contracts for which the insurance period begins before the end of the fiscal year 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. 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. 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 claims paid during the accounting period and changes in provisions for claims outstanding. In addition to claims paid, claims payments included expenses for claims adjustment. 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 2017 was set at 0.1% for short-term contracts and 1.25% 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 bank balances and loans. Dividends received, any impairment of financial assets, asset management expenses including costs for own personnel and premises, etc. that can be attributed to asset management, and other financial expenses including various fees and external expenses for asset management are included in investment income. Investment income also includes realised gains or losses on investment assets. Realised profit and loss is 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.

## 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. Information about offsetting conducted in the balance sheet is provided in note 36 on Information about offsetting.

### 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 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 Other 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 Other accrued expenses and deferred income. Liabilities in this category are measured at amortised cost.

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

Note 37 on Financial assets and liabilities by category 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 transaction 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, Shares and participations, 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 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.

### **Impairment tests for 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 amount of intangible assets that are not finished for use are calculated annually. If it is not possible to determine the significantly independent cash flows for an individual asset, the assets are to be grouped when testing for impairment at the lowest value where it is possible to identify the significantly 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 is recognised in profit and loss.

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

### **Impairment testing of financial assets**

On each reporting occasion, the company assesses whether a financial asset is in need of impairment by evaluating objective evidence of whether a financial asset requires impairment. 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. 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 bank balances 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**

Costs 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. These costs capitalised are commission expense and expenses for sales that are directly related to acquisitions or renewals of insurance contracts. 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 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 Risk and risk management, 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.

### Risk-management system at Länsförsäkringar Sak

The company conducts non-life insurance operations and annuities operations.

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. A shared risk-management system, which forms part of the internal-control system, has been established in the Länsförsäkringar AB Group. The risk-management system is defined as the strategies, processes, procedures, internal rules, limits, controls and reporting procedures needed to ensure that the company is able to continuously identify, measure, monitor, govern, manage, report and have control over the risks to which the companies are, or could become, exposed to.

Prospective analyses in the form of own risk and solvency assessments (ORSA) are performed every year. The overall aim of an ORSA is to ensure that own funds are and remain sufficient for bearing the risks associated with realising the business plan. Ongoing activities include handling known risks and identifying new risks. A complete report of all risks in the company's operations is submitted every quarter to the Risk and Capital Committee, Audit Committee and Board.

### Risk-management organisation

A shared risk-management system has been established in the Länsförsäkringar AB Group. The Group's risk-management system is described in the Group instructions and a Group-wide risk policy adopted by the Board of Länsförsäkringar AB and approved by the Board of each subsidiary. Each insurance subsidiary then prepares a company-specific risk policy based on the Group-wide policy. Based on this Group-wide risk-management system, the subsidiaries also prepare more detailed rules for managing company-specific risks.

The risk-management system comprises an integrated part of the organisational structure and decision-making processes and helps the operations to meet its targets at higher degree of certainty. In addition to risk management in the operations, it also encompasses the independent risk-management function in the second line of defence. The Compliance and Actuarial functions also have a role to play in risk management. The President is responsible for incorporating the governance documents decided by the Board and each manager in the company is responsible for risks in their field of operations.

The risk-management function is responsible for independent risk control and provides support for the President, management and operating units in fulfilling their responsibility to conduct operations with a high level of risk control. Regular risk reports are submitted to the President, management and the Risk and Capital Committee and Audit Committee, and to the Board.

The Actuarial function is responsible for coordinating and ensuring the quality of the technical calculations and investigations and assisting the Board and President in actuarial matters. The Actuarial function is also responsible for reporting, on its own initiative, to the Board and President on matters pertaining to methods, calculations and assessments of the technical provisions, the valuation of insurance risks, reinsurance cover and other risk-reducing techniques.

The Compliance function is an independent control function responsible for monitoring and controlling regulatory compliance in the licensable operations. The function identifies and reports on risks that may arise as a result of non-compliance with regulations and provides recommendations for action to relevant personnel, the President and the Board.

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

### Capital planning

The management of risk-taking is closely related to the control of the use of the company's capital. An 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 company has a sufficient buffer of capital to meet the risks generated by the operations.

The company has own funds that exceed the statutory solvency requirement (Solvency II) 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. Quantitative information on own funds, capital requirements and the solvency ratio is provided in the Board of Directors' Report under Capital situation.

### Risk map and risk profile

Länsförsäkringar Sak is exposed to a variety of risks that impact the company's financial position, earnings and target fulfilment, which are described in more detail in the Länsförsäkringar AB Group's Solvency and Financial Condition Report.

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 non-life insurance company, including the subsidiaries, insurance risks and market risks are included in the calculation.

The diagram below shows Länsförsäkringar Sak's risk chart.

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 risks on 31 December 2017, classified by risk categories.

Figure 1. Classification of risk at Länsförsäkringar Sak

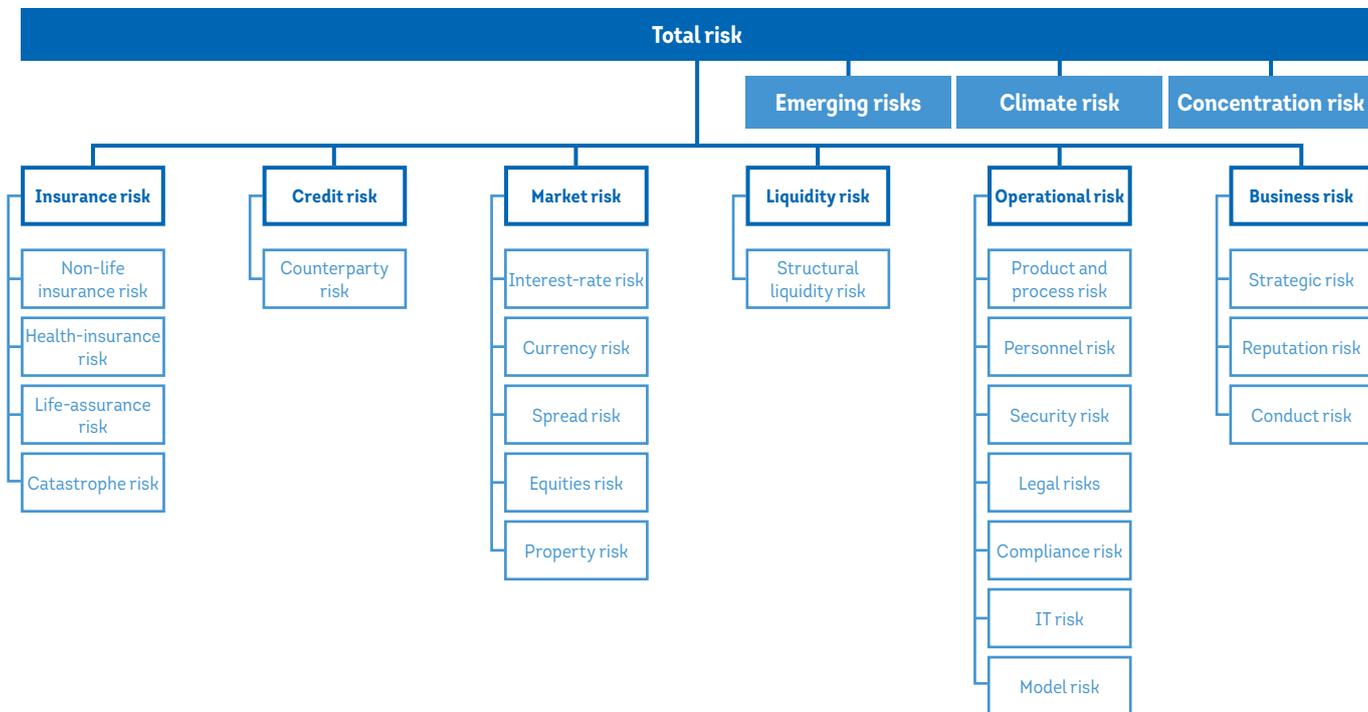
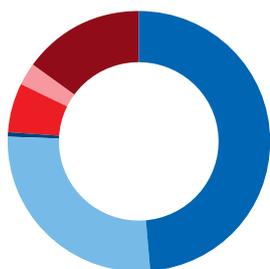


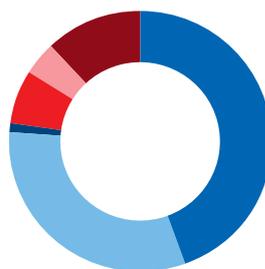
Figure 2. Classification of total capital requirement in the Länsförsäkringar Sak Group

Q4 2017



- Market risk 49%
- Non-life insurance risk 27%
- Life-assurance risk 1%
- Health-insurance risk 6%
- Counterparty risk 3%
- Operational risk 15%

Q4 2016



- Market risk 45%
- Non-life insurance risk 32%
- Life-assurance risk 1%
- Health-insurance risk 7%
- Counterparty risk 4%
- Operational risk 12%

Länsförsäkringar Sak's largest net risk exposure is found in the investment assets that the company has and is thus included in market risk. The largest gross insurance risk exposure is the commitments in the Member-company pool together with the regional insurance companies and the motor third-party liability pool. However, these gross exposures are significantly restricted by the reinsurance cover, which is why the net risk is low relative to other insurance risks.

Länsförsäkringar Sak's solvency ratio, for which the capital requirement is calculated using the company's partial internal model, exceeds the statutory requirement by a healthy margin. The solvency ratio, meaning the ratio between own funds and the capital requirement under Solvency II, was 221% (260) on 31 December 2017.

### Non-life insurance risk

Non-life insurance risk arises in Länsförsäkringar Sak in the form of premium, reserve and catastrophe risk. Premium risk refers to the risk of losses arising due to the coming year's claims being greater than expected. Reserve risk refers the risk of losses arising due to a negative outcome in the settlement of provisions for claims outstanding. 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.

### Risk exposure

Länsförsäkringar Sak's insurance operations are highly diversified and comprise the insurance lines of accident and health, health care, commercial, legal expenses, liability, motor third-party liability, motor, transit, hull, household and homeowner, credit and guarantees, direct insurance, Swedish risks, direct insurance, foreign risks and assumed reinsurance.

### Management

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. 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 limits per counterparty and limits for retention are managed through governance documents and also the use of reinsurers is limited to companies with high credit ratings. Reinsurance for motor third-party liability and accident insurance is managed on the basis of pool solutions in the Länsförsäkringar Alliance, which in turn is protected with external reinsurance cover. Other factors that affect risks are the product composition including diversification, structure of insurance terms and conditions, risk selection rules, risk inspections and competent claims adjustment.

### Risk sensitivity

Table 1 shows the sensitivity of the company's earnings and equity to changes in premium levels, claims frequency and claims inflation.

Table 2 shows the distribution of claims costs by term.

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

	Impact on profit before tax		Impact on equity	
	2017	2016	2017	2016
10% lower premium level	-248	-220	-193	-172
10% increased claims frequency or higher average claim	-159	-167	-124	-130
1% higher annual claims inflation	-157	-186	-122	-145

The total undertaking for current insurance policies and for net claims outstanding amounts to approximately SEK 14.2 billion (14.5). An estimate of the cost of net claims outstanding 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 2017 amounted to SEK 10.4 M (10.4).

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 3.5 years (3.7) and was slightly lower year-on-year. The following diagram shows how the expected payments of claims outstanding, calculated at present value, are distributed according to tenure. Table 2 shows the trend in estimated claims costs before and after reinsurance.

**Table 2. Estimated claims costs before and after reinsurance (SEK M)**

	2011	2012	2013	2014	2015	2016	2017	Total
At end of claim year	1,024.0	912.9	1,002.9	1,058.5	1,108.9	1,179.4	1,103.7	
One year later	1,094.6	915.1	884.3	881.9	959.8	1,009.6		
Two years later	1,036.1	962.6	916.9	996.3	948.9			
Three years later	1,038.5	923.9	938.7	916.8				
Four years later	997.1	934.7	893.1					
Five years later	997.7	936.8						
Six years later	1,003.4							
Seven years later								
Estimated claims costs	1,003.4	936.8	893.1	916.8	948.9	1,009.6	1,103.7	
Accumulated claims payments	900.8	810.8	802.9	778.6	803.7	710.0	666.4	
Provision for claims payments	102.6	126.0	90.2	138.2	145.1	299.6	437.3	1,339.1
Provision for claims payments, older year classes								1,056.7
Provision for claims payments for assumed reinsurance								9,347.9
<b>Total provision for claims payments, gross</b>								<b>11,743.7</b>
Annuity reserve, gross								1,650.7
Claims adjustment reserve, gross								208.1
<b>Provision for claims outstanding, gross</b>								<b>13,602.6</b>
Provision for claims payments, reinsurers' portion								8,934.8
Annuity reserve, reinsurers' portion								1,414.0
Claims adjustment reserve, reinsurers' portion								0
<b>Provision for claims outstanding, reinsurers' portion</b>								<b>10,348.8</b>
<b>Provision for claims outstanding, for own account</b>								<b>3,253.7</b>

### 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 is low and 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 pertains to the risk of loss arising that is directly or indirectly caused by changes in the level or volatility in the market price of assets, liabilities and financial instruments, including losses caused by shortcomings in the matching between assets and liabilities.

- Interest-rate risk is the risk of losses arising due to changes in the level or volatility of market interest rates.
- Currency risk is the risk of losses arising due to changes in the level or volatility of exchange rates.
- Spread risk is the risk of losses arising due to changes in the level of volatility of spreads between market interest rates.
- Equities risk is the risk of losses arising due to changes in the level or volatility of share prices.
- Option risk pertains to the risk of losses arising due to changes in the market value of options holdings caused by changes in the volatility of the market.
- Concentration risk is the risk of losses arising due to investment assets not being well-diversified.

### Risk exposure

Market risk arises in the company's investment portfolio due to investment decisions made concerning management of the insurance company's investment assets. The Asset Management Unit at Länsförsäkringar AB manages this risk. Market risk also arises via interest-rate risk in the company's technical provisions.

The classes of assets in asset management are equities, interest-bearing securities, alternative investments 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 applicable guidelines resolved by the Board. The Board assumes the overall responsibility through its decisions on the framework for risk-taking, for example, by adopting investment guidelines, allocation mandates including total limits and sub-limits for various market-risk categories in the company.

The company's largest exposure is properties, which arises through the interest in the Utile Dulci partnership that pertains to office properties and a share in Humlegården AB.

The interest-bearing asset portfolios include interest-rate risk from government bonds, credit bonds and derivative instruments. Interest-rate risk is also inherent in insurance liabilities by provisions being discounted by the current market interest rate.

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. Länsförsäkringar Sak also has spread-risk exposure in Swedish mortgage bonds and through its holdings in mainly global and US Investment Grade and High Yield funds.

The currency exposure that exists is due to insurance liabilities and investment assets in other currencies.

The company's primary equities risk exposure through fund investments is to Swedish, European and US equities but also Japanese equities and equities in emerging markets.

### Management

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

The main risk-reduction technique applied to the management of assets in the Group's companies is diversification. The companies' investments are spread over several classes of assets and segment in these classes, leading to exposure to various risk factors that react in different ways to fluctuations in the financial markets. Derivative instruments are also used to a certain extent in the management of assets in the Group's companies to protect the companies' balance sheets from undesired market risks. Fixed-income futures and forwards and interest-rate swaps are used in management to reduce interest-rate risk. Currency futures are also regularly used to reduce currency risk in the portfolio.

### Risk sensitivity

Table 3 shows how changes in the financial markets affect the company's earnings and equity.

Table 4 shows the credit quality of assets.

Table 5 shows sensitivity to exchange-rate changes.

**Table 3. Sensitivity analysis, market risks**

SEK M		Impact on profit before tax		Impact on equity	
		2017	2016	2017	2016
Property risk <sup>1)</sup>	10% lower market value	-243	-217	-189	-169
Interest-rate risk <sup>2)</sup>	1% higher interest rate	-73	-24	-57	-19
Equities risk <sup>3)</sup>	10% lower share prices	-67	-36	-52	-28
Credit-spread risk	1% higher credit spread	-110	-82	-86	-64
Interest-rate risk <sup>4)</sup>	1% higher real interest rate	2	5	2	4

<sup>1)</sup> The effect impacts only solvency capital and own funds Solvency II in Länsförsäkringar Sak.

<sup>2)</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>3)</sup> Shares and participations transparent assets, including derivatives and equities in hedge funds.

<sup>4)</sup> Net of the effect on investment assets and effect on reserves. The nominal interest rate is assumed to remain unchanged.

**Table 4. Credit quality of assets**

	SEK M	
Specification of financial assets	2017	2016
<b>Loans to credit institutions</b>		
A	627	779
<b>Total</b>	<b>627</b>	<b>779</b>
<b>Bonds and other interest-bearing securities<sup>1)</sup></b>		
AAA - Swedish Government	208	901
AAA - Government securities other than those issued by the Swedish Government	0	0
AAA	1,602	1,806
AA	42	98
A	96	125
BBB	113	347
BB	12	74
B	0	35
CCC	0	4
CC	0	0
NR	194	340
<b>Total</b>	<b>2,268</b>	<b>3,732</b>

<sup>1)</sup> For 2017 and 2016, market values include accrued interest. 2017 refers only to directly-owned holdings. 2016 also includes a certain portion of indirect exposure, for example, via analysis of funds.

**Table 5. Impact on earnings of a 10% increase in the exchange rate with SEK at year-end**

Currency	Impact on earnings before tax, SEK M	
	2017	2016
AUD	-0.2	0.0
CHF	0.3	1.6
CNY	-0.3	0.0
DKK	0.9	0.0
EUR	-1.7	0.9
GBP	-1.9	-0.1
HKD	-2.0	0.0
INR	-0.4	0.0
JPY	-1.8	-0.3
KRW	-1.2	-1.4
NOK	-0.1	0.5
NZD	-0.2	0.0
RUB	-0.3	-0.4
USD	-5.3	-0.7
PLN	-0.1	0.1

### Counterparty risk

Counterparty risk pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings.

- Counterparty risk in bank balances pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings.
- Counterparty risk in financial derivatives pertains to the risk of losses arising due to counterparties being unable to fulfil their undertakings and of any collateral provided not covering the receivable.
- Counterparty risk in ceded reinsurance pertains to the risk of losses arising due to reinsurers being unable to fulfil their undertakings and of any collateral provided not covering the receivable.

### Risk exposure

Länsförsäkringar Sak's exposure to counterparty risk primarily arises through ceded reinsurance and the use of financial derivatives and cash in hand. These exposures arise in the insurance operations and the management of the company's asset portfolio.

### Management

The exposure to counterparty-related credit risks is measured as the summarised total of potential losses if these counterparties were to default. Exposure pertains to financial derivatives and to reinsurers.

Counterparty risks to reinsurers pertain to reinsurance receivables and reinsurers' portions of claims outstanding. Counterparty risk in financial derivatives refers to exposure to approved counterparties based on credit-worthiness.

The counterparty risk is primarily reduced by diversifying the counterparties that the company uses for trading in financial derivatives and daily settlement. Concentration risk in counterparties is limited by applying exposure limits for each issuer or group of issuers that have a mutual connection and for the exposure for credit instruments per rating level. These limits and the loss on default per counterparty are followed up every quarter. By carefully selecting potential reinsurers and applying limits to maximum exposure to each counterparty, counterparty risk related to reinsurance can be limited as early as in the initial stage. Work is continuing by regularly following up and actively monitoring the trend in these counterparties' credit rating.

### Sensitivity analysis

Table 6 shows the ratings for the counterparties included in the company's reinsurance cover. Reinsurance cover is to be taken out with counterparties with high credit ratings.

**Table 6. Distribution of exposure of externally purchased reinsurance cover for the Länsförsäkringar Sak Group**

Exposure for externally purchased cover for 2016 and 2017	Percentage distribution per rating category according to S&P Global	
	2017	2016
AAA	-	-
AA	73	80
A	24	17
BBB	0	0
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 refers to the risk of losses arising due to inappropriate or faulty internal processes and systems as well as human error or external events, and includes legal and compliance risks.

### Risk exposure

The forms of operational risk to which the company is exposed are product and process risks, personnel risks, legal risks and compliance risks, IT risks, model risks and security risks.

### Management

Work on operational risk is based on a Länsförsäkringar AB Group-wide methods that encompass business-critical processes and key controls as well as reported incidents and the operations' self-assessment of operational risk. The process of managing and controlling operational risk includes the stages of identifying, measuring, monitoring, managing and reporting.

The Group-wide method also has a process for approving new or significantly changed products, services, markets, processes, IT systems and for major changes to operations and organisation. The purpose of the approval process is to achieve efficient and appropriate management of the risks that may arise in connection with change work, to ensure compliance with applicable regulations and to create customer value.

Furthermore, the Group-wide method encompasses continuity management, which involves preparing business contingency, continuity and restoration plans to manage incidents before, during and after a crisis has occurred. The overall goal for security work is to protect the organisation's assets from all types of threats – internal or external, intentional or unintentional. Security work is conducted in accordance with the ISO standards on information security and continuity management.

### Business risk

Business risk is divided in the Länsförsäkringar Sak Group into the sub-categories of strategic risk, earnings risk, reputation risk and conduct risk. These categories and sub-categories are defined as follows:

- Business risk is the risk of losses arising due to effects of strategic decisions, weaker earnings and a bad reputation.
- Strategic risk is the risk of losses arising due to business strategies and business decisions proving to be misdirected, changes in the business environment and institutional changes.

- Earnings risk is the risk of losses arising due to an unexpected downturn in income, for example, from volume decreases.
- Reputation risk is the risk of losses arising due to a lower brand value due to actual or alleged action by the company.
- Conduct risk is the risk of improper conduct.

### Risk exposure

The company's exposure to business risks follows the company's business strategies where the business planning process and results from business risk analyses comprise important instruments in adjusting the risk level to the company's conditions and changes in the business environment.

### Management

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. 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).

### Liquidity risk

Liquidity risk is the risk of losses arising due to the company's own payment commitments 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.

### Risk exposure

A lack of liquidity could lead to the company not being able to fulfil its commitments to customers. The company's liquidity risks are low since premiums are received in advance and large individual claims and payouts outside normal cash flows are known well in advance of when they fall due.

### Management

Liquidity risk is minimised by the predominant proportion of investments being made in securities with high liquidity that are listed on established exchanges. To further limit liquidity risks, rules exist on how investments are to be made in unquoted assets. The company's investment guidelines also state that the investment assets are to be invested by taking into account the company's liquidity needs for meeting its commitments.

Table 7 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. Most of the bonds and interest-bearing securities can be realised at short notice to cover contractual commitments at any time on the liabilities side.

Table 7. Maturity analysis for financial assets and liabilities<sup>3)</sup> and insurance undertakings

SEK M	2017						2016					
	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total	<3 months	3 months-1 year	1-5 years	5-10 years	>10 years	Total
<b>Assets</b>												
Interest-bearing securities issued by Group companies and loans to Group companies	0	36	95	21	-	152	-14	1	68	-	-	55
Bonds and other interest-bearing securities <sup>1)</sup>	14	153	1,663	139	162	2,130	812	481	1,606	59	110	3,068
Reinsurers' portion of technical provisions	294	778	2,176	2,141	5,051	10,440	237	665	2,206	2,166	5,124	10,398
Other receivables	31	-	-	-	-	31	109	-	-	-	-	109
Prepaid expenses and accrued income	4	-	-	-	-	4	5	-	-	-	-	5
<b>Liabilities</b>												
Technical provisions <sup>2)</sup>	827	1,681	3,703	2,525	5,484	14,220	658	1,742	3,839	2,646	5,642	14,527
Other liabilities	409	-	-	-	-	409	276	-	-	-	-	276
Accrued expenses and deferred income	14	-	-	-	-	14	11	-	-	-	-	11
<b>Total cash flows, net</b>	<b>-907</b>	<b>-713</b>	<b>231</b>	<b>-225</b>	<b>-271</b>	<b>-1,885</b>	<b>204</b>	<b>-595</b>	<b>41</b>	<b>-421</b>	<b>-408</b>	<b>-1,179</b>
Derivatives, in and outflows, net	18	4	15	15	4	56	3	3	14	20	6	40
<b>Total cash flows for financial assets and liabilities and insurance undertakings</b>	<b>-889</b>	<b>-709</b>	<b>246</b>	<b>-210</b>	<b>-267</b>	<b>-1,829</b>	<b>207</b>	<b>-592</b>	<b>55</b>	<b>-408</b>	<b>-402</b>	<b>-1,140</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.

<sup>2)</sup> Technical provisions are recognised gross, before ceded reinsurance.

<sup>3)</sup> Note that the table shows financial assets and not the total assets corresponding to the commitments, which would include, for example, premium receivables and the company's property holdings.

<b>Note 3</b>	<b>Premium income</b>	
	<b>2017</b>	<b>2016</b>
Direct insurance, Sweden	1,710.2	1,780.5
Direct insurance, other EEA	6.7	4.7
Assumed reinsurance	2,108.6	1,961.0
<b>Total</b>	<b>3,825.5</b>	<b>3,746.2</b>

<b>Note 4</b>	<b>Investment income transferred from financial operations</b>	
	<b>2017</b>	<b>2016</b>
Transferred investment income	24.4	14.1
<b>Interest rates, %</b>		
Provisions for insurance policies with long-term claims in run-off, SEK	1.25	0.75
Provisions for insurance policies with short-term claims in run-off, SEK	0.1	0.05

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 payments</b>	
	<b>2017</b>	<b>2016</b>
Claims paid	-1,430.3	-1,388.7
Operating expenses for claims adjustment	-170.6	-151.6
<b>Total</b>	<b>-1,600.9</b>	<b>-1,540.3</b>

<b>Note 6</b>	<b>Operating expenses</b>	
	<b>2017</b>	<b>2016</b>
<b>Procurement and administration</b>		
Acquisition costs <sup>1)</sup>	-336.0	-320.5
Change in Prepaid acquisition costs	27.4	6.9
Administration expenses	-125.4	-143.0
Commission and profit shares in ceded reinsurance	23.7	13.8
<b>Total</b>	<b>-410.3</b>	<b>-442.8</b>
<b>Other operating expenses</b>		
Operating expenses in asset management	-20.5	-20.4
Operating expenses for claims adjustment	-170.6	-151.6
<b>Total</b>	<b>-191.1</b>	<b>-172.0</b>
<b>Total</b>	<b>-601.4</b>	<b>-614.8</b>
<sup>1)</sup> Of which, commission for direct insurance	-96.2	-92.3

	<b>2017</b>	<b>2016</b>
<b>Total operating expenses by type of cost</b>		
Staff costs	-217.4	-210.6
Costs for premises	-12.4	-14.0
Depreciation/amortisation	-2.9	-3.1
Service income	34.2	33.6
Other expenses	-402.9	-420.7
<b>Total</b>	<b>-601.4</b>	<b>-614.8</b>

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>2017</b>	<b>2016</b>
The following fees have been paid to auditors		
KPMG AB, audit assignments	1.3	1.3
KPMG AB, audit activities in addition to audit assignment	0.0	0.0
KPMG AB, tax consulting	0.1	0.1
KPMG AB, other services	0.2	0.0
<b>Total</b>	<b>1.6</b>	<b>1.4</b>

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>2017</b>	<b>2016</b>
<b>Average number of employees, Sweden</b>		
Men	68	65
Women	114	111
<b>Total number of employees</b>	<b>182</b>	<b>176</b>

	<b>2017</b>	<b>2016</b>
<b>Salaries and other remuneration, as well as social security expenses, other employees</b>		
Salaries and remuneration	111.3	107.1
of which, variable salary	-	-
Social security expenses	71.5	70.4
of which, pension costs	29.3	29.1
<b>Total</b>	<b>182.8</b>	<b>177.5</b>

	<b>2017</b>	<b>2016</b>
<b>Board of Directors and senior executives, 12 (12)</b>		
Salaries and remuneration	10.9	8.6
of which, fixed salary to President	3.7	3.5
of which, variable salary to President	-	-
of which, fixed salary to other senior executives	5.7	3.9
of which, variable salary to other senior executives	-	-
Social security expenses	8.3	7.3
of which, pension costs	3.8	3.6
<b>Total</b>	<b>19.2</b>	<b>15.9</b>

	<b>2017</b>	<b>2016</b>
<b>Total salaries, other remuneration and social security expenses</b>		
Salaries and remuneration	122.2	115.7
of which, variable salary	-	-
Social security expenses	79.8	77.7
of which, pension costs	33.1	32.7
<b>Total</b>	<b>202.0</b>	<b>193.4</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 Board members of the Länsförsäkringar AB Group do not receive any directors' fees.

One Board member, Sven Eggefall, who is included in remuneration of senior executives below, did not receive any directors' fee. The fees determined by the Annual General Meeting are waived and 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)**

2017	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Ann Sommer, President	3,660	4	1,501	5,165	41
Ricard Robbstål, Board member	258	0	-	258	-
Göran Spetz, Board member	258	-	-	258	-
Mariette Nicander, Board member	269	-	-	269	-
Henrietta Hansson, Board member	258	-	-	258	-
Jan-Olof Thorstensson, Board member	202	-	-	202	-
Sven Eggefalk, Board member	258	-	-	258	-
Other senior executives					
Parent Company (4 individuals)	5,574	161	2,324	8,059	40
Subsidiaries (2 individuals)	3,519	7	1,809	5,335	43
<b>Total 2017</b>	<b>14,256</b>	<b>172</b>	<b>5,634</b>	<b>20,062</b>	
<b>Total remuneration from Parent Company</b>	<b>10,737</b>	<b>165</b>	<b>3,825</b>	<b>14,727</b>	
<b>Total remuneration from subsidiaries</b>	<b>3,519</b>	<b>7</b>	<b>1,809</b>	<b>5,335</b>	

2016	Basic salary	Other remuneration	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Ann Sommer, President	3,482	4	1,395	4,881	40
Ricard Robbstål, Board member	255	0	-	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>	

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 2017	31 Dec 2016
Board members	33	33
Other senior executives	43	29

<b>Note 9</b>		<b>Other technical expenses</b>			
<b>31 Dec 2017</b>					
<b>Specification</b>	<b>Premiums &amp; Motor third-party liability fees</b>	<b>Claims payments net after deductible</b>	<b>Investment income</b>	<b>Total deduction from Swedish Motor Insurers Other technical expenses</b>	
Forecast	2.8	-4.3	0.0	-1.5	
Deduction	-0.1	0.2	0.0	0.1	
<b>Total</b>	<b>2.7</b>	<b>-4.1</b>	<b>0.0</b>	<b>-1.4</b>	

<b>31 Dec 2016</b>					
<b>Specification</b>	<b>Premiums &amp; Motor third-party liability fees</b>	<b>Claims payments net after deductible</b>	<b>Investment income</b>	<b>Total deduction from Swedish Motor Insurers Other technical expenses</b>	
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>	

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.

<b>Note 10</b>		<b>Investment income, revenue</b>	
	<b>2017</b>	<b>2016</b>	
<b>Dividends</b>			
Dividends received from Group companies	526.5	20.0	
Dividends received on shares and participations	1.0	0.2	
<b>Interest income</b>			
Bonds and other interest-bearing securities <sup>1)</sup>	25.6	20.4	
Derivatives	13.1	15.2	
Interest-bearing securities issued by Group companies and loans to Group companies	0.4	0.3	
Interest income for financial assets that are not measured at fair value in profit and loss <sup>1)</sup>	-0.3	-0.3	
Other interest income	0.7	0.2	
Exchange-rate gains, net	2.3	0.0	
<b>Capital gains</b>			
Shares and participations	8.1	-	
Shares and participations in associated companies	-	0.2	
Shares and participations in Group companies	-	347.9	
Profit from participations in partnerships (Group companies)	61.4	92.4	
Bonds and other interest-bearing securities	53.3	50.8	
Interest-bearing securities issued by Group companies and loans to Group companies	0.2	0.1	
Other financial investment assets	3.5	2.5	
<b>Total</b>	<b>695.8</b>	<b>549.9</b>	

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

<b>Note 11</b>		<b>Unrealised gains on investment assets</b>	
	<b>2017</b>	<b>2016</b>	
Shares and participations	20.6	145.2	
Interest-bearing securities issued by Group companies	-	0.6	
Bonds and other interest-bearing securities	7.3	41.7	
Derivatives	-	10.6	
<b>Total</b>	<b>27.9</b>	<b>198.1</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.

<b>Note 12</b>		<b>Investment income, expenses</b>	
	<b>2017</b>	<b>2016</b>	
Asset management expenses	-20.5	-20.4	
Other financial expenses	-10.8	-10.0	
<b>Interest expense</b>			
Derivatives	-22.9	-14.0	
Bonds and other interest-bearing securities	-0.4	-0.0	
Interest expense for financial liabilities that are not measured at fair value in profit and loss	-0.2	-0.2	
Other interest expense	-0.4	-0.4	
Exchange-rate losses, net	-	-8.1	
Translation, annuity reserve	-0.8	-2.3	
<b>Capital losses</b>			
Shares and participations	-	-150.2	
Derivatives	-20.5	-42.2	
<b>Total</b>	<b>-76.5</b>	<b>-247.8</b>	

<b>Note 13</b>		<b>Unrealised losses on investment assets</b>	
	<b>2017</b>	<b>2016</b>	
Bonds and other interest-bearing securities	-	-	
Interest-bearing securities issued by Group companies	-0.2	-	
Derivatives	-1.5	-	
Other financial investment assets	-5.3	-5.2	
<b>Total</b>	<b>-7.0</b>	<b>-5.2</b>	

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

Gain/loss by measurement category

	2017	2016
Financial assets measured according to fair value option	103.9	96.5
Held for trading	-31.8	-30.5
Loans and receivables	-0.6	-0.5
Other financial liabilities	-0.4	-
<b>Items not specified by category</b>		
Exchange-rate gains	2.3	-8.1
Value-preserving interest rate, annuity reserve	-5.1	-3.6
Translation, annuity reserve	-0.8	-2.3
Dividends to subsidiaries and associated companies	526.5	20.0
Realised earnings, subsidiaries and associated companies	61.4	440.5
Asset management expenses	-20.5	-20.4
Non-financial items included in investment income, net	0.3	-0.1
<b>Total</b>	<b>635.2</b>	<b>491.5</b>

<b>Note 15</b>	<b>Taxes</b>
----------------	--------------

	2017	2016
Current tax	-134.4	-48.0
<b>Total current tax</b>	<b>-134.4</b>	<b>-48.0</b>
<b>Deferred tax</b>		
Deferred tax expense pertaining to temporary differences	2.3	2.1
<b>Total deferred tax</b>	<b>2.3</b>	<b>2.1</b>
<b>Total recognised tax income/expense</b>	<b>-132.1</b>	<b>-45.9</b>
	2017	2016
<b>Reconciliation of effective tax rate</b>		
Profit before tax	1,144.8	563.7
Tax at applicable tax rate	-251.9	-124.0
Tax on non-deductible costs	-1.7	-1.7
Tax on non-taxable income	119.5	80.9
Tax attributable to earlier years	2.0	-1.1
<b>Total tax on net profit for the year</b>	<b>-132.1</b>	<b>-45.9</b>
Current tax rate, %	22%	22%
Effective tax rate, %	11.5%	8.1%

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

	Deferred tax assets		Deferred tax liabilities		Net	
	2017	2016	2017	2016	2017	2016
<b>31 December</b>						
Receivables	-1.6	-1.9	-	-	-1.6	-1.9
Liabilities	-	-	5.1	7.7	5.1	7.7
<b>Deferred tax assets (-) / deferred tax liabilities (+)</b>	<b>-1.6</b>	<b>-1.9</b>	<b>5.1</b>	<b>7.7</b>	<b>3.5</b>	<b>5.8</b>
Offset	-	-	-	-	-	-
<b>Net deferred tax assets (-) / deferred tax liabilities (+)</b>	<b>-1.6</b>	<b>-1.9</b>	<b>5.1</b>	<b>7.7</b>	<b>3.5</b>	<b>5.8</b>

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

**Note 15 Taxes, cont.**

Change in deferred tax in temporary differences

	Amount at 1 January	Recognised in equity	Recognised in profit and loss	Amount at 31 December
Receivables	-1.9	-	0.3	-1.6
Liabilities	7.7	-	-2.6	5.1
<b>Deferred tax assets (-) / deferred tax liabilities (+)</b>	<b>5.8</b>	<b>-</b>	<b>-2.3</b>	<b>3.5</b>

<b>Note 16</b>	<b>Goodwill</b>
----------------	-----------------

	2017	2016
Opening and closing acquisition	144.4	144.4
Opening and closing amortisation	-144.4	-144.4
<b>Carrying amount at year-end</b>	<b>0</b>	<b>0</b>

**Note 17** Other intangible assets

	Internally developed IT systems	Acquired IT systems	Acquired customers- based assets	Total
<b>Accumulated cost</b>				
Opening cost, 1 January 2017	142.4	26.5	322.8	491.7
Acquisitions for the year	-	-	-	-
<b>Closing cost, 31 December 2017</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 2017	-67.8	-8.2	-322.8	-398.8
Amortisation for the year	-	-1.8	-	-1.8
<b>Closing amortisation, 31 December 2017</b>	<b>-67.8</b>	<b>-10.0</b>	<b>-322.8</b>	<b>-400.6</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 2017	-74.6	-	-	-74.6
<b>Closing impairment, 31 December 2017</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>				
31 Dec 2016	0.0	18.3	0.0	18.3
<b>31 Dec 2017</b>	<b>0.0</b>	<b>16.5</b>	<b>0.0</b>	<b>16.5</b>

**Note 18 Shares and participations in Group companies**

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Carrying amount, property <sup>1)</sup>	Market value, property <sup>1)</sup>	Equity 31 Dec 2017 <sup>1)</sup>	Of which profit 2017 <sup>1)</sup>	Carrying amount 31 Dec 2017 <sup>2)</sup>	Fair value <sup>2)</sup>
Försäkringsaktiebolaget Agria (publ)	516401-8003	Stockholm	40,000	100	-	-	316.6	164.9	823.8	990.7
Länsförsäkringar Sak Fastighets AB	556683-6416	Stockholm	1,000	100	342.9	880.3	342.9	-0.0	68.0	880.3
Länsförsäkringar Gruppplivförsäkrings AB (publ)	516401-6692	Stockholm	28,000	100	-	-	85.9	36.5	238.8	85.9
Utile Dulci 2 HB	916601-0067	Stockholm	2,176	54.4	1,247.4	2,840.0	1,294.4	112.8	818.7	1,549.7
<b>Total 31 Dec 2017</b>							<b>2,039.8</b>	<b>314.2</b>	<b>1,949.3</b>	<b>3,506.6</b>
Total 31 Dec 2016							2,351.6	342.5	1,869.0	3,570.6

<sup>1)</sup>100% of the Group companies' carrying amounts and the market value of properties as well as equity and earnings.

<sup>2)</sup>Länsförsäkringar Sak's carrying amount and participating interest of fair value.

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

Cost	31 Dec 2017	31 Dec 2016
Opening balance	1,968.9	2,199.5
Sale of participations in Utile Dulci 2 HB	-	-210.3
Withdrawals from partnership	-54.4	-39.2
Capital gains from partnerships	40.5	19.0
Amended accounting policy for partnerships	94.3	-
<b>Closing balance</b>	<b>2,049.3</b>	<b>1,969.0</b>

Accumulated impairment	31 Dec 2017	31 Dec 2016
Opening balance	-100.0	-100.0
<b>Closing balance</b>	<b>-100.0</b>	<b>-100.0</b>
<b>Carrying amount</b>	<b>1,949.3</b>	<b>1,869.0</b>

**Note 19 Interest-bearing securities issued by Group companies and loans to Group companies**

	31 Dec 2017	31 Dec 2016
Listed bonds, Länsförsäkringar Hypotek AB (publ)	134.4	43.1
Listed bonds, Länsförsäkringar Bank AB (publ)	15.1	13.0
<b>Total</b>	<b>149.5</b>	<b>56.1</b>

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

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Equity 31 Dec 2017 <sup>2)</sup>	Of which profit 2017 <sup>2)</sup>	Carrying amount 31 Dec 2017 <sup>3)</sup>	Carrying amount 31 Dec 2016 <sup>3)</sup>	Fair value <sup>3)</sup>
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29.1	-	-	0.0	0.0	0.0
CAB Group AB	556131-2223	Örebro	1,582	29.0	127.7	23.5	10.7	10.7	36.8
European Alliance Partners Company AG <sup>1)</sup>	CH-0203026423-1	Zürich	9,248	12.5	75.6	2.09	6.0	6.0	9.4
<b>Total</b>					<b>203.3</b>	<b>25.6</b>	<b>16.7</b>	<b>16.7</b>	<b>46.2</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.

<sup>2)</sup>100% of the associated companies' equity and earnings.

<sup>3)</sup>Länsförsäkringar Sak's carrying amount and participating interest of fair value.

All shares and participations are unquoted.

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

Information pertains to Länsförsäkringar Sak's participating interest

Cost	31 Dec 2017	31 Dec 2016
Opening balance	16.7	17.5
Added and deducted assets	-	-0.8
<b>Closing balance</b>	<b>16.7</b>	<b>16.7</b>
<b>Carrying amount</b>	<b>16.7</b>	<b>16.7</b>
<b>Fair value</b>	<b>46.2</b>	<b>48.3</b>

	2017	2016
Income	86.7	77.3
Earnings	7.0	3.3
Assets	76.6	71.4
Liabilities	30.4	23.1
Equity	46.1	48.3

<b>Note 21</b>	<b>Shares and participations</b>	
	31 Dec 2017	31 Dec 2016
Quoted shares and participations	496.9	46.8
Unquoted shares and participations	40.2	42.1
<b>Total</b>	<b>537.1</b>	<b>88.9</b>
Fair value	537.1	88.9
Cost	482.4	50.3

<b>Note 22</b>	<b>Bonds and other interest-bearing securities</b>	
	31 Dec 2017	31 Dec 2016
<b>Issuer</b>		
Swedish government	207.9	901.1
Swedish mortgage institutions	1,167.6	1,302.5
Other Swedish issuers	886.4	1,027.6
Other foreign issuers	952.8	558.9
<b>Total</b>	<b>3,214.7</b>	<b>3,790.1</b>
Amortised cost	3,171.4	3,660.3
<b>Market status</b>		
Securities quoted	3,026.4	3,790.1
Securities unquoted	188.3	-
<b>Total</b>	<b>3,214.7</b>	<b>3,790.1</b>
<b>Carrying amounts compared with nominal amounts</b>		
<b>Total surplus</b>	<b>174.5</b>	<b>257.0</b>
<b>Total deficit</b>	<b>-0.1</b>	<b>-0.8</b>

<b>Note 23</b>	<b>Derivatives</b>			
	Fair value 31 Dec 2017	Nominal amount 31 Dec 2017	Fair value 31 Dec 2016	Nominal amount 31 Dec 2016
<b>Derivatives with positive values or valued at zero</b>				
Equity derivatives	0	0	-	-
Interest-rate derivatives	6.8	761.0	7.8	-1,045.7
Currency derivatives	28.4	1,454.4	15.3	831.6
	<b>35.2</b>	<b>2,215.4</b>	<b>23.1</b>	<b>214.1</b>
<b>Derivatives with negative values</b>				
Equity derivatives	0	0	0.0	0.0
Interest-rate derivatives	0.3	108.2	0.0	-1.4
Currency derivatives	11.5	596.8	13.5	-492.3
	<b>11.8</b>	<b>705.0</b>	<b>13.5</b>	<b>-493.7</b>

<b>Note 24</b>	<b>Receivables, direct insurance</b>	
	31 Dec 2017	31 Dec 2016
Receivables, policyholders	334.0	304.9
Receivables, insurance brokers	12.7	0.6
Receivables, insurance companies	13.0	10.5
<b>Total</b>	<b>359.7</b>	<b>316.0</b>

<b>Note 26</b>	<b>Prepaid acquisition costs</b>	
	31 Dec 2017	31 Dec 2016
Opening prepaid acquisition costs	16.8	9.9
Depreciation/amortisation for the year	-52.7	-9.9
Provision for the year	84.9	16.8
<b>Total</b>	<b>49.0</b>	<b>16.8</b>

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

<b>Note 25</b>	<b>Other receivables</b>	
	31 Dec 2017	31 Dec 2016
Receivables, Group companies	498.0	748.8
Receivables, Parent Company	85.9	50.9
Other receivables	11.0	11.5
<b>Total</b>	<b>594.9</b>	<b>811.2</b>

<b>Note 27</b>	<b>Other prepaid expenses and accrued income</b>	
	31 Dec 2017	31 Dec 2016
Other accrued income	1.3	1.7
Other prepaid expenses	11.9	13.7
<b>Total</b>	<b>13.2</b>	<b>15.4</b>

<b>Note 28</b>	<b>Untaxed reserves</b>	
	2017	2016
Contingency reserve	1,138.8	1,138.8
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	16.5
Reserve for 2018	103.3	-
Closing balance, 31 December	235.8	132.5
<b>Total</b>	<b>1,374.6</b>	<b>1,271.3</b>

<b>Note 29</b>		<b>Unearned premiums and unexpired risks</b>					
	<b>31 Dec 2017</b>			<b>31 Dec 2016</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	605.8	63.4	542.4	561.1	32.2	528.9	
Provisions during the period	14.0	27.8	-13.8	37.7	31.0	6.7	
Exchange-rate changes	-3.7	0.1	-3.8	7.0	0.2	6.8	
<b>Closing balance</b>	<b>616.1</b>	<b>91.3</b>	<b>524.8</b>	<b>605.8</b>	<b>63.4</b>	<b>542.4</b>	
<i>Unexpired risk</i>							
Opening balance	1.7	-	1.7	4.7	-	4.7	
Provisions during the period	-0.4	-	-0.4	-3.0	-	-3.0	
<b>Closing balance</b>	<b>1.3</b>	<b>-</b>	<b>1.3</b>	<b>1.7</b>	<b>-</b>	<b>1.7</b>	
<b>Total of unearned premiums and unexpired risks</b>	<b>617.4</b>	<b>91.3</b>	<b>526.1</b>	<b>607.5</b>	<b>63.4</b>	<b>544.1</b>	

<b>Note 30</b>		<b>Claims outstanding</b>					
	<b>31 Dec 2017</b>			<b>31 Dec 2016</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	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	1,419.0	243.5	1,515.5	1,305.9	209.7	
Claims adjustment costs	220.1	-	220.1	218.9	-	218.9	
<b>Total opening 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>	
Provisions for the period	-139.8	7.3	-147.1	-360.8	-486.7	125.9	
Exchange-rate changes	-0.7	7.5	-8.2	41.7	11.1	30.6	
Effect of interest-rate revaluations for annuities	5.9	-	5.9	5.9	-	5.9	
Portfolio transfers	-182.4	-	-182.4	-	-	-	
<b>Total change for the year</b>	<b>-317.0</b>	<b>14.8</b>	<b>-331.8</b>	<b>-313.2</b>	<b>-475.6</b>	<b>162.4</b>	
Claims incurred and reported	4,530.7	4,468.0	62.7	4,883.4	3,176.0	1,707.4	
Claims incurred and not reported	7,213.1	5,880.9	1,332.2	7,153.7	5,739.1	1,414.6	
Annuities	1,650.7	-	1,650.7	1,662.4	1,419.0	243.5	
Claims adjustment costs	208.1	-	208.1	220.1	-	220.1	
<b>Total closing balance</b>	<b>13,602.6</b>	<b>10,348.9</b>	<b>3,253.7</b>	<b>13,919.6</b>	<b>10,334.1</b>	<b>3,585.5</b>	

The discount rate curve defined by the EIOPA is used to calculate 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 31</b>		<b>Pensions and similar commitments</b>			
	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>	<b>Assumptions pertaining to defined-benefit commitments</b>		
			<b>2017</b>	<b>2016</b>	
Provisions for pensions	2.8	2.9	Discount rate	0.50% 0.60%	
Provisions for early retirement in accordance with pension agreement	2.4	6.0	Percentage expected to retire voluntarily at age 62	50.0% 50.0%	
Other provisions	14.2	12.6	Future salary increases	2.50% 2.50%	
<b>Total provisions for pensions</b>	<b>19.4</b>	<b>21.5</b>			

Pension provisions of SEK 2.8 M (2.9) are encompassed by the Pension Obligations Vesting Act.

#### 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. 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.

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).

#### 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 2018 are expected to total SEK 18.5 M.

	<b>2017</b>	<b>2016</b>
Expenses for defined-contribution plans	31.3	29.7

<b>Note 32</b>	<b>Other provisions</b>	
	31 Dec 2017	31 Dec 2016
Provision for contractual obligations	9.5	9.7
Other provisions	1.8	1.6
<b>Total</b>	<b>11.3</b>	<b>11.3</b>

<b>Note 33</b>	<b>Liabilities, direct insurance</b>	
	31 Dec 2017	31 Dec 2016
Liabilities to policyholders	287.0	293.2
Liabilities to insurance brokers	4.1	4.1
Liabilities to insurance companies	307.9	290.0
<b>Total</b>	<b>599.0</b>	<b>587.3</b>

<b>Note 34</b>	<b>Other liabilities</b>	
	31 Dec 2017	31 Dec 2016
Liabilities, Group companies	61.3	67.4
Liabilities to the Parent Company	312.2	195.3
Liabilities, Länsförsäkringar Liv Försäkrings AB	0.4	0.5
Other liabilities	51.7	25.3
<b>Total</b>	<b>425.6</b>	<b>288.5</b>

<b>Note 35</b>	<b>Other accrued expenses and deferred income</b>	
	31 Dec 2017	31 Dec 2016
Premiums, received but not due	105.8	100.3
Other deferred income	4.9	1.0
Accrued holiday and overtime remuneration	12.5	13.0
Other accrued expenses	30.2	28.2
<b>Total</b>	<b>153.4</b>	<b>142.5</b>

<b>Note 36</b>	<b>Information about offsetting</b>
----------------	-------------------------------------

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 these 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						
Related amounts not offset in the balance sheet						
31 Dec 2017	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Netting framework agreement	Collateral Received(-) / Pledged(+)	Net amount
<b>Assets</b>						
Derivatives	35.2	-	35.2	-5.4	-15.8	14.0
<b>Liabilities</b>						
Derivatives	-11.8	-	-11.8	5.4	3.9	-2.5
<b>Total</b>	<b>23.4</b>	<b>-</b>	<b>23.4</b>	<b>-</b>	<b>-11.9</b>	<b>11.5</b>

Financial assets and liabilities that are offset or subject to netting agreements						
Related amounts not offset in the balance sheet						
31 Dec 2016	Gross amount	Offset in balance sheet	Net amounts in balance sheet	Netting framework agreement	Collateral Received(-) / Pledged(+)	Net amount
<b>Assets</b>						
Derivatives	23.1	-	23.1	-6.4	-5.8	10.9
<b>Liabilities</b>						
Derivatives	-13.5	-	-13.5	6.4	5.8	-1.3
<b>Total</b>	<b>9.6</b>	<b>-</b>	<b>9.6</b>	<b>-</b>	<b>-</b>	<b>9.6</b>

**Note 37** Financial assets and liabilities by category

Financial assets measured at fair value through profit and loss					
31 Dec 2017	Financial assets measured according to fair value option	Held for trading	Loans and receivables	Total carrying amount	Fair value
<b>ASSETS</b>					
Interest-bearing securities issued by Group companies and loans to Group companies	149.5	-	-	149.5	149.5
Shares and participations	537.1	-	-	537.1	537.1
Bonds and other interest-bearing securities	3,214.7	-	-	3,214.7	3,214.7
Derivatives	-	35.2	-	35.2	35.2
Other financial investment assets	-	-	-	-	-
Other receivables	-	-	595.2	595.2	595.2
Cash and bank balances	-	-	136.7	136.7	136.7
Prepaid expenses and accrued income	-	-	4.0	4.0	4.0
<b>Total</b>	<b>3,901.3</b>	<b>35.2</b>	<b>735.9</b>	<b>4,672.4</b>	<b>4,672.4</b>

Financial liabilities measured at fair value through profit and loss				
	Held for trading	Other financial liabilities	Total carrying amount	Fair value
<b>LIABILITIES</b>				
Derivatives	11.8	-	11.8	11.8
Other liabilities	-	409.4	409.4	409.4
Accrued expenses and deferred income	-	13.6	13.6	13.6
<b>Total</b>	<b>11.8</b>	<b>423.0</b>	<b>434.8</b>	<b>434.8</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					
31 Dec 2016	Financial assets measured according to fair value option	Held for trading	Loans and receivables	Total carrying amount	Fair value
<b>ASSETS</b>					
Interest-bearing securities issued by Group companies and loans to Group companies	56.1	-	-	56.1	56.1
Shares and participations	88.9	-	-	88.9	88.9
Bonds and other interest-bearing securities	3,790.1	-	-	3,790.1	3,790.1
Derivatives	-	23.1	-	23.1	23.1
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	-	-	5.3	5.3	5.3
<b>Total</b>	<b>4,086.8</b>	<b>23.1</b>	<b>971.3</b>	<b>5,043.2</b>	<b>5,043.2</b>

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

## Note 37 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 2017				31 Dec 2016			
	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	149.5	-	-	149.5	56.1	-	-	56.1
Shares and participations	496.9	-	40.2	537.1	46.8	4.3	37.8	88.9
Bonds and other interest-bearing securities	3,026.4	-	188.3	3,214.7	3,641.0	-	149.1	3,790.1
Derivatives	0.5	34.7	-	35.2	0.7	22.4	-	23.1
Other financial investment assets	-	-	-	-	151.7	-	-	151.7
<b>LIABILITIES</b>								
Derivatives	0.2	11.6	-	11.8	0.0	13.5	-	13.5

There were no significant transfers between Level 1 and Level 2 during 2017 or during 2016. There were no transfers from Level 3 in 2017 or 2016.

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.

Change Level 3	Shares and participations	Bonds and other interest-bearing securities	Total
Opening balance, 1 January 2016	30.8	100.0	130.8
Acquisitions	2.5	34.5	37.0
Divestments	-	-	-
Recognised in profit and loss	4.5	14.6	19.1
Transfer to Level 3	-	-	-
<b>Closing balance, 31 December 2016</b>	<b>37.8</b>	<b>149.1</b>	<b>186.9</b>
Opening balance, 1 January 2017	37.8	149.1	186.9
Acquisitions	-	35.2	35.2
Divestments	-	-	-
Recognised in profit and loss	2.4	4.0	6.4
Transfer to Level 3	-	-	-
<b>Closing balance, 31 December 2017</b>	<b>40.2</b>	<b>188.3</b>	<b>228.5</b>

**Note 38** Anticipated recovery and settlement periods, amounts expected to be recovered

	31 Dec 2017			31 Dec 2016		
	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	14.7	16.5	1.8	16.5	18.3
Shares and participations in Group companies	-	1,949.3	1,949.3	-	1,869.0	1,869.0
Shares and participations in associated companies	-	16.7	16.7	-	16.7	16.7
Interest-bearing securities issued by Group companies and loans to Group companies	53.1	96.4	149.5	17.1	39.0	56.1
Shares and participations	-	537.1	537.1	-	88.9	88.9
Bonds and other interest-bearing securities	588.3	2,626.4	3,214.7	1,140.7	2,649.4	3,790.1
Derivatives	35.2	-	35.2	16.0	7.1	23.1
Other financial assets	-	-	-	-	151.7	151.7
Deposits with companies that have ceded reinsurance	51.6	-	51.6	39.9	-	39.9
Reinsurers' portion of technical provisions	1,072.6	9,367.6	10,440.2	901.6	9,495.9	10,397.5
Receivables, direct insurance	359.7	-	359.7	316.0	-	316.0
Receivables, reinsurance	280.6	-	280.6	225.1	-	225.1
Other receivables	594.9	-	594.9	811.2	-	811.2
Deferred tax assets	-	1.6	1.6	-	1.9	1.9
Tangible assets	1.3	2.4	3.7	1.2	1.8	3.0
Cash and bank balances	136.7	-	136.7	117.8	-	117.8
Prepaid expenses and accrued income	62.2	-	62.2	32.2	-	32.2
<b>Total assets</b>	<b>3,238.0</b>	<b>14,612.2</b>	<b>17,850.2</b>	<b>3,620.6</b>	<b>14,337.9</b>	<b>17,958.5</b>
<b>LIABILITIES</b>						
Technical provisions	2,507.7	11,712.3	14,220.0	2,399.5	12,127.6	14,527.1
Other provisions	-	30.7	30.7	-	32.8	32.8
Deposits from reinsurers	16.1	-	16.1	21.3	-	21.3
Current tax liabilities	-	30.8	30.8	-	-	-
Deferred tax liabilities	2.5	2.6	5.1	-	7.7	7.7
Liabilities, direct insurance	599.0	-	599.0	587.3	-	587.3
Liabilities, reinsurance	286.0	-	286.0	315.9	-	315.9
Derivatives recognised as liabilities	11.8	-	11.8	13.5	-	13.5
Other liabilities	425.6	-	425.6	288.5	-	288.5
Accrued expenses and deferred income	153.4	-	153.4	142.5	-	142.4
<b>Total liabilities</b>	<b>4,002.1</b>	<b>11,776.4</b>	<b>15,778.5</b>	<b>3,768.5</b>	<b>12,168.1</b>	<b>15,936.6</b>

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

**Note 39** Pledged assets and contingent liabilities

	31 Dec 2017 <sup>1)</sup>	31 Dec 2016 <sup>2)</sup>		31 Dec 2017	31 Dec 2016
<b>Pledged assets</b>			<b>Contingent liabilities</b>		
Assets registered on behalf of policyholders	3,779.8	4,074.7	Part-owner of Utile Dulci 2 HB	49.4	16.5
<b>Total</b>	<b>3,779.8</b>	<b>4,074.7</b>	<b>Total</b>	<b>49.4</b>	<b>16.5</b>
			<b>Commitments</b>		
			Remaining amount to invest in investment assets	186.0	178.6

<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 8,356 M.

<sup>2)</sup> Registered assets in accordance with Chapter 6, Section 11 of the Insurance Business Act amount to SEK 4074.7 M. In the event of insolvency, the policyholders have a preferential right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance commitments are covered for liabilities in accordance with the Insurance Business Act in accordance with the wording at the end of 2016.

**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 business operations is on market terms. Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. Overall, pricing is intended to distribute costs within the corporate group based on consumption. Joint development projects and joint service 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 reinsurance contracts for the Länsförsäkringar Alliance and agreements 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 2017 - Transfer of business**

On 1 December 2017, Länsförsäkringar Sak transferred a portfolio of accident and health insurance for adults to the regional insurance companies. The portfolio of reserves for claims outstanding of SEK 182 M were transferred to the regional insurance companies on 1 December 2017, following a joint valuation by the parties. 23 regional insurance companies participated in the portfolio transfer. Länsförsäkringar Sak received remuneration of SEK 260 for the transfer of the business.

**Related-party transactions**

2017	Income	Expenses	Receivables	Liabilities
Parent Company	6.0	225.9	85.9	313.6
Group companies	676.1	9.7	660.3	61.6
Life Group	1.5	0.0	1.0	0.4
Regional insurance companies	2,559.2	2,320.1	8,542.7	8,166.1
Other related parties	0.2	14.8	10.7	10.9

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	2.8	0.0	0.9	0.5
Regional insurance companies	2,023.0	1,303.5	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:

	2017	2016
Cash and cash equivalents with Länsförsäkringar Bank AB	490.6	661.5
Interest income received	-	-

<b>Note 41</b>		<b>Supplementary disclosures on income-statement items by insurance class</b>									
2017	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	3,811.8	1,214.8	50.4	140.1	113.3	76.1	149.5	3.3	1.6	1,749.1	2,062.7
Claims payments, gross	-2,286.8	-631.0	-72.1	-126.3	-18.5	-57.3	-184.2	-2.4	-1.3	-1,093.1	-1,193.7
Operating expenses, gross	-434.1	-200.0	-7.7	-15.9	-23.5	-14.7	-23.1	-0.4	-3.2	-288.5	-145.6
Profit/loss from ceded reinsurance	-736.5	-2.1	27.4	1.6	-6.8	-3.5	-9.6	-0.2	0.7	7.5	-744.0
<b>Earnings</b>	<b>354.4</b>	<b>381.7</b>	<b>-2.0</b>	<b>-0.5</b>	<b>64.5</b>	<b>0.6</b>	<b>-67.4</b>	<b>0.3</b>	<b>-2.2</b>	<b>375.0</b>	<b>-20.6</b>
Premium income, gross	3,825.5	1,139.6	53.4	152.4	114.7	83.1	163.9	3.2	6.6	1,716.9	2,108.6

<b>Note 42</b>	<b>Appropriation of profit</b>
----------------	--------------------------------

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	-293,381,313
Group contributions paid	-290,000,000
Tax on Group contributions	63,800,000
Net profit for the year	1,012,678,828
<b>Total</b>	<b>493,097,515</b>

The Board of Directors and the President propose that SEK 230.00 per share of this profit, corresponding to SEK 460,000,000, be distributed to the Parent Company and SEK 33,097,515 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 8 March 2018.  
The company's income statement and balance sheet will be adopted at the 2018 Annual General Meeting.

Sören Westin  
*Chairman*

Ricard Robbstål  
*Board member*

Mariette Nicander  
*Board member*

Sven Eggefalk  
*Board member*

Göran Spetz  
*Board member*

Jan-Olof Thorstenson  
*Board member*

Henrietta Hansson  
*Board member*

Hans Holm  
*Employee representative*

Linnéa Niklasson  
*Employee representative*

Ann Sommer  
*President*

My audit report was submitted on 8 March 2018.

Gunilla Wernelind  
*Authorised Public Accountant*

# Auditor's Report

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

## Report on the annual accounts

### Opinions

I have audited the annual accounts of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2017. The annual accounts of the company are included on 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 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The statutory administration report is consistent with the other parts of the annual accounts.

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

My opinions in this report on the the annual accounts are consistent with

the content of the additional report that has been submitted to the audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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. This includes that, based on the best of my knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### Key Audit Matters

Key audit matters of the audit are those matters that, in my professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of my audit of, and in forming my opinion thereon, the annual accounts as a whole, but I do not provide a separate opinion on these matters.

### Valuation of technical provision

See disclosure 30 and accounting principles on page 23 in the annual account for detailed information and description of the matter.

### Description of key audit matter

The technical provisions in the annual accounts are stated at 13 603 MSEK as of December 31, 2017, which represent 76% of the total assets.

This is an area involving significant judgments of uncertain future outcome, primarily including the timing and size of incurred claims which will be settled with the policyholders.

The company uses established actuarial valuation models to support the calculations of the technical provision. The complexity of the models may cause risk for errors as a result of inadequate/incomplete data or the design or application of the models.

The company's technical provision consists of several different products with different assumptions such as settlement period, customer's behavior, assumptions for morbidity, inflation, discount rate, mortality (annuity reserve) and cost.

### Response in the audit

We have assessed the applied actuarial assumptions by comparing the valuation methods with the company's own experience and investigations, regulatory requirements and industry benchmarks.

We have performed tests on a sample basis to assess management's data extraction process as input to the actuarial calculations.

We have involved our own actuarial specialists to assist us in challenging the methodology and the assumptions used in the projected cash flows and in the valuation of technical provisions. We have performed our own calculations verifying the adequacy of the technical provision and compared it to the expected future contractual obligations.

We have also considered the completeness of the underlying facts and circumstances that are presented in the disclosures in the accounts and assessed whether the information is adequate to understand management judgements.

### Other Information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 1-3. The Board of Directors and the Managing Director are responsible for this other information.

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. Misstate-

ments 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.

I must also provide the Board of Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, I determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## **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 2017 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.

Gunilla Wernelind, Box 382, 101 27, Stockholm, was appointed auditor of Länsförsäkringar Sak Försäkringsaktiebolag (publ) by the general meeting of the shareholders on the 18 May, 2015. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2000.

Stockholm 8 March 2018

Gunilla Wernelind  
Authorized Public Accountant

## Board of Directors and auditor



### 1 Sören Westin

Chairman. Born 1953. Employed 2008. President and CEO of Länsförsäkringar AB. Education: Licentiate of Science in Business and Economics, Umeå University. Other Board appointments: Chairman of Länsförsäkringar Sak, Länsförsäkringar Bank and Länsförsäkringar Fondliv. Board member of Länsförsäkringar Liv, Länsförsäkringar Fastighetsförmedling, Foundation for Regional Insurance Companies' Research Fund and Swedish Motor Insurers. Previous experience: President of Länsförsäkringar Jämtland, President AB Länstidningen, member of Samhall AB's corporate management.

### 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, business school economist. 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.

Employee representatives



## 9 Hans Holm

Born 1959. Administration manager in Health Business Area. Employee representative. Elected 2018. Education: Swedish Defence University, Economics, Systems Science, Certified CIO, IFU diploma Non-life & Life. Other Board appointments: None. Previous experience: Mj in Royal Swedish Air Force, District Manager Non-life & Life, Head of Sales Support Livförsäkring Försäkringsbolaget Salus Ansvar, Controller of system owner group (SÄG) LFAB, Operative system owner Customer System Länsförsäkringar AB, Mentor at the Royal Swedish Academy of Engineering Sciences (IVA).

Deputy: Inge Gustafsson.

# Management

## Ann Sommer

President

## Thomas Abrahamsson

Health Business Area

## John Nyman

Business Area Reinsurance and Special Insurance

## Carina Bodesand

Business Support unit

## Gunnel Karlsson

CFO

## Göran Laurén

Asset Management

## Agnes Fabricius

Agria

## Totte Pikanen

Corporate Senior Actuary

## Michael Truwert

Head of Legal Affairs

## Pernilla Fredriksson

HR

# Definitions

## 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.

## Direct yield

Direct yield refers to the total of rental income from properties, interest income, interest expense, dividends on shares and participations (excluding dividends on participations in insurance subsidiaries), administration costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year, including surplus values of properties in Group companies. The direct yield was restated in accordance with FFFS 2015:12.

## 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.

## Discounting of claims outstanding

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

## Operating expenses

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

## Expense ratio

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

## 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.

## 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.

## Unearned premiums

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

## 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.

**Technical provisions**

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

**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.

**Own funds**

Own funds comprise Tier 1 capital and additional capital. Tier 1 capital is the difference between assets and liabilities measured in accordance with the Solvency II regulations 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 Sak 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.

**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.

**Solvency capital**

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

**Minimum capital requirement**

The minimum capital requirement comprises the minimum amount of eligible Tier 1 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.

**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.

**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.

**Claims ratio**

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

**Solvency capital requirement**

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

**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.

**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.

**Combined ratio**

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

**Deferred tax**

Deferred tax liabilities/assets pertain to temporary taxable differences.

**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 refers to the business that an insurance company receives from other insurance company in the form of reinsurance.

# 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)



