Annual Report 2013

LÄNSFÖRSÄKRINGAR SAK FÖRSÄKRINGSAKTIEBOLAG

Länsförsäkringar

Länsförsäkringar Sak
In brief

Länsförsäkringar Sak is responsible for the non-life insurance operations, including animal and crop insurance and health insurance, which are conducted by Länsförsäkringar AB on the basis of the assignment from the regional insurance companies.

Länsförsäkringar Sak'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 sound reinsurance coverage. Animal insurance is conducted in the Agria Djurförsäkring subsidiary and the Länsförsäkringar Alliance's reinsurance solutions are managed jointly by Länsförsäkringar Sak, which is also where internationally assumed reinsurance is underwritten. In the Länsförsäkringar Gruppliv subsidiary, group insurance is underwritten as an important part of the customer offering in the expanding Business Area Health. ■

2013 in brief

Net profit for the year before appropriations and tax amounted to SEK 149 M (341).

The **technical result** amounted to SEK 195 M (219).

The **combined ratio** amounted to 97% (96).

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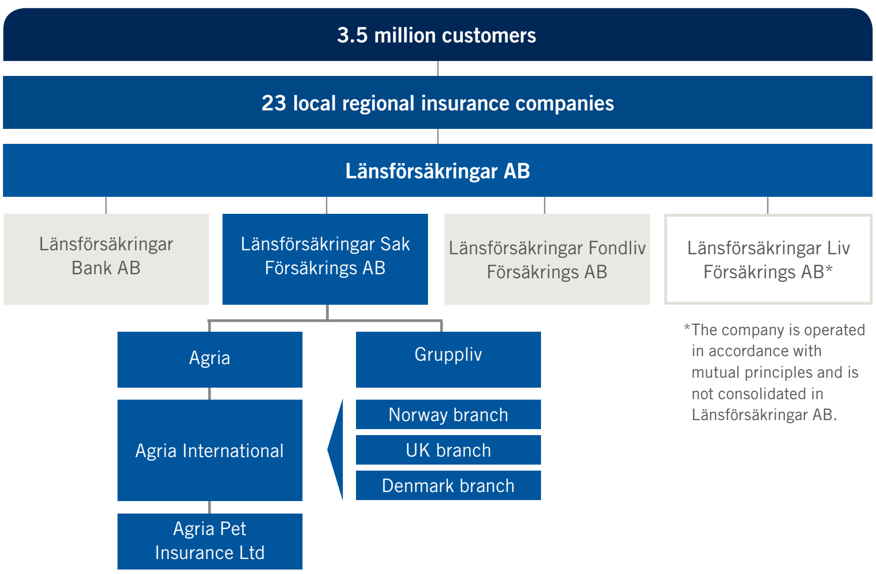
Länsförsäkringar in brief

Customer-owned regional insurance companies with local presence

Länsförsäkringar comprises 23 local and customer-owned regional insurance companies and the jointly owned Länsförsäkringar AB. The regional insurance companies are owned by the insurance customers. Customers are provided with a complete offering of banking, insurance and real-estate brokerage services through the regional insurance companies. The basis is a local presence and foundation – experience has proven that local decision-making combined with joint administration and business development create added value for customers. Long-term respect for the security of customers is also fundamental. There are no external shareholders and customers' needs and requirements thus comprise Länsförsäkringar's primary mission. The Länsförsäkringar Alliance has more than 3.5 million customers and 5,900 employees. ■



*The company is operated in accordance with mutual principles and is not consolidated in Länsförsäkringar AB.

Committed and skilled employees are essential for success

STATEMENT BY THE PRESIDENT **2013 was an excellent year for the insurance operations. The company's profitability is stable and the well-differentiated non-life insurance operations generated earnings that far exceeded expectations.**

Länsförsäkringar Sak's main task vis-à-vis the regional insurance companies is to start and develop new business that can be channelled through the regional insurance companies and to supplement the companies' offerings with specialist products to meet customer requirements. Insurance is based on a long-term approach and risk management so that even if many storms and other major claim incidents occur, they are weighed up by extensive reinsurance cover and the diversification of the portfolio. The established targets for volume growth were exceeded. Furthermore, 2013 has not presented any financial surprises since risk in the investment portfolio was kept at a low level and asset management was successful in its mission. Operating profit for Länsförsäkringar Sak and its subsidiaries amounted to SEK 427 M (486), a net profit for the year comprising a very strong technical result for insurance operations.

Everyone has a part to play

Employees are doing a fantastic job. Despite intensifying competition in the market, many risks were renewed and new cover taken out in most areas. We speak about conducting profitable business and making business profitable. This means that everyone in the organisation must be involved and really make a difference to the results we deliver. It means conducting profitable business, where our customer service, underwriters and assistants apply the right pricing and terms. It means making business profitable, by focusing on quality and efficiency in, for example, claims adjustment processes. We use Lean to support our efficiency-enhancement measures. This entails continuous refinement of our processes and a major focus on cost-efficiency. It encompasses both the processes in Länsförsäkringar Sak's insurance operations and in joint processes in the Länsförsäkringar AB Group. Everyone must understand how they contribute to the whole, which really does work in reality.

A non-life insurance strategy that defines the areas to be addressed and what we want to achieve provides the basis for the operations. Then, in the joint business planning process for the Länsförsäkringar AB Group, we define the method and action plans for achieving the targets defined by the Board of Directors and our owners.

Attract new customers every year

We also work on performance management and leadership together with Länsförsäkringar AB to further identify the best methods for helping the organisation and our employees to reach the targets.

One of the mottoes in our business plan is "We must attract new customers every year." It is true. With very few exceptions, our business is based on one-year agreements with customers. Every year, they have to make a decision to retain us as their insurer. And if we want them to choose us, we must have the most satisfied customers and provide the best customer value. Otherwise they will choose one of our competitors. We intend to continue to succeed at this!

Business Area Health performed well and both renewed existing and underwrote new brokered agreements during the year. A more comprehensive health care insurance was also launched in 2013. Preventive health services were added, including a health profile, a self-help programme and personal counselling for managers and employees.

In commercial lines and special insurance, business volumes in both casualty and marine and cargo insurance increased despite continued intense competition in the market. In casualty insurance, insurance companies that previously focused only on large companies have now expanded into the same market segments as Länsförsäkringar Sak. The interests of the Länsförsäkringar Alliance's corporate customers in Sweden are increasingly international, and this is an area in which Länsförsäkringar Sak is continuously developing to meet demand for insurance solutions.

Strong year for Agria

2013 was a strong year for Agria Djurförsäkring. Business Area Pet continued to report favourable growth in dog and cat insurance. Horse insurance also displayed a healthy earnings trend, despite a weakening market. Veterinary care is being restructured in Sweden, the results of which emerged during the year. Fewer and larger players are influencing the direction, availability and costs in veterinary care. Agria International reported a positive and eventful year. Efficiency enhancements, increased sales and lower claims costs meant that substantially improved earnings could be posted.

The reinsurance market suffered from a large number of claims in 2013: hailstorms, floods, risk claims and several major storms. Typhoon Haiyan that hit the Philippines in November was a massive humanitarian disaster, but did not have a significant financial impact on the reinsurance market. Despite these claims, prices in the reinsurance market declined slightly since reinsurance companies could report healthy profits and new players entered the market, such as hedge funds that underwrite assumed reinsurance.

Preparations for Solvency II have kept us all busy, but working with the internal models has proved both exciting and educational. We use these risk models in our governance, which has led to greater expertise and a new level of understanding. The regulations have demonstrated much of the dependency between insurance operations and asset management.

Working continuously toward a sustainable society and the development of new areas are essential for success. Working constantly to develop the business, our working practices and employees will equip us to meet the future. Committed and skilled managers and employees are essential for success and continued favourable results.

Stockholm, February 2014

Ann Sommer

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 2013 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), Corporate Registration Number 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 the partnership Utile Dulci 2 HB.

Focus of operations

Länsförsäkringar Sak conducts non-life insurance operations. The majority of non-life insurance in the Länsförsäkringar Alliance is underwritten in the local regional insurance companies with local concessions. Länsförsäkringar Sak's task is to conduct business activities in the development areas in non-life insurance and to supplement the Länsförsäkringar Alliance's 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 2013, business was underwritten in the insurance classes of health, health care, accident, property, marine and cargo and casualty insurance. In addition, insurance cover is provided for nationwide customers in the commercial automotive area (motor third-party liability insurance and motor-hull insurance), run-off motor third-party liability 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 for animal and crop insurance. The subsidiary Länsförsäkringar Grupplivförsäkringsaktiebolag underwrites group life assurance and employment group life assurance. The operations in Länsförsäkringar Sak with subsidiaries are conducted jointly in Länsförsäkringar AB's Non-Life Insurance business unit.

Market

The non-life insurance market is mature but increased slightly more than 3% during the year, measured in premiums paid. Growth is taking place in, for example, animal and accident and health insurance.

Claims adjustment and claims services have become a prioritised area partly to enhance efficiency, which reduces costs, but also to enhance quality and the customer experience, by providing customers with values other than the lowest price amid intense price pressure.

The Swedish non-life insurance market is characterised by partnerships between banks, and other organisations and companies, as well as group solutions and investments in online and mobile solutions. The main purpose of these activities is to strengthen distribution volumes and better reach customers in the situations in which needs for insurance solutions arise. The role of insurance brokers has also been strengthened, both as distributors and developers of the customer offering. Market competition is intense and cost reductions are a focus area for maintaining competitiveness. Meanwhile, the need and competition for employees with specialist expertise is increasing.

In the long term, the issues of the future structure of social insurance and the potential privatisation of parts of the system will be central to the non-life insurance industry. Growing concern that social insurance in Sweden is insufficient has led to more people taking out private insurance in all areas that provide compensation in the event of illness, unemployment, accidents, death and retirement. The rising indebtedness of households also increases the need for these types of insurance. Company owners also want to ensure that neither they nor their employees go on long periods of sick leave and health care insurance can thus provide greater security. The health care insurance market is growing and competition in the market is fierce. Sales of health care insurance rose during the year and Länsförsäkringar remains the market leader in the area. The accident and health insurance market also increased by about 8%. Länsförsäkringar's market share in accident and health insurance declined slightly but has been relatively stable in the past few years at slightly more than 19%.

The international reinsurance market has high capacity, which results in price pressure. This higher capacity is partly due to new players entering the market, such as hedge funds that now also underwrite assumed reinsurance when the financial market is generating low returns.

The market for commercial insurance is sensitive to economic downturns, with premiums that in many cases are governed by company sales and that remain at relatively low levels. The price pressure in marine and cargo insurance stagnated slightly, although there are no indications that premiums are starting to rise. The number of players in the market rose again and further price pressure can thus be expected in the future. Competition in casualty insurance has further intensified with companies that previously focused only on large companies now also cultivating the same market segments (small and medium-sized businesses) as Länsförsäkringar Sak. The interests of the Länsförsäkringar Alliance's corporate customers in Sweden are increasingly international and demand for commercial insurance solutions is increasing among both new and existing customers. Through the International Network of Insurance (INI), Länsförsäkringar is one of the few companies in the Swedish market, that can offer customised and local insurance solutions in more than 100 countries at competitive prices.

Significant events during the year

Business Area Reinsurance

The reinsurance market suffered from a number of large claims in 2013. The most costly were the hailstorms in Germany in the summer and the floods in the Czech Republic, Germany and Austria. There were also several major risk claims and during the fourth quarter of the year Northern Europe experienced four storms: the St. Jude storm, Cyclone Hilde, Cyclone Xaver and Storm Ivar. Earnings for Länsförsäkringar Sak's assumed reinsurance business were affected by these claims. Typhoon Haiyan that hit the Philippines in November was a massive humanitarian disaster, but did not have a major financial impact on the reinsurance market. Despite these claims, prices declined slightly since reinsurance companies could report healthy profits and new players entered the market, such as hedge funds. The regional insurance companies were also affected by claims resulting from the St. Jude storm, Cyclone Hilde, Cyclone Xaver and Storm Ivar. The most expensive was the St. Jude storm, which is expected to cost about SEK 280 M. In 2013, the Länsförsäkringar Alliance also experienced a large number of fires that impacted earnings for internal reinsurance. Some of these claims were reinsured on the basis of external annual aggregate cover. The Länsförsäkringar Alliance's reinsurance cover was renewed without any major changes and at a slightly lower price. The assumed, international reinsurance business was also renewed without any major changes. Contracts that incurred claims were subject to varying price increases, while prices were reduced in those without claims.

Business Area Health

The personal-risk insurance market is continuing to develop and Länsförsäkringar is increasing both its premium volumes and number of policies in this area. Claims costs in health care insurance increased during the year and a number of measures were taken to turn around the trend, for example, increasing premiums and deductibles. The introduction of a new generation of group insurance policies in Business Area Health started to generate results. In 2013, the market positively received modernised products that provide sound financial basic security for companies and employees. The aim was to create insurance policies that are better tailored to current society. Brokered sales continue to perform well. Business Area Health both renewed existing and underwrote new brokered agreements during the year, resulting in an increase in the portfolio of brokered insurance. A more comprehensive health care insurance was launched in 2013. The already popular health care insurance was expanded to include preventive health services in the form of a health profile, a self-help programme and personal counselling for managers and employees. Work-oriented rehabilitation and treatment for addiction and substance abuse is also included in the insurance policy. This health care insurance supports employees in their efforts to achieve better health and helps companies reduce sickness absence rates. With the market's most satisfied health care insurance customers, Länsförsäkringar is well-positioned for growth.

Business Area Commercial Special Insurance

Länsförsäkringar Sak supplements the regional insurance companies' offering to corporate customers with specialised casualty, marine and cargo, motor hull and property insurance solutions. Länsförsäkringar increased premium volumes in marine and cargo and casualty business despite intense competition in the market. However, Länsförsäkringar's market share in cargo insurance stalled slightly during 2013.

Preparations for new risk-based regulatory requirements – Solvency II

The EU reached an agreement on the modernisation of regulatory requirements for insurance companies, known as Solvency II, at the end of 2009. These changed Solvency II rules are extensive and affect a number of areas of the insurance companies' operations. For example, the new rules place more rigorous demands on governance and risk control. The rules also stipulate that the requirements for minimum buffer capital must be better adjusted to the individual insurance company's actual level of risk. A standard formula or an internal model can be used to calculate capital requirements under Solvency II. The latter is based on the company's own risks rather than applying more generally as is the case under the standard formula. An internal model is to be approved by the Swedish Financial Supervisory Authority before it is used for reporting to the Authority. An application has been submitted for the approval of the partial internal model for the Länsförsäkringar Group (excluding the bank, which is not encompassed by the Solvency II rules). The Group's insurance companies will thus be able to work with measures of capital requirement that are better aligned with the company's own risks than those in the standard formula. Länsförsäkringar Sak has applied to the Financial Supervisory Authority for a preparatory review of the partial internal model for calculating the Solvency Capital Requirement in its business operations.

The timeframe for the introduction of Solvency II has been successively postponed. According to the agreement between the EU institutions in November 2013, the Solvency II regulations in their entirety are to apply from January 1, 2016. However, from as early as January 1, 2014, companies encompassed by the Solvency II rules are to begin applying the preparatory guidelines issued by EIOPA.

Länsförsäkringar Sak AB has made significant progress in the Solvency II preparations. The preparatory work has been initially focused on ensuring compliance with the regulations. This means that Länsförsäkringar Sak and its subsidiaries essentially meets the requirements of the EIOPA's guidelines as per January 1, 2014. This work was also carried out to create the greatest possible business and customer value. New forms for the governance, management and control of risk and capital allocation in the Länsförsäkringar AB Group have contributed to enhancing the efficiency of the work processes and generating improved calculation tools for balancing risk limitation with opportunities for yielding returns.

New standard for recognition of insurance contracts

In 2013, the IASB presented a revised draft of IFRS 4, a standard for recognising insurance contracts. The aim is to produce an effective standard for recognising insurance companies' technical liabilities fairly and transparently, also during periods with low interest rates. Over the past three years, the IASB has reviewed the comments and suggestions that were submitted regarding the proposal in 2010. The IASB has thoroughly redrafted the standard and gradually introduced changes. The additional comment period that was extended by four months, encompasses rules for market-consistent valuation of technical provisions and recognising earnings. The additional comment period was held because the IASB had made extensive changes compared with most recent formal comment period in 2010.

The IASB plans to publish the complete standard at the start of 2015. The standard is scheduled to come into effect in 2018 following a transition period that is expected to have a duration of three years.

The standard will become law in the European Union once it has been adopted by the European Commission.

Significant events after the end of the fiscal year

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

Expectations regarding future development

Households' increased indebtedness and the trend towards greater insecurity in the labour market indicate that the need for personal-risk insurance in the form of benefits in the event of illness or unemployment will increase. The health care insurance market continued to expand, although the rate of growth slowed. A clear trend in health care insurance is that privately paid insurance policies are steadily reducing and company-paid policies increasing. Many small businesses continue to view hospital waiting lists and long sick-leave periods as strong motivators for taking out health care insurance for their employees. The financial situation, with its expectations of continued low growth and a strong SEK, primarily affects the export sector, which can have a negative impact on volumes in marine and cargo insurance and other volume-based insurance lines.

Risks and risk management

Länsförsäkringar Sak's largest risk exposures are considered to be its investment assets and its insurance commitments in motor third-party liability insurance, assumed reinsurance and personal-risk insurance. Refer also to note 2 Risks and risk management.

Employees

Employeeship at Länsförsäkringar AB means assuming responsibility through personal development in skills, health, business improvements and cost awareness. The aims of employeeship are stated in the personnel policy and the company's performance management work model.

The basis for employee performance and development, in both the short and long term, is the business plan and values and employees receive regular feedback on their performance. Maintaining positive health and a good working environment is essential for improving performance and is continuously followed up in talks between managers and employees.

Leadership and performance

During the year, Länsförsäkringar AB produced a new leader profile that details the company's expectations of its managers. The values of the leader profile are expressed in the forms of attitudes and behaviours and describe what managers should know, be and do in five areas: lead development, lead change, lead employees, lead the business and lead oneself. A leader profile also ensures that the company recruits, develops and promotes managers with the right skills.

Health and working environment

The company's basic outlook is that physical activity at work increases efficiency and improves social cohesion, and that investing in health is an important part of being an attractive employer. It also helps to reduce sickness absence. Länsförsäkringar AB offers generous preventive health care benefits and employees can exercise for one hour a week during working hours. Länsförsäkringar's own fitness facility includes a gym, workout classes and health-inspiring preventive health care activities, subsidised massages and a personal trainer at cost price. All employees have health care insurance that provides rapid access to specialised care. Medical advice and follow-ups are provided through the sickness reporting service and managers can receive professional advice regarding rehabilitation for employees, if required.

Personnel, salaries and remuneration

Information regarding the average number of employees, salaries and remuneration, as well as details concerning salary and other remuneration of corporate management, are provided in note 8 Employees, staff costs and remuneration of senior executives. In accordance with the regulations and general advice of the Swedish Financial Supervisory Authority (FFFS 2011:2) regarding remuneration policies in insurance companies, stock exchanges, clearing organisations and institutes for issuing electronic money, the Board of Directors of Länsförsäkringar Sak adopted a remuneration policy. It is intended that a statement of remuneration in the company be published on the website when the Annual Report is adopted.

Equality

Part of equality efforts is to create a more even gender distribution among managers. The distribution in the Non-Life Insurance business unit is 54% men and 46% women. The Länsförsäkringar AB Group's target figure for 2015 is 50% men and 50% women in corporate management and at department and Group management level.

Environment

Länsförsäkringar Sak's environmental management system has ISO 14001 certification. In 2013, this certification was confirmed with a new certification partner, SFK Certification. In addition to SFK's audits of our environmental practices, our in-house trained internal environmental auditors conduct annual reviews. The Parent Company, Länsförsäkringar AB, and all regional insurance companies also hold ISO 14001 certification.

The company works continuously to reduce its environmental impact in line with its environmental policy. The company has identified areas with a negative impact on the environment. Business travel contributes to emissions of the greenhouse gas, carbon dioxide. To reduce our environmental impact, train travel is increasingly used for business trips according to the travel guidelines that apply for the entire company. To reduce the amount of business travel, meetings are conducted by telephone, video and online.

Company cars are also 100% green, according to the company's definition of green cars. The company has also installed charging stations for electric cars in its own car parks to stimulate the use of cars that do not operate on fossil fuels. Opportunities to borrow bikes and public transport travel cards for journeys throughout the day also provide an incentive for environmentally friendly travel.

Another priority area for Länsförsäkringar Sak is paper-based communication with every customer. The Parent Company Länsförsäkringar AB has set a multi-year target to reduce the volume of paper-based communication with customers based on digital customer communication. Far-reaching efforts were conducted to analyse all paper-based communication and how it can be changed, resulting in activities that will be implemented in forthcoming years.

Digital solutions are being developed to reduce paper consumption and the development of the Internet channel provides major opportunities for reducing paper-based communication while also improving the quality of information so as to achieve more unified and clearer customer documents.

The decrease in paper consumption corresponds to the same amount of carbon dioxide emitted by 1,650 flights between Stockholm and Gothenburg. The use of printing chemicals was also reduced by 15 tonnes when we increased the proportion of digital documents (and thus reduced the amount of paper-based documentation).

A key function that also has an environmental impact is the purchasing of products and services used by the operations. According to Länsförsäkringar Sak's purchasing policy, the environmental impact of purchasing processes will be reduced to a minimum. Continuous efforts are taking place to develop environmental standards for all categories of purchasing and procurement.

The company's office properties are environmentally classified as energy-efficient and designed to promote health and sustainability, in line with the Sweden Green Building Council's certification scheme and the GreenBuilding system.

Länsförsäkringar Sak has developed and provided recycling insurance for agricultural customers for several years. This insurance reduces the amount of environmentally harmful waste and scrap generated by agriculture. In 2013, about 21.8 tonnes of pesticides, 343.9 tonnes of waste oil, 29.6 tonnes of oil filter, 5.7 tonnes of fluorescent tubes, 23.3 tonnes of paint waste, 2.52 tonnes of pharmaceuticals, 3,566 tonnes of agricultural scrap, 354 tonnes of tires/rubber and 1,839 tonnes of plastic were collected from agricultural and rural properties. Scrap is recycled as new products and the risk of accidents for both humans and animals declines when hazardous waste is taken care of in an environmentally sound manner. From 2014, recycling insurance is underwritten by the local regional insurance companies.

Information about our work with environmental issues is available on the intranet and our external website for all of our employees, customers and other stakeholders. To support our daily efforts, all employees undergo training in general environmental knowledge and the latest environmental developments in the business world.

Earnings and financial position

Profit before appropriations and tax for 2013 amounted to SEK 149 M (341). Profit from insurance operations amounted to SEK 195 M (219) and the remaining investment income and other non-technical expense amounted to negative SEK 46 M (pos: 122).

Profit from insurance operations

Premiums earned after ceded reinsurance rose 3.6% compared with the preceding year to SEK 1,862 M (1,796). The increase was mainly due to growth in business in Business Area Heath, in which both health care insurance and accident and health insurance are growing.

Claims payments after ceded reinsurance amounted to SEK 1,358 M (1,268), resulting in a claims ratio of 73% (71). The higher claims ratio was mainly due to increased claims costs in health care insurance and internationally assumed reinsurance, but was also impacted by a positive run-off result. The reserve run-off result, which can be described as a short-term measurement of the quality of the provision for claims incurred, amounted to SEK 91 M (48), for own account, or 1.3% of the provision for claims incurred at the beginning of the year. This run-off profit was mainly attributable to health care and accident, motor third-party liability and commercial insurance. Technical provisions, before ceded reinsurance (gross), increased SEK 294 M, while technical provisions for own account declined SEK 775 M. The main reason for the decline in the provision is that claims in run-off motor third-party liability insurance were settled.

Operating expenses declined compared with the preceding year to SEK 446 M (453). The expense ratio was 24% (25). The decrease in operating expenses was mainly due to lower expenses related to preparation for the introduction of the Solvency II regulations compared with the preceding year and lower depreciation costs for acquisitions.

All insurance classes reported a profit, except for motor hull which was impacted by large individual claims during the year.

The combined ratio rose to 97% (96) due to higher claims costs. The percentage of business in the company with long benefit periods is high, for example, for motor third-party liability insurance, meaning that both claims costs and the investment income transferred to the insurance operations are relatively high compared with premiums earned after ceded reinsurance. Investment income transferred from financial operations amounted to SEK 137 M (144).

Profit from financial operations

The market value of investment assets (excluding shares and participations in Group companies) amounted to SEK 14,274 M (14,782) at year-end and the distribution among various classes of assets is shown in the table on page 9. In 2013, the total return on all investment assets, including assets for liability hedges, was negative 1.2% (pos: 3.7). The lower return was largely due to the liability hedge in nominal and real return bonds used to hedge the interest-rate risk in the company's discounted annuity reserve. At year-end, the liability hedge amounted to approximately 35% of the investment assets in Länsförsäkringar Sak and accounted for the largest negative contribution, negative 3.4 percentage points in the return. However, the negative result from the liability hedges was offset by the positive change in value of the annuity reserve. The return excluding the liability hedge amounted to 3.5% (5.3). Property and the fixed-income portfolio accounted for the largest positive contribution.

The total return includes a change in the surplus values of property in Group companies. These surplus values are not included in investment income in the income statement.

Asset management

Asset management is handled within Länsförsäkringar AB on assignment from Länsförsäkringar Sak. Using an efficient and competitive management model that takes risk levels into consideration, Länsförsäkringar Sak aims to create a stable return on the investment assets in the company in order to achieve favourable profitability over time.

During the year, risk in the portfolio remained low. With most of the total market risk in interest-bearing assets, it has become increasingly important to supplement the governance and monitoring of asset management with a more risk-based approach whereby the interest-rate risk must always be analysed from several dimensions.

Management model

Länsförsäkringar Sak's portfolio structure for market exposure focuses on selecting the desired distribution of assets in the portfolios. Management is controlled by limiting Länsförsäkringar Sak's contribution to risk in the Non-life Group at both overall level and for individual risk categories. In addition, major importance is attached to how the desired market exposure is to be achieved. Asset management is able to employ other effective solutions to maintain passive market exposure rather than traditional management mandates. This can take place, for example, via different types of derivative instruments, which generates added value through reduced management costs and simplified business administration. The combination of these factors results in a portfolio structure that creates scope for action to capture the market exposure deemed suitable. This means that Länsförsäkringar Sak conducts portfolio management that creates scope for rapid action following changed market conditions at a lower management cost.

Organisation and control

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

The outsourced management assignments are evaluated by Asset Management, which regularly analyses the asset managers and management results.

Solvency

Solvency capital increased during the year to SEK 3,653 M (3,539). The solvency margin declined to 194% (198) due to a higher increase in premium income for own account.

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	SEK 1,057,909,327
Group contribution paid	SEK –134,100,000
Tax on Group contribution	SEK 29,502,000
Shareholders' contribution	SEK 60,700,000
Net profit for the year	SEK 107,523,771
Total	SEK 1,121,535,099

The Board of Directors and the President propose that SEK 157.95 per share of this profit, corresponding to SEK 315,900,000, be distributed to the Parent Company and SEK 805,635,099 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 December 31, 2013 are presented in the following financial statements and the accompanying notes.

Five-year summary

SEK M	2013	2012	2011	2010	2009
EARNINGS					
Premiums earned (after ceded reinsurance)	1,862	1,796	1,839	1,754	1,539
Investment income transferred from financial operations	137	144	169	184	388
Claims payments (after ceded reinsurance)	–1,358	–1,268	–1,513	–1,324	–1,236
Operating expenses	–446	–453	–431	–379	–321
Other income and expenses	–	–	–	–	5
Technical result, insurance operations	**195**	**219**	**64**	**235**	**375**
Remaining investment income	–17	151	37	396	135
Other non-technical expenses	–29	–29	–29	–17	–
Profit before appropriations and tax	**149**	**341**	**56**	**614**	**511**
Net profit for the year	108	230	41	537	364
Premium income (after ceded reinsurance)					
Non-life insurance	1,881	1,786	1,787	1,714	1,638
FINANCIAL POSITION					
Investment assets	13,704	14,321	14,167	13,100	13,444
Technical provisions (after ceded reinsurance)	11,284	12,059	12,480	12,216	12,234
Solvency capital					
Equity	1,326	1,262	1,451	1,201	932
Deferred tax	12	17	–39	–186	–332
Untaxed reserves	1,165	1,155	1,139	1,139	1,139
Surplus values	1,150	1,104	1,056	1,000	1,098
Solvency capital	**3,653**	**3,539**	**3,608**	**3,154**	**2,838**
Solvency margin, %	**194**	**198**	**202**	**184**	**173**
Capital base	**3,252**	**3,385**	**3,092**	**2,902**	**2,917**
Required solvency margin	**335**	**325**	**336**	**325**	**355**
Capital base for the insurance group	**3,319**	**3,281**	**2,846**	**2,742**	**2,417**
Required solvency margin for the insurance group	**840**	**826**	**781**	**802**	**793**
KEY FIGURES					
Insurance operations					
Claims ratio	73	71	82	75	80
Expense ratio	24	25	23	22	21
Combined ratio	97	96	106	97	101
Asset management, %					
Direct yield	2.3	2.8	4.1	3.6	2.6
Total return, including properties in Group companies	–1.2	3.7	6.4	4.3	6.4

Direct yield
Direct yield refers to the total of rental income from properties, interest income, interest expense, dividends on shares and participations, management costs for asset management and operating expenses for properties in relation to the average value of the investment assets during the year. The direct yield was restated in accordance with FFFS 2011:28.

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.

Investment income transferred from financial operations
With the amendment of the accounting policies for indexed annuities in 2011, this is recognised as an increased capital cost for Investment income transferred from the financial operations, to the change in provision for claims outstanding reducing the total claims payments. 2010–2013 have been recalculated according to the new policy, but prior years are recognised according to the previous policies.

Surplus values
Items included in Surplus values, see note 18 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.

Distribution of investment assets, Länsförsäkringar Sak (including properties in Group companies)

Amounts in SEK M Investments	Market value, Dec 31, 2013	%	Market value, Dec 31, 2012	%
Interest-bearing	6,085	42.6	6,067	41.0
Shares and change in strategic holdings	496	3.5	728	5.0
Property	2,674	18.7	2,643	17.9
Liability hedge (interest-bearing)	5,019	35.2	5,344	36.1
Total	**14,274**	**100**	**14,782**	**100**

Financial statements

Income statement

Technical recognition of non-life insurance operations, SEK M	Note	2013	2012
Premiums earned (after ceded reinsurance)			
Premium income	3	3,813.6	3,709.8
Premiums for ceded reinsurance		–1,932.4	–1,923.4
Change in Provision for unearned premiums and unexpired risks		–19.7	36.7
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks		0.2	–26.9
Total		**1,861.7**	**1,796.2**
Investment income transferred from financial operations	4	136.9	144.3
Claims payments (after ceded reinsurance)			
Claims paid			
Before ceded reinsurance		–2,603.9	–2,610.8
Reinsurers' portion		902.6	898.0
Total	5	**–1,701.3**	**–1,712.8**
Change in Provision for claims outstanding			
Before ceded reinsurance		–131.8	62.8
Reinsurers' portion		475.4	381.8
Total		**343.6**	**444.6**
Claims payments (after ceded reinsurance)		**–1,357.7**	**–1,268.2**
Operating expenses	6, 7, 8	–446.2	–452.8
TECHNICAL RESULT FOR NON-LIFE INSURANCE OPERATIONS		**194.7**	**219.5**
NON-TECHNICAL RECOGNITION			
Technical result for non-life operations		194.7	219.5
Investment income, revenue	9	967.2	741.4
Unrealised gains on investment assets	12	7.6	20.1
Investment income, expenses	10	–142.7	–204.2
Unrealised losses on investment assets	12	–676.2	–227.2
Other non-technical expenses	13	–28.9	–29.0
Investment income transferred to non-life insurance operations		–172.7	–179.1
Profit before appropriations and tax		**149.0**	**341.5**
Appropriations			
Tax allocation reserve		–10.0	–16.7
Profit before tax		**139.0**	**324.8**
Tax on net profit for the year	14	–31.5	–94.5
Net profit for the year		**107.5**	**230.3**

Statement of comprehensive income

SEK M	2013	2012
Net profit for the year	107.5	230.3
Other comprehensive income	–	–
Total comprehensive income	**107.5**	**230.3**

Performance analysis 2013

SEK M	Total	Accident and health	Household and homeowner	Commercial	Motor hull	Motor third-party liability	Marine, air and cargo	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
Technical result for non-life operations										
Premiums earned (after ceded reinsurance)	**1,861.7**	928.5	–	193.3	96.9	36.5	100.5	1,355.7	3.1	502.9
Investment income transferred from financial operations	**137.0**	32.6	–	15.0	1.7	68.1	2.6	120.0	–	17.0
Claims payments (after ceded reinsurance)	**–1,357.7**	–654.2	–0.2	–154.1	–92.0	–17.3	–53.9	–971.7	–0.3	–385.7
Operating expenses	**–446.2**	–225.0	–	–52.9	–23.7	–20.6	–28.9	–351.1	–0.1	–95.0
Technical result for non-life operations, 2013	**194.7**	**81.8**	**–0.2**	**1.3**	**–17.1**	**66.7**	**20.3**	**152.8**	**2.7**	**39.2**
Technical result for non-life operations, 2012	**219.5**	120.7	1.8	1.3	2.2	29.4	16.2	171.6	3.4	44.5
Gross run-off profit/loss, 2013	**90.6**	67.3	0.6	22.9	4.2	24.1	18.2	137.3	–0.2	–46.5
Technical provisions, before ceded reinsurance										
Provision for unearned premiums and unexpired risks	**473.1**	217.7	1.1	113.4	85.9	6.1	27.7	451.9	1.5	19.7
Provision for claims outstanding	**18,014.5**	1,589.6	1.1	865.7	31.1	7,653.0	131.3	10,271.8	0.6	7,742.1
Total technical provisions, before ceded reinsurance	**18,487.6**	**1,807.3**	**2.2**	**979.1**	**117.0**	**7,659.1**	**159.0**	**10,723.7**	**2.1**	**7,761.8**
Reinsurers' portion of technical provisions										
Provision for unearned premiums and unexpired risks	**14.4**	–	–	4.2	–	–	1.2	5.4	0.7	8.3
Provision for claims outstanding	**7,189.3**	11.1	–	5.5	0.7	328.9	3.3	349.5	0.4	6,839.4
Total reinsurers' portion of technical provisions	**7,203.7**	**11.1**	**–**	**9.7**	**0.7**	**328.9**	**4.5**	**354.9**	**1.1**	**6,847.7**

Notes to Performance analysis

SEK M	Total	Accident and health	Household and homeowner	Commercial	Motor hull	Motor third-party liability	Marine, air and cargo	Direct insurance Swedish risks	Direct insurance foreign risks	Assumed reinsurance
Note A Premiums earned (after ceded reinsurance)										
Premium income	**3,813.6**	970.2	–	229.1	102.7	39.9	109.0	1,450.9	5.3	2,357.4
Premiums for ceded reinsurance	**–1,932.4**	–26.3	–	–20.4	–7.0	–6.2	–6.6	–66.5	–2.1	–1,863.8
Change in Provision for unearned premiums and unexpired risks	**–19.7**	–15.4	–	–14.6	1.2	2.8	–1.9	–27.9	–	8.2
Reinsurers' portion of Change in provision for unearned premiums and unexpired risks	**0.2**	–	–	–0.8	–	–	–	–0.8	–0.1	1.1
	1,861.7	**928.5**	**–**	**193.3**	**96.9**	**36.5**	**100.5**	**1,355.7**	**3.1**	**502.9**
Note B Claims payments (after ceded reinsurance)										
Claims paid										
Before ceded reinsurance	**–2,603.9**	–666.9	–1.8	–212.1	–92.7	–447.7	–53.4	–1,474.6	–0.2	–1,129.1
Reinsurers' portion	**902.6**	18.0	–	34.5	3.9	30.5	–0.2	86.7	–	815.9
Change in provision for claims outstanding										
Before ceded reinsurance	**–131.8**	–4.3	1.7	42.7	–2.7	442.8	–0.3	479.9	–0.1	–611.6
Reinsurers' portion	**475.4**	–1.1	–0.1	–19.2	–0.5	–42.9	–	–63.8	0.1	539.1
	–1,357.7	**–654.3**	**–0.2**	**–154.1**	**–92.0**	**–17.3**	**–53.9**	**–971.8**	**–0.2**	**–385.7**

Balance sheet

SEK M	Note	Dec 31, 2013	Dec 31, 2012
ASSETS			
Intangible assets			
Goodwill	16	40.8	69.7
Other intangible assets	17	32.2	66.3
Total		**73.0**	**136.0**
Investment assets			
Investments in Group companies and associated companies			
Shares and participations in Group companies	18	1,952.0	1,845.0
Loans to Group companies	19	1,896.5	2,090.7
Shares and participations in associated companies	20	17.5	17.5
Other financial investment assets			
Shares and participations	21	32.0	294.0
Bonds and other interest-bearing securities	22	9,670.5	9,938.0
Derivatives	23	3.9	20.0
Other financial investment assets		77.2	52.7
Deposits with companies that have ceded reinsurance		54.5	62.7
Total		**13,704.1**	**14,320.6**
Reinsurers' portion of Technical provisions			
Unearned premiums and unexpired risks	29	14.4	14.1
Claims outstanding	30	7,189.3	6,707.9
Total		**7,203.7**	**6,722.0**
Receivables			
Receivables, direct insurance	24	322.4	326.4
Receivables, reinsurance		177.6	155.3
Other receivables	25	621.9	549.1
Total		**1,121.9**	**1,030.8**
Other assets			
Property and equipment	15	3.4	2.3
Cash and bank balances		174.6	140.1
Deferred tax	14	3.1	8.1
Total		**181.1**	**150.5**
Prepaid expenses and accrued income			
Accrued interest income	26	81.1	90.8
Prepaid acquisition costs	27	24.0	22.0
Other prepaid expenses and accrued income	28	14.7	20.3
Total		**119.8**	**133.1**
TOTAL ASSETS		**22,403.6**	**22,493.0**

Balance sheet, cont.

SEK M	Note	Dec 31, 2013	Dec 31, 2012
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital (2,000,000)		200.0	200.0
Statutory reserve		4.0	4.0
Retained earnings		1,014.0	827.6
Net profit for the year		107.5	230.3
Total		**1,325.5**	**1,261.9**
Untaxed reserves			
Contingency reserve		1,138.9	1138.9
Tax allocation reserve		26.7	16.7
Total		**1,165.6**	**1,155.6**
Technical provisions (before ceded reinsurance)			
Unearned premiums and unexpired risks	29	473.1	455.9
Claims outstanding	30	18,014.5	18,325.3
Total		**18,487.6**	**18,781.2**
Other provisions			
Pensions and similar commitments	31	27.7	26.7
Deferred tax liabilities	14	15.3	24.8
Current tax liabilities		–	0.9
Other provisions	32	12.5	34.7
Total		**55.5**	**87.1**
Deposits from reinsurers		**29.1**	**26.9**
Liabilities			
Liabilities, direct insurance	33	593.7	575.4
Liabilities, reinsurance		369.4	311.2
Derivatives	23	20.4	4.7
Other liabilities	34	177.2	134.6
Total		**1,160.7**	**1,025.9**
Accrued expenses and deferred income			
Other accrued expenses and deferred income	36	179.6	154.4
TOTAL EQUITY, PROVISIONS AND LIABILITIES		**22,403.6**	**22,493.0**
Memorandum items	40		
Pledged assets		13,720.1	14,077.7
Contingent liabilities		28.1	52.8

Statement of changes in shareholders' equity

SEK M	Share capital	Statutory reserve	Retained earnings	Net profit for the year	Total equity
Opening equity, January 1, 2012	**200.0**	**4.0**	**1,205.8**	**41.4**	**1,451.2**
Appropriation of profit	–	–	41.4	–41.4	–
Dividends to Parent Company	–	–	–347.0	–	–347.0
Group contributions paid/received	–	–	–72.6	–	–72.6
Net profit for the year/Comprehensive income	–	–	–	230.3	230.3
Closing equity, December 31, 2012	**200.0**	**4.0**	**827.6**	**230.3**	**1,261.9**
Opening equity, January 1, 2013	**200.0**	**4.0**	**827.6**	**230.3**	**1261.9**
Appropriation of profit			230.3	–230.3	0.0
Shareholders' contributions	–	–	60.7	–	60.7
Group contributions paid/received	–	–	–104.6	–	–104.6
Net profit for the year/Comprehensive income	–	–	–	107.5	107.5
Closing equity, December 31, 2013	**200.0**	**4.0**	**1,014.0**	**107.5**	**1,325.5**

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

Cash-flow statement

SEK M	Note	2013	2012
Operating activities			
Profit before tax		139.0	324.8
Adjustment for non-cash items		–169.0	–184.2
Tax paid		–13.4	–12.3
Cash flow from operating activities before changes in working capital		**–43.4**	**128.3**
Cash flow from changes in working capital			
Investments in investment assets, net		–344.0	–516.8
Increase (–)/Decrease (+) in operating receivables		103.2	174.8
Increase (+)/Decrease (–) in operating liabilities		231.0	53.7
Cash flow from operating activities		**–53.2**	**–160.0**
Investing activities			
Dividend from subsidiaries and associated companies		–	–
Loans granted	19	–	–46.2
Repayment of loans granted		201.8	60.0
Shareholders' contributions paid to subsidiaries		–	–45.8
Investments in property and equipment		–1.8	–2.3
Investments in intangible assets		–	–11.8
Cash flow from investing activities		**200.0**	**–46.1**
Financing activities			
Dividends to Parent Company		–	–347.0
Group contributions received		–	471.0
Group contributions paid		–98.5	–
Shareholders' contributions received		60.7	–
Cash flow from financing activities		**–37.8**	**124.0**
Net cash flow for the year		**109.0**	**–82.1**
Cash and cash equivalents, January 1		573.3	655.4
Cash and cash equivalents, December 31		682.3	573.3

Supplementary information to cash-flow statement

SEK M	2013	2012
Interest paid and received and dividends received		
Dividends received	6.1	14.8
Interest received	281.6	345.2
Interest paid	–12.2	–29.7
Adjustment for non-cash items		
Depreciation/amortisation and impairment of assets	63.7	83.1
Unrealised changes in currency	–19.1	43.9
Unrealised changes in value of investment assets	668.6	207.0
Capital gains/losses from partnerships	–107.0	–91.1
Technical provisions after ceded reinsurance	–761.9	–387.7
Change in prepaid acquisition costs	–2.0	–2.3
Pension provisions	0.9	9.4
Provision for tax allocation reserve	10.0	16.7
Other provisions	–22.2	–63.2
	–169.0	**–184.2**
Cash and cash equivalents		
Cash and bank balances	174.6	140.1
Receivables from Group companies		
Länsförsäkringar Bank	326.6	315.3
Länsförsäkringar AB, Group bank account	181.1	117.9
	682.3	**573.3**

All figures in SEK M unless otherwise stated.

1 ACCOUNTING POLICIES

Company information

The Annual Report for Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corporate Registration Number 502010-9681 pertains to the fiscal year January 1 – December 31, 2013. 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 with reference to Chapter 7, Section 2 of the Swedish Annual Accounts Act.

The Annual Report was approved by the Board and President for publication on February 26, 2014. Final adoption of the Annual Report will take place at the 2014 Annual General Meeting.

Compliance with standards and legislation

Länsförsäkringar Sak's Annual Report was prepared in accordance with the Annual Accounts Act for Insurance Companies (ÅRFL), the regulations and general advice of the Swedish Financial Supervisory Authority concerning annual reports in insurance companies (FFFS 2008:26, with the additions introduced in FFFS 2009:12, FFFS 2011:28 and 2013:6), and the Swedish Financial Reporting Board's recommendation RFR 2.

Länsförsäkringar Sak applies legally restricted IFRS. These accounting policies comply with IFRS as far as possible within the framework of Swedish law. 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. This means that the Financial Supervisory Authority's regulations refer to certain exceptions to and limitations in International Financial Reporting Standards (IFRS).

Conditions relating to the preparation of the financial statements

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

Judgements and estimates in the financial statements

The preparation of accounts in accordance with 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, as made by management, are based on historic experiences and the best information available on the balance-sheet date. The actual outcome may deviate from these judgements and estimates. Estimates and assumptions are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change only affects 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. The valuation of the company's provisions is described in the section below concerning the recognition of insurance contracts and in note 2, which provides information on risks in the operations.

Significant judgements applied to the company's accounting policies

Significant judgements in the application of accounting policies were made in conjunction with the decision to change the reporting of indexation of annuities from 2011. The purpose of the change is to provide a truer and fairer view of the company's claims costs and key figures for the insurance operations. The accounting policies under Investment income below provide a more detailed definition of the judgements made.

Amended accounting policies

Amended reporting standards

New standards and amendments to standards adopted by the EU that are to be applied from January 1, 2013 did not entail any significant changes to the company's financial reporting.

IAS 1 Presentation of Financial Statements: This amendment involves changes to the presentation of other comprehensive income. Other comprehensive income is divided into two items for items that are never recognised in profit and loss and items that can later be reversed to profit and loss. Comparative figures are presented according to the new presentation format.

IFRS 7 Financial Instruments: Disclosures has been revised, which entails that disclosures are to be provided for both financial instruments that are offset in the balance sheet and for financial instruments that are encompassed by netting agreements.

IFRS 13 Fair Value Measurement: A new standard that contains joint principles for fair value measurement for most of the assets and liabilities measured at fair value. The standard has entailed additional disclosure requirements, although the introduction of the standard did not impact the carrying amounts of financial instruments to any material extent.

IAS 36 Impairment of Assets: The amendment entails that information about the recoverable amount is to be provided for each cash-generating unit for which the carrying amounts of goodwill or intangible assets are significant in relation to the total carrying amount of the company's goodwill or intangible assets with indefinite useful lives. The IASB has issued an amendment to IAS 36 that states that disclosures regarding the recoverable amount are required only in conjunction with impairment. The IASB's amendments were applied in advance.

New IFRSs that have not yet been applied

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

The IASB has published the first parts of what will jointly comprise the final version of IFRS 9. The first part addresses the classification and measurement of financial assets. The categories of financial assets under IAS 39 will be replaced by two categories: measured at fair value or amortised cost. Amortised cost is to be utilised for instruments held as part of a business model, the goal of which is to collect the contractual cash flows. These cash flows are to comprise payments of principal and interest on the principal outstanding on specified dates. Other financial assets are to be measured at fair value and the fair value option under IAS 39 will be retained. Changes in fair value are to be recognised in profit and loss, except for changes in the value of equity instruments that are not held for trading and for which a decision has been made to initially recognise the changes in value in other comprehensive income. In November 2012, the IASB published a proposal for changes to the adopted rules for the classification and measurement of financial assets. According to these proposed amendments, which have not yet been adopted, a company is to measure its financial instruments at fair value via other comprehensive income under certain conditions. The IASB has also published the parts of IFRS 9 that pertain to the classification and measurement of financial liabilities.

The IASB plans to complete the work on correcting the adopted rules for classification and measurement of financial assets, and the ongoing work on new rules for the recognition of expected loan losses during the first half of 2014. The effective date has not yet been decided, but the IASB has announced that it will not be until at least January 1, 2017. The EU has not yet approved IFRS 9 and, accordingly, advance application of this standard is not permitted.

In addition, the other new elements are not deemed to have any material effect on the company's earnings or financial position.

Group contributions and shareholders' contributions

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

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

Translation of foreign currencies

Transactions in foreign currency are translated to SEK when they are recognised in the accounts at the exchange rate on the date of the transaction. Assets and liabilities in foreign currency are translated to SEK by applying the exchange rates on the balance-sheet date. Unrealised exchange-rate differences that arise as a result are recognised in profit and loss as exchange-rate gains/losses under earnings for asset management. 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.

Related parties

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

Pricing for service activities within the Länsförsäkringar Alliance is based on direct and indirect costs. A price list is established in conjunction with the budget process. Overall, pricing is intended to distribute costs fairly within the corporate group based on consumption. Joint development projects and joint service are financed collectively and invoiced based on an established distribution key. See note 41 Disclosures on related parties.

Insurance contracts

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

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

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

Premium income

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

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

Premiums earned

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

Claims payments

The expenses during the period for incurred claims, both those reported to the company and those not reported, are recognised as claims payments. Total claims payments include claims paid during the period and changes in provisions for claims outstanding. 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 2013 was set at 1.4% for short-term transactions and 2.0% for long-term transactions. The accounting policy has been changed from 2011 so that the amount of transferred investment income that corresponds to the indexation of annuities is transferred to claims payments and included in the change in the 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

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

Investment income, expenses

Costs for investment assets are recognised under Investment income, expenses. This item comprises asset management expenses, interest expense, exchange-rate losses, capital losses and interest-rate translation effect of annuities.

Realised and unrealised changes in value

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

Tax

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

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

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

Deferred tax assets on deductible temporary differences and tax loss carryforwards are only recognised to the extent that it is probable that these can be utilised. 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 same time as 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 at least once annually. The useful life has been set at five years.

Other intangible assets

Other intangible assets are recognised at cost with deductions for accumulated amortisation according to plan and impairment. Amortisation of proprietary software commences when the system or part of the system is available for use. 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. The valuation of the assets is tested for impairment every year.

Impairment testing

The carrying amounts of intangible assets, property and equipment and participations in subsidiaries and associated companies are tested on every balance-sheet date. If there is an indication of an impairment requirement, the recoverable amount of the asset is calculated in accordance with IAS 36. An impairment loss is recognised when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment losses are charged against profit and loss. The impairment of assets attributable to a cash-generating unit is initially distributed to goodwill. Proportional impairment losses on the other assets included in the unit are subsequently recognised.

The recoverable amount is the higher of fair value less selling expenses and value in use. In the calculation of the value in use, future cash flows are discounted using a discount factor that takes into consideration risk-free interest and the risk associated with the specific asset. An impairment loss is reversed if there is an indication that the impairment requirement no longer exists and a change has occurred in the assumptions that formed the basis of the calculation of the recoverable amount. However, impairment losses on goodwill are never reversed. A reversal is made only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, less depreciation/amortisation where applicable, if no impairment had been applied.

Investment assets

Purchases and sales of investment assets are recognised in the balance sheet on the trade date. Non-cash-settled transactions on the balance-sheet date are recognised as receivables or liabilities to counterparties under Other receivables and liabilities. Realised gains and losses comprise the difference between cost and the sales price. Realised gains and losses are recognised in Investment income, revenue and expenses. Unrealised gains and losses are the difference between cost and fair value. Previously unrealised changes in value are reversed in conjunction with sales. Unrealised gains and losses are recognised as unrealised gains and losses in profit and loss.

Group companies and associated companies

Participations in subsidiaries and associated companies are recognised at cost.

Shares and interest-bearing securities

Shares are measured at fair value. Fair value pertains to the sales value on the balance-sheet date. For shares listed on an authorised exchange or marketplace, the sales value normally pertains to the most recent buying-rate on the balance-sheet date or, if this is not available, the most recently listed price paid. Bonds and other interest-bearing securities are also measured at fair value according to the most recently listed buying-rate. Capital gains/losses on bonds and other interest-bearing securities are calculated as the difference between sales value and amortised cost. In the calculation of amortised cost, the difference between cost and exercise price are allocated in profit and loss over the remaining term. The change in amortised cost is recognised net under Interest income. Unrealised changes comprise the difference between fair value and amortised cost.

Derivatives

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

Other interest-bearing assets and liabilities

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

Financial instruments

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

Classification and valuation

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

Financial assets measured at fair value in profit and loss

Financial instruments in this category are continuously measured at fair value, with changes in value recognised in profit and loss. This category has two sub-categories:

a) financial assets and liabilities measured at fair value according to the fair value option. This category encompasses the financial assets and liabilities that the company has initially chosen to include in this category according to the fair value option. Länsförsäkringar Sak has chosen to classify: Loans to Group companies, Shares and participations, Bonds and other interest-bearing securities, Other financial investment assets and certain sub-items in Prepaid expenses and accrued income in this category. The company selected this classification since the financial instruments are measured based on their fair value and since the company continuously evaluates the operations of asset management based on fair values.
b) assets and liabilities classified as held for trading. This category encompasses derivative with positive and negative market values, meaning derivatives on both the assets and liabilities sides.

Financial instruments listed on an active market

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

Financial instruments not listed on an active market

If the market for a financial instrument is not active, the company determines the fair value by using a valuation technique. The valuation techniques applied are based on market data as far as possible. Valuation techniques are used for derivative instruments (OTC derivatives). The valuation techniques used for OTC derivatives comprise analyses of discounted cash flows. The valuation techniques applied are calibrated such that on initial recognition the fair value amounts to the transaction price and changes in fair value are subsequently recognised continuously based on changes that occur in the underlying market-risk parameters. Unlisted shares are measured at fair value according to the valuation principles applied by industry organisations in Europe and the US. The item Shares and participations also includes the asset class Alternative investments, which comprise units in funds that buy, develop and sell unlisted companies (private equity) and hedge funds. Valuation data is obtained from the various funds and valuation complies with the guidelines of the European Private Equity and Venture Capital Association.

Impairment of financial instruments

On each reporting occasion, the company assesses whether objective evidence exists that financial assets require impairment as a result of one or more loss events having occurred after the asset was initially recognised and that these events have had an impact on the future cash flows from the assets. These assets are considered to be impaired if there is evidence indicating that an impairment requirement may exist. Objective evidence comprises observable circumstances that have occurred and which have a negative effect on the possibility of recovering the cost, as well as a significant or extended reduction in the fair value of an investment in a financial investment classified as an available-for-sale financial asset. The carrying amount after recognising impairment losses on assets belonging to the categories 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 short duration are not discounted. Impairment losses are charged against profit and loss.

Recognition and derecognition in the statement of financial position

A financial asset or financial liability is recognised in the statement of financial position when the company becomes party to this in accordance with the instrument's contractual conditions. A financial asset is derecognised from the statement of financial position when the rights in the contract are realised, expire or the company loses control of them. A financial liability is derecognised from the statement of financial position when the obligation in the contract is met or extinguished in another manner. A financial asset and a financial liability are offset and reported as a net amount in the statement of financial position only when a legal right exists to offset the amounts and the intention is present to settle the item in a net amount or simultaneously realise the asset and settle the liability.

Business transactions in the monetary, bond and equities markets are recognised in the statement of financial position on the transaction date, which is the time when the significant risks and rights are transferred between the parties. Deposits and lending transactions are recognised on the settlement date. Loan receivables are recognised in the statement of financial position when the loan amount is paid to the borrower. Loan commitments are not recognised in the statement of financial position. Instead, they are valid for three months and are recognised as a commitment in the note entitled Pledged assets, contingent liabilities and contingent assets.

Reinsurance

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

For ceded reinsurance, the benefits to which the company is entitled under the reinsurance contract are recognised as the reinsurers' portion of technical 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' responsibility for technical provisions in accordance with signed contracts. Länsförsäkringar Sak assesses the impairment requirements of assets for reinsurance contracts twice a year. If the recoverable amount is lower than the carrying amount of the asset, the asset is impaired to the recoverable amount and the impairment loss is expensed in profit and loss.

Loans and receivables

Loans and receivables are financial assets that are not derivatives, that have fixed or fixable payments and that are not quoted in an active market.

These assets are measured at amortised cost. Accounts receivable and loan receivables are recognised in the amount at which they are expected to be received, meaning after deductions for impaired loans.

Property and equipment

Property and equipment are recognised as an asset in the balance sheet if it is probable that Länsförsäkringar Sak will receive future financial benefits and the cost of the asset can be calculated reliably.

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

The carrying amount of a tangible asset is derecognised from the balance sheet in conjunction with disposal or divestment, or when no future financial benefits are expected from the use or disposal/divestment of the asset. Gains or losses arising on the divestment or disposal of an asset comprise the difference between the sales price and the carrying amount of the asset, less direct selling expenses.

Depreciation takes place straight-line over the asset's estimated useful life. IT equipment is depreciated over three years according to plan. Other machinery and equipment is depreciated over five years according to plan.

Cash and bank balances

Cash and cash equivalents comprise cash funds and immediately available balances at banks and similar institutions. The Group account was classified as a receivable from the Parent Company and is included in the line Other receivables.

Prepaid acquisition costs for insurance contracts

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

Untaxed reserves

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

The accumulated value of the provisions is recognised under the heading Untaxed reserves in the balance sheet, of which 22% can be considered to be deferred tax liabilities and 78% as restricted equity. The deferred tax liabilities can be described as interest-free liabilities with an undetermined duration.

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

Contingency reserve

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.

Technical provisions

Technical provisions comprise Provision for unearned premiums and unexpired risks and Provision for claims outstanding.

Provision for unearned premiums and unexpired risks

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

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

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

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

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

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

Provision for claims outstanding

The provision for claims outstanding should cover anticipated costs for claims for which final settlement has not been completed, including claims that have been incurred but have not yet been reported to the company. The provision includes anticipated future cost increases plus all expenses for claims adjustment and is based on statistical methods for most claims. An individual assessment is made in the case of major claims and claims involving complex liability conditions.

With the exception of annuities, the provision for claims outstanding is not discounted.

The provision for annuities is estimated in line with customary life-assurance methods and discounted to market interest rates under FFFS 2011:22. The effect of interest-rate revaluations is recognised as a financial expense or income.

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

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

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

Review of losses

The sufficiency of technical provisions is tested on an ongoing basis and on every balance-sheet date. The provisions established for claims outstanding and for unearned premiums are subsequently evaluated individually. Provisions for claims outstanding are based on estimated future payment flows. Forecasts of provision requirements are made by using accepted actuarial methods. 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. 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 and insurance class. Any insufficiency observed in the premium liability is corrected by establishing a provision for unexpired risks. The change in the provision for unexpired risks is recognised in profit and loss.

Financial liabilities measured at fair value in profit and loss

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

Other financial liabilities

Other financial liabilities (funding and other financial liabilities, such as accounts payable) are measured at amortised cost.

Contingent liabilities

A contingent liability is recognised when there is a possible commitment originating from past events and whose occurrence is confirmed only by one or more 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.

Pensions

Pensions through insurance

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan encompasses all employees except for a few individuals who have individual solutions.

The pension agreement for the insurance industry, the FTP plan, through insurance with the Insurance Industry's Pension Fund (FPK), is a multi-employer 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. 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. Disclosure is also to be presented in the accounts according to the requirements for defined-benefit pension plans.

FPK is currently unable to provide necessary information which is why the pension plans above are recognised as a defined-contribution plan in accordance with item 30 of IAS 19. Nor is any information available on future surpluses and deficits in the plan or whether these surpluses and deficits would then affect the contributions for the plan in future years.

Defined-benefit pension plans

The Group 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.

Cash-flow statement

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

2 RISKS AND RISK MANAGEMENT

Focus and aims of risk management

Risks constitute a significant aspect of Länsförsäkringar Sak's operational environment and business activities. An increasingly volatile financial market, and more detailed regulations, impose more and more rigorous demands on financial companies and their risk management, in particular. To manage the risks, Länsförsäkringar Sak has clearly defined strategies and areas of responsibility, together with a strong commitment to the risk-management process. Risk-management activities are implemented as part of the daily work of all units at Länsförsäkringar Sak. The Länsförsäkringar Sak Group's risk-taking is to be limited so that it is compatible with the company's A level credit rating. A compatible capital adequacy target is to be presented to the Board for a decision every year. The capital target is to be presented in the form of a target for the capital ratio between available capital and risk-based capital requirements measured according to the capital-requirement rules under Solvency II. The capital base is the capital that is available for covering unexpected losses in the insurance operations or in asset management. The main purpose of risk management is to ensure that risks are identified, that risk assessment is impartial, and that the capital base is adequate in relation to the risks in the operations. This is important for being able to guarantee, with a high degree of reliability, the commitments made to customers.

Risk exposure

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

- Conducts operations in non-life insurance and annuities operations with discounted technical provisions.
- 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 Länsförsäkringar Sak Group includes the Agria Group, Länsförsäkringar Grupp-liv and the property companies Utile Dulci and Länsförsäkringar Sak Fastighets AB.

Risk management organisation

The Board of Directors of Länsförsäkringar Sak is responsible for ensuring appropriate risk management and follow-up of the company's risks. Risk management contains strategies, processes and reporting procedures necessary for continuously identifying, measuring, monitoring, managing and reporting the risks associated with the business activities. The risk-management process comprises continuous work and annual activities, and can differ between the various types of risk. Continuous risk-management work includes handling risk and also identifying new risks. An Own Risk and Solvency Assessment (ORSA) is performed every year and in conjunction with major changes in the operations or economic environment. Following applicable regulations, the Board establishes the frameworks for the company's risk management and risk control based on internal rules in various governance documents. The President is responsible for incorporating these governance documents into the operations. Examples of Group-wide governance documents for Länsförsäkringar are the Group manual for Länsförsäkringar AB, reporting manual, guidelines for handling ethical issues, authorisation manual and security policy. In addition to the Group-wide governance documents in the Länsförsäkringar AB Group, the Länsförsäkringar Sak Group and the companies included in the Länsförsäkringar Sak Group have their own governance documents, such as the Non-life Group manual, risk policy, authorisation manual, investment guidelines and insurance policy. The governance documents are updated and then approved by the Board once each year. The Board of Länsförsäkringar Sak decides on the framework for risk-taking, for example, by adopting investment guidelines, allocation mandates and up-to-date sub-limits for various market-risk categories in the company. The Board also makes decisions on maximal levels of market risk. Furthermore, the Board decides on the extent and direction of reinsurance cover and on the maximum levels of insurance risk for assumed international reinsurance.

Until the fourth quarter of 2013, the Länsförsäkringar AB Group had a Group-wide Finance Committee at Board level in which representatives from Länsförsäkringar Sak participated. The Finance Committee was a forum for financial business environment and macroeconomic analyses. During 2013, the Committee prepared and coordinated issues concerning asset management that were presented to the Board for decision. The Finance Committee also monitored achievements and compliance with determined targets, investment orientations and delegation instructions in 2013. During the fourth quarter, a Risk and Capital Committee was introduced for each company and took over the duties of the Finance Committee. The Risk and Capital Committee is to support the Board's work by examining and assessing risk-taking and capital requirements. The purpose of this change is to apply a stringent work method to the specific risks of each company since the risks and investment portfolios in the life-assurance and non-life insurance operations are deemed to require such different management and decisions that these risks are best managed by each individual company in the Länsförsäkringar AB Group.

There is an *Investment Committee* at management level in Länsförsäkringar Sak which is a preparatory body for the Finance Committee. The Investment Committee examines and prepares the Asset Management Unit's proposed investment orientations based on established targets, financial environment analyses, macroeconomic analyses and specified frameworks. Representatives for Länsförsäkringar Sak's corporate management, the Asset Management Unit and the Risk Control function participate in the Committee.

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

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

The *Compliance function* provides support for ensuring that the operations are in compliance with regulatory requirements. The function identifies and reports on risks that may arise as a result of non-compliance with regulatory requirements.

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

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

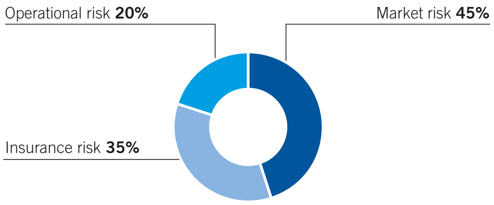
Risk modelling

Länsförsäkringar Sak utilises a variety of analysis tools and simulation models in its risk management activities.

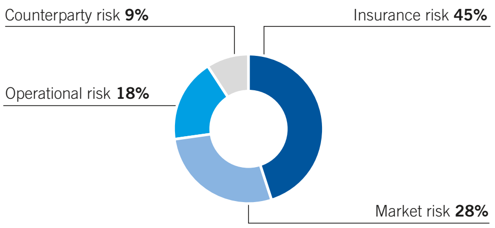
The aggregated risk profile for Länsförsäkringar Sak reported to the company's Board every quarter is prepared using a risk model for the Länsförsäkringar Sak Group with insurance and market risks in the company based on a partial internal model called LIM (Länsförsäkringar's Internal Model), and reporting in accordance with the Solvency II standard formula for insurance companies takes place at aggregated level for comparative purposes. The risk model is calibrated to show the risk of insolvency occurring within 12 months with a maximum probability of 0.5% (0.5). Models of this nature may under the future Solvency II rules, following approval by the Swedish Financial Supervisory Authority, be approved for the calculation of legal capital requirements.

The diagram below shows the allocation of risk in Länsförsäkringar Sak on December 31, 2013 classified by primary types of risk according to the model used in 2013.

Figure 1. Risk allocation in Länsförsäkringar Sak 2013



Risk allocation in Länsförsäkringar Sak 2012



The interaction between the different types of risk must be taken into account to evaluate the total risk level. Diversification effects in the non-life insurance operations between insurance risk, counterparty risk and market risk have been distributed proportionally. Market risk declined as a result of the company choosing to maintain a lower level of risk in investment assets and the lower counterparty risk was due to lower risk in the company's reinsurance. Otherwise, the total risk distribution between the primary types of risk was relatively stable during the year.

Monitoring and governance of risk-taking and solvency

The impact of risk on the available capital is continuously monitored and capital management is closely related to the control of risk-taking. The company's Own Risk and Solvency Assessment (ORSA) including a plan for financing the Group'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 the capital base and risks in Länsförsäkringar Sak, is to ensure that, at any given time, Länsförsäkringar Sak has a sufficient buffer of capital to meet the risks generated by the operations.

Risk exposure, capital requirements and available capital are continuously monitored and reported to the Board every quarter or more often if dictated by the circumstances. The connection between the level of risk and the capital requirement is becoming increasingly clear in the statutory solvency rules. Länsförsäkringar Sak has a capital base that exceeds the statutorily required solvency margin by a healthy margin. Länsförsäkringar Sak, which is obliged to submit reports under the Financial Supervisory Authority's traffic-light model in accordance with the indebtedness rules, reported significant capital surpluses in relation to the requirements imposed by the test.

Preparations for new risk-based regulatory requirements – Solvency II

The EU reached an agreement on the modernisation of regulatory requirements for insurance companies, known as Solvency II, at the end of 2009. These changed Solvency II rules are extensive and affect a number of areas of the insurance companies' operations. For example, the new rules place more rigorous demands on governance and risk control. The rules also stipulate that the requirements for minimum buffer capital must be better adjusted to the individual insurance company's actual level of risk. A standard formula or an internal model can be used to calculate capital requirements under Solvency II. The latter is based on the company's own risks rather than applying more generally as is the case under the standard formula. An internal model is to be approved by the Swedish Financial Supervisory Authority before it is used for reporting to the Authority. An application has been submitted for the approval of the partial internal model for the Länsförsäkringar Group (excluding the bank, which is not encompassed by the Solvency II rules). The Group's insurance companies will thus be able to work with measures of capital requirement that are better aligned with the company's own risks than those in the standard formula. Länsförsäkringar Sak has applied to the Financial Supervisory Authority for a preparatory review of the partial internal model for calculating the Solvency Capital Requirement in its business operations.

The timeframe for the introduction of Solvency II has been successively postponed. In the spring of 2013, the European Insurance and Occupational Pensions Authority (EIOPA) concluded its analysis of certain measures to reduce the effects of short-term market valuations in the valuation of long-term insurance commitments under the Solvency II regulations (Long-Term Guarantee Assessment, LTGA). More than 500 European insurance companies participated in the analysis. Based on the EIOPA's LTGA report, institutions in the EU succeeded in reaching an agreement in November 2013. Under this agreement, the Solvency II regulations in their entirety are to apply from January 1, 2016. However, from as early as January 1, 2014, companies encompassed by the Solvency II rules are to begin applying the preparatory guidelines issued by EIOPA. The guidelines comprise the following areas: 1) system of governance, including risk management system, 2) a forward-looking assessment of the undertaking's own risks (ORSA), 3) pre-application of internal models and 4) reporting to supervisors.

Länsförsäkringar Sak has made significant progress in the Solvency II preparations. The preparatory work has been initially focused on ensuring compliance with the regulations. This means that Länsförsäkringar Sak and its subsidiaries essentially meets the requirements of the EIOPA's guidelines as per January 1, 2014. This work was also carried out to create the greatest possible business and customer value. New forms for the governance, management and control of risk and capital allocation in the Länsförsäkringar AB Group have contributed to enhancing the efficiency of the work processes and generating improved calculation tools for balancing risk limitation with opportunities for yielding returns.

Classification of risks

The following sections describe Länsförsäkringar Sak's overall risks and their governance and management. A brief description is provided for each specific risk and information about the level of exposure to the risk if it is possible to quantify. Figure 2 shows the classification of risk at Länsförsäkringar Sak.

Non-life insurance risk

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

The insurance operations in Länsförsäkringar Sak comprise the insurance classes Accident and Health, Commercial, Motor Hull, Motor Third-Party Liability, Marine, Air and Cargo, and Assumed Reinsurance. In 2013, business was underwritten in the insurance classes of health, health care, accident, property, marine and cargo and casualty insurance. In addition, insurance cover is provided for nationwide customers in the commercial automotive area (motor third-party liability insurance and motor-hull insurance), run-off motor third-party liability insurance and annuities operations. The company also handles the Länsförsäkringar Alliance's internal and external reinsurance and underwrites assumed international reinsurance. Where appropriate, the Board limits insurance risks through decisions on the highest permissible retention for different types of insurance risks and on the categories of reinsurer that may be used for ceded reinsurance.

Non-life insurance risks can be divided into premium risks, reserve risks and catastrophe risks. The implications of these terms and Länsförsäkringar Sak's general methods for handling these types of risk are described below. Table 1 shows a sensitivity analysis of changed premiums earned, increased claims costs and higher claims inflation.

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

	Impact on profit before tax		Impact on equity	
	2013	2012	2013	2012
10% lower premium level	–186	–180	–145	–132
10% increased claims frequency or higher average claim	–136	–127	–106	–93
1% higher annual claims inflation	–608	–598	–474	–441

Premium risk

Premium risk is the risk of losses occurring as a result of the coming year's claims being greater than expected.

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

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 and the companies' annual Own Risk and Solvency Assessment (ORSA). The total risk exposure (risk appetite) in insurance risk is calculated as a part of the company's total risk in the ORSA. A specific limit for total insurance risk is also established for internationally assumed reinsurance, expressed as a maximum solvency requirement (Solvency II) measured according to LIM (Länsförsäkringar's Internal Model).

In an effort to limit the risk in insurance operations, the company has insured itself against the risk of very large claims through ceded reinsurance, as described above. The company's own costs per claim incident, retention, and the limit up to which the reinsurance covers the costs per claim incident – or cover – vary from product to product. The "Guidelines for ceded reinsurance document" states the limits per counterparty and limits for retention and also limits the use of reinsurers to companies with high credit ratings. A maximum permitted liability per industry is assigned to individual reinsurers and to the reinsurer's total exposure. Maximum liability is expressed in a monetary amount and depends on the reinsurer's most recent rating based on the assessment of rating agencies, available market information and Länsförsäkringar's own information and experience regarding cash flows from the reinsurers. For more information, see under Counterparty risk below. Reinsurance for motor third-party liability insurance is managed on the basis of a pool solution in the Länsförsäkringar Alliance. This entails a certain level of exposure towards this type of business through assumed reinsurance, which leads to a slightly higher retention than the amount stated in the table below. The table below presents the reinsurance per claim incident.

Non-life insurance risk including health-insurance risk
Premium risk
Reserve risk
Catastrophe risk

Life-assurance risk
Longevity risk

Market risk
Interest-rate risk
Equities risk
Property risk
Spread risk
Currency risk
Concentration risk in investment assets

Counterparty risk
Counterparty risk in ceded reinsurance
Counterparty risk in financial derivatives
Other counterparty risk

Operational risk
Internal fraud
External crime
Labour practices and work environment
Business conditions
Compliance risk
Damage to physical assets
Interruptions and disturbances to operations and systems
Transaction management and process control

Business risk
Strategic risk
Earnings risk
Reputation risk

Concentration risk excluding investment assets

Liquidity risk including financing risk

Table 2. Reinsurance per claim incident, SEK M

	Dec 31, 2013		Dec 31, 2012	
	Retention	Cover	Retention	Cover
Motor third-party liability insurance	40	300	40	300
Casualty insurance	30	300	30	300
Marine and cargo insurance	5	1,000	5	1,000
Accident insurance	20	600	20	600

The reinsurance cover described in table 2 pertains to external counterparties. The external retention for motor third-party liability cover amounts to SEK 40 M, although the retention is reduced to SEK 2 M on the basis of reinsurance of SEK 38 M.

The amounts for reinsurance retention and cover in table 2 above apply for the Länsförsäkringar Sak Group as a whole, and so the amounts in this table pertain to the total reinsurance cover for Länsförsäkringar Sak, Gruppliv, Agria International and Agria Djurförsäkring. In addition to the information stated in the table, reinsurance cover is also purchased for internationally assumed reinsurance. Furthermore, the Länsförsäkringar Alliance's ceded, combined XL cover for natural catastrophes is insured through external catastrophe insurance.

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

Reserve risk

Reserve risk is the risk of losses occurring as a result of a negative outcome in the settlement of provisions for claims outstanding.

The total undertaking for current insurance policies and for claims outstanding amounts to approximately SEK 18.5 billion (18.8). An estimate of the cost of claims outstanding - about SEK 18.0 billion (18.3) - is associated with uncertainty as to how much claims, perhaps many years ahead, may cost. This is especially apparent in motor third-party liability insurance, which accounts for a large portion of the company's undertaking. In this case, there is considerable uncertainty concerning the future cost trend, due to the fact that legislation and official decisions can affect the distribution of costs for motor third-party liability claims between the insurance companies and society, and that the prospects for rehabilitation are difficult to assess in many cases.

The trend in reserves is tracked continuously by means of various key figures and using comparisons with other insurance companies. The actuarial reserve calculation is developed continuously so that the methods applied are well adapted to the conditions for each line of business or part thereof. 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 8.6 years (9.3), in other words, relatively high due to the large portion of motor third-party liability insurance transactions. Accordingly, the changes in claims inflation have a significant impact on provision requirements. The following diagram shows how the expected payments of claims outstanding, calculated at present value, are distributed according to tenure. Table 3 shows the trend in estimated claims costs before reinsurance.

Catastrophe risk

Catastrophe risk (referred to below as CAT risk) refers to the risk of losses occurring as a result of natural catastrophes, epidemics or disasters caused by human activities leading to very large claims payments.

Länsförsäkringar Sak has low exposure to catastrophe risk for own account, which can be seen in table 2 which states the maximum retention. Länsförsäkringar Sak administrates joint reinsurance cover for the Länsförsäkringar Alliance with respect to storms and natural catastrophes where Länsförsäkringar Sak assumes a certain level of risk for own account. The other operational area where Länsförsäkringar Sak, for own account, is exposed to certain catastrophe risk is in the internationally assumed reinsurance.

Life-assurance risk

Life-assurance risk at Länsförsäkringar Sak derives from the annuities operations which are subject to longevity risk. Longevity risk is the risk of losses occurring as a result of the insured living longer than assumed and is minor in relation to the company's non-life insurance risks. However, the annuities operations are growing so risks may increase in the future.

Market risk

Market risk is the risk that the fair value of, or future cash flows from, a financial instrument or a property will vary due to changes in market prices. In the management of Länsförsäkringar Sak's assets, assessments are made of the potential for favourable returns and the risk level involved for investment strategies and operational investment decisions. The classes of assets in asset management are equities, interest-bearing securities and property. The aim of management is to generate the highest possible returns given the selected level of risk within the framework of legal restrictions and applicable guidelines resolved by the Board. The Board assumes the overall responsibility by making decisions on the maximal market risk for the company that may not be exceeded.

Table 3. Estimated claims costs before reinsurance, per claim year

SEK M	2007	2008	2009	2010	2011	2012	2013	Total
At end of claim year	1,009	966	1,115	1,084	1,024	913	1,003	
One year later	969	959	1,121	1,272	1,095	915		
Two years later	873	957	1,089	1,228	1,036			
Three years later	857	946	1,087	1,181				
Four years later	850	952	1,093					
Five years later	851	964						
Six years later	859							
Estimated claims costs	859	964	1,093	1,181	1,036	915	1,003	
Accumulated claims payments	720	785	931	902	770	608	378	
Provision for claims payments	138	179	162	279	266	307	625	1,957
Provision for claims payments, older year classes								3,722
Provision for claims payments for assumed reinsurance								7,742
Total provision for claims payments, gross								**13,421**
Annuity reserve, gross								4,340
Claims adjustment reserve, gross								254
Provision for claims outstanding, gross								**18,015**
Provision for claims payments, reinsurers' portion								–7,186
Claims adjustment reserve, reinsurers' portion								–3
Provision for claims outstanding, reinsurers' portion								**–7,189**
Provision for claims outstanding, for own account								**10,825**

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

Asset management is responsible for the daily risk monitoring in accordance with the sub-limits for the various risk categories decided by the Board, in addition to the total maximum market risk. Changes in interest rates, exchange rates, share prices and prices of commodities, as well as changes in their individual volatilities, influence the market values of financial assets and liabilities. Derivative instruments are increasingly utilised in the management of investment assets in order to achieve the desired risk profile. The sensitivity analysis in the table below shows the effect on profit before tax and the impact on equity of several different negative outcomes for Länsförsäkringar Sak.

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

	Impact on earnings before tax		Impact on equity	
	2013	2012	2013	2012
Interest-rate risk, 1% higher interest rate	–50.4	–65.4	–39.3	–48.2
Equities risk, 10% lower share prices[1)]	–52.4	–75.0	–40.9	–55.3
Credit-spread risk, 1% increase in credit spread	–96.4	–140.3	–75.2	–103.4
1% higher real interest rate (including impact on annuities)	–50.2	–55.2	–39.1	–40.1

[1)] Includes 10% lower prices on hedge funds.

Currency risk

Currency risk is the risk of losses occurring as a result of changes in the level or volatility of exchange rates. The majority of Länsförsäkringar Sak's technical provisions are denominated in SEK. The minor currency exposure that exists is due to investment assets and from commitments in internationally assumed reinsurance in other currencies and the risk is limited to the desired level by the use of currency derivatives.

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

	Impact on earnings before tax	
Currency	2013	2012
CHF	+/–345	+/–592
CNY	+/–2,836	+/–452
DKK	+/–2,807	+/–1,458
EUR	+/–47	+/–465
GBP	+/–1,089	+/–1,049
INR	+/–1,650	+/–1,134
JPY	+/–56	+/–4,948
KRW	+/–962	+/–729
NOK	+/–96	+/–3,224
NZD	+/– 2011	+/– 1785
PLN	+/–55	+/–663
RUB	+/–68	+/–530
USD	+/–4,777	+/–913

Table 6. **Fixed-interest periods for Länsförsäkringar Sak's assets and liabilities, net (incl. derivatives), SEK M**

Dec 31, 2013 Amounts in SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total carrying amount
Assets									
Bonds and other interest-bearing securities	168.2	834.3	576.8		1,504.2	650.2	4,894.8	1,041.9	9,670.5
Internal receivables		946.7	920.5		2.1	27.1			1,896.5
Cash and cash equivalents	174.6								174.6
Other assets	98.1	0.6	0.1					578.9	677.8
Total assets	**441.0**	**1,781.6**	**1,497.5**	**0**	**1,506.3**	**677.3**	**4,894.8**	**1,620.8**	**12,419.4**
Liabilities									
Internal liabilities	10.2								10.2
Other liabilities	1.3							986.6	987.9
Total liabilities	**11.5**	**0**	**0**	**0**	**0**	**0**	**0**	**986.6**	**998.1**
Difference assets and liabilities	**429.5**	**1,781.6**	**1,497.5**	**0**	**1,506.3**	**677.4**	**4,894.8**	**634.2**	**11,421.3**
Interest-rate derivatives, nominal flows					–1,279.2	–542.6	–533.8		

Dec 31, 2012 Amounts in SEK M	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 3 years	More than 3 years but not more than 5 years	More than 5 years	Without interest	Total carrying amount
Assets									
Bonds and other interest-bearing securities	8.0	824.6	765.9	183.9	1,448.0	579.5	5,286.6	841.6	9,938.0
Internal receivables	25.4	1,147.0	297.5	3.0	617.0		2.0	17.8	2,109.7
Cash and cash equivalents	140.1								140.1
Other assets	1.2							921.4	922.6
Total assets	**174.7**	**1,971.6**	**1,063.4**	**186.9**	**2,065.0**	**579.5**	**5,288.6**	**1,780.8**	**13,110.5**
Liabilities									
Internal liabilities	4.6								4.6
Other liabilities	27.9							893.9	921.8
Total liabilities	**32.5**							**893.9**	**926.4**
Difference assets and liabilities	**142.2**	**1,971.6**	**1,063.4**	**186.9**	**2,065.0**	**579.5**	**5,288.6**	**886.9**	**12,184.1**
Interest-rate derivatives, nominal flows					–161.3	–214.9	–409.3		

Interest-rate risk

Interest-rate risk is the risk of losses occurring as a result of changes in the level or volatility of market interest rates. The desired risk level is described and a desired target decided for the duration with a permitted deviation interval. For the majority of Länsförsäkringar Sak's insurance undertakings, the value is not determined based on the market interest rate, according to applicable accounting rules, meaning that technical provisions are not discounted in accordance with the present-value principle as of today. One exception is insurance undertakings for annuities, which are discounted according to instructions from the Swedish Financial Supervisory Authority. The interest-rate risk in annuities operations is managed with real return bonds which provide sound matching of the real interest-rate risk in the reserve.

Länsförsäkringar Sak governs its own risk-taking by taking into account the sensitivity of the insurance undertakings to changes in interest rates, with conscious choices about the extent to which the undertakings are matched against assets with corresponding properties. The insurance undertakings are presented in the table on the maturity structure of assets and liabilities that appears at the end of this note. Exposure to market interest rates changes is presented in the following table as fixed-interest periods for fixed-interest assets and liabilities, net.

Equities risk

Equities risk is the risk of losses occurring as a result of changes in the level or volatility of share prices or prices of alternative assets. As stated in the balance sheet, equities exposure in Länsförsäkringar Sak is low. The exposure that does exist is attributable to strategic holdings and a limited amount to listed shares. In addition, there are certain indirect holdings through equity and hedge funds. See notes 20 and 21 for more information.

Property risk

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

The property risk in Länsförsäkringar Sak overwhelmingly derives from the ownership of the office property in Stockholm that the Länsförsäkringar AB Group utilises for its operations, and holdings in a property company wholly owned by the Länsförsäkringar Alliance.

Credit-spread risk

Credit-spread risk is the risk of losses occurring as a result of changes in the level or volatility of the difference between market interest rates on bonds with credit risks and government securities' rates. Decisions on the size of the portion of the bond portfolio that is to comprise bonds with credit risk are made in light of prevailing market conditions and the desired level of risk-taking in the investment portfolio.

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

Table 7. Credit quality of assets

	SEK M	
	2013	**2012**
Loans to credit institutions		
A	501	455

The amount classified as loans to credit institutions above includes SEK 327 M (315) that pertains to receivables from Länsförsäkringar Bank. These are classified as other receivables in the balance sheet.

	2013	2012
Bonds and other interest-bearing securities		
AAA – Swedish Government	5,864.2	6,079.7
AAA	3,329.7	3,488.5
AA	14.5	103.4
A	440.7	499.7
BBB	85.9	70.2
BB or lower	406.5	211.7
No rating available	371.4	370.3
Total	**10,512.9**	**10,823.5**
Financial derivatives (exposure according to market values)		
AA	–	8.8
A	–	–0.6
Total	**0.0**	**8.2**

Table 8. Länsförsäkringar Sak's net exposure in foreign currency

	2013					2012				
Local currency in millions	**Assets**	**Liabilities**	**Effect of derivatives**	**Net after taking into account effect of derivatives**	**Equivalent in SEK M**	**Assets**	**Liabilities**	**Effect of derivatives**	**Net after taking into account effect of derivatives**	**Equivalent in SEK M**
CHF	0.6	1.3	1.2	0.5	3.4	0.4	1.2	0.0	–0.8	–5.9
CNY	8.3	35.0	0.0	–26.7	–28.4	7.2	11.6	0.0	–4.3	–4.5
DKK	25.0	22.5	21.2	23.7	28.0	27.2	14.5	0.0	12.7	14.6
EUR	78.2	62.5	–15.6	0.1	0.5	168.4	58.3	–110.7	–0.5	–4.7
GBP	21.3	0.7	–19.6	1.0	10.9	20.0	1.1	–19.9	–1.0	–10.5
INR	18.8	177.6	0.0	–158.9	–16.5	12.0	107.5	0.0	–95.5	–11.3
JPY	81.3	400.5	328.4	9.2	0.5	66.0	723.7	0.0	–657.7	–49.5
KRW	999.9	2,580.5	0.0	–1,580.6	–9.6	870.9	2,070.0	0.0	–1,199.0	–7.3
NOK	3.7	28.9	24.3	–0.9	–1.0	3.0	30.6	0.0	–27.6	–32.2
NZD	0.9	4.7	0.0	–3.8	–20.1	1.0	4.3	0.0	–3.3	–17.8
PLN	0.1	3.2	3.3	0.3	0.6	0.1	3.3	0.0	–3.2	–6.6
RUB	7.8	30.3	26.0	3.5	0.7	1.8	26.6	0.0	–24.9	–5.3
USD	63.4	8.5	–47.4	7.5	47.8	38.2	13.5	–23.3	1.4	9.1
Other currencies					9.7					–10.1
Total					**26.5**					**–142.0**

Counterparty risk

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

Counterparty risks to reinsurers pertain to a minor extent to reinsurance receivables and reinsurers' portions of claims outstanding. Predetermined regulations on the choice of reinsurance company are in place to limit counterparty risks on reinsurers. For business with long settlement periods, reinsurers are to have a minimum A rating from the Standard & Poor's rating agency and a minimum BBB rating for other types of business. In addition, efforts are made to ensure a spread of ceded reinsurance between many reinsurers, which guarantees overall high quality receivables.

The largest total reinsurance receivable to a single company in 2013 was Parter Re (A+) (2012: Swiss Re, AA–) and comprised 11% (7) of the total external reinsurance receivable. The 10 largest reinsurance receivables comprising 55% (35) of the total external reinsurance receivables all had a rating of A or higher. Counterparty risks in financial derivatives are managed through regulations for approved exposure to counterparties. The size of the permitted exposure depends on the rating of the counterparty. Exposure is limited on the basis of ISDA agreements (netting agreements) and accompanying agreements on pledging collateral for certain attained counterparty exposure.

Table 9. Distribution of exposure of externally purchased reinsurance cover

Exposure for externally purchased cover for 2012 and 2013	Percentage distribution per rating category 2013	2012
AAA	–	–
AA	47.0	48.6
A	44.7	49.8
BBB	3.2	1.6
No rating available[1]	1.1	–
No S&P rating available[2]	4.0	–

[1] 50% of Agria's reinsurance is with the regional insurance companies.
[2] Has an AM Best rating A.

Table 10. Financial investment assets

Credit risk exposure	SEK M 2013	2012
Bonds and other interest-bearing securities	9,670.5	9,938.0
Other financial investment assets	77.2	52.7
Derivatives with positive market values	3.9	20.0
Cash	174.6	140.1
Total	**9,926.2**	**10,150.8**

Operational risk

Operational risk is defined as the risk of losses occurring as a result of inappropriate or unsuccessful processes, human error, incorrect systems or external events. By conducting preventive measures and applying suitable risk management and control, Länsförsäkringar Sak can reduce the probability of operational risks materialising and thus reduce their consequences. The process of managing and controlling operational risk includes identifying, measuring, monitoring, managing and reporting. Operational risk analyses are performed annually both at company level and in the operating activities. A joint method and reporting format are used in these analyses. Operational risks are identified, the potential consequences evaluated and probability of the risk occurring assessed. Action plans are prepared for material risks, which are followed up every quarter. The Risk Control function facilitates analyses and aggregates results to each company's management group and Board. Risk Control also monitors and reports the implementation of the action plans during the year.

To meet the increasing requirements in incident handling, common system support is used with the aim of standardising operating-risk measurement methods throughout the Group. Furthermore, a continuity plan is adopted annually by executive management.

Business-critical processes and their associated risks have been analysed and documented to strengthen the internal control. In conjunction with this, the most important controls, known as key controls, were also documented. Reporting on the outcome of implemented key controls is part of identifying improvements in the quality and efficiency of Länsförsäkringar Sak's processes and enhancing the management of critical risks. Reporting also creates an overview of the aggregated control environment.

Business risk

Business risk pertains to the risk of lower earnings due to more difficult competitive conditions, the wrong strategy or incorrect decisions. Business risk is the risk of losses occurring as a result of business strategies and business decisions proving to be misdirected, actions by competitors, changes in the external environment, negative rumours about the company and an unexpected downturn in income, for example, from volume decreases. Business risks are managed at Board and management level through analyses and decisions prior to making strategic choices on the direction of the operations, and in the annual business planning process and also when trends in the Group's markets require management actions. The specific business risks that are deemed to be the most important at any given time are continuously monitored at management level.

Concentration risk

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

Concentration risk is primarily counterbalanced by decisions determining the maximum exposure per reinsurer, per counterparty in financial derivatives, discretionary reinsurance of the insured, very large individual risks and by the diversification of the Group's investment assets. Länsförsäkringar Sak's management and Board frequently study reports on the Group's major areas of exposure and risk concentrations. From 2004, most of Länsförsäkringar's motor third-party liability insurance has been underwritten by the local regional insurance companies. Claims incurred for insurance business underwritten up to and including 2003 is run-off within Länsförsäkringar Sak. The reserve risk in the Group's non-life insurance operations remains relatively heavily concentrated to the motor third-party liability insurance business. Of the total technical provisions after ceded reinsurance of SEK 11.3 billion (12.1), 65% (68) refers to the motor third-party liability insurance class of insurance, including annuities.

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

The greatest single investment asset on December 31, 2013 was the property in Stockholm that is owned indirectly through subsidiaries and that the Group utilises. The property's market value amounted to SEK 2,250 M (2,250) at year-end, corresponding to 16% (15) of the investment assets. The other major exposures pertain to the four largest Swedish bank groups and mainly derive from investments in mortgage bonds.

Liquidity risk including financing risk

Liquidity risk is the risk of losses occurring as a result of the company's undertakings not being fulfilled due to a shortage of cash and cash equivalents or that these undertakings can only be fulfilled by raising funding at significantly higher costs than usual or by divesting assets at a loss. The non-life insurance companies' liquidity risks are low since premiums are received in advance and large claims payments are known well in advance of their maturity dates. In addition, most of the investment assets are available at short notice. Länsförsäkringar Sak's liquidity was highly favourable at year-end with cash and cash equivalents amounting to SEK 174.6 M (140.1). The general limits in the investment guidelines for liquidity were added in 2013.

Table 11. **Maturity structure of the Group's financial assets and liabilities, the table presents undiscounted nominal values**

Dec 31, 2013 SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal value	Carrying amount
Assets								
Bonds and other interest-bearing securities	5,384.2	160.8	893.3	2,407.6	791.5	1,045.3	10,682.8	9,670.5
Internal receivables		5.7	678.7	282.9	1,119.6		2,087.1	1,897.5
Cash and cash equivalents	174.6						174.6	174.6
Other assets	17.0	66.8		0.8	3.7	575.6	663.9	676.9
Total assets	**5,575.8**	**233.3**	**1,572.0**	**2,691.4**	**1,914.9**	**1,621.0**	**13,608.4**	**12,419.4**
Liabilities								
Internal liabilities		10.1					10.1	10.1
Technical liabilities			2,669.8	3,531.9	7,946.0		14,147.7	18,487.6
Other liabilities	4.6	18.4	2.0			963.1	988.1	988.1
Total liabilities	**4.6**	**28.5**	**2,671.8**	**3,531.9**	**7,946.0**	**963.1**	**15,145.9**	**19,485.8**
Difference assets and liabilities	**5,571.2**	**204.7**	**–1,099.8**	**–840.8**	**–6,031.1**	**657.9**	**–1,537.5**	**–7,066.4**
Interest-rate derivatives, nominal flows, net		–14.4	–2.0					

Dec 31, 2012 SEK M	On demand	< 3 months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Without maturity	Total nominal value	Carrying amount
Assets								
Bonds and other interest-bearing securities	3,677.7	47.0	1,016.0	2,204.5	307.8	841.6	8,094.6	9,938.0
Internal receivables	1.2	1.2	95.6	770.0	1,217.0		2,085.1	2,109.7
Cash and cash equivalents	140.1						140.1	140.1
Other assets		33.0	61.3			828.3	922.7	2,942.7
Total assets	**3,819.0**	**81.2**	**1,172.9**	**2,974.5**	**1,524.8**	**1,669.9**	**11,242.5**	**15,130.5**
Liabilities								
Debt securities in issue								
Internal liabilities		4.6					4.6	4.6
Technical liabilities			3,861.1	2,869.1	7,271.1		14,001.3	18,781.2
Other liabilities	6.4	28.7				886.7	921.9	851.5
Total liabilities	**6.4**	**33.3**	**3,861.1**	**2,869.1**	**7,271.1**	**886.7**	**14,927.8**	**19,637.3**
Difference assets and liabilities	**3,812.6**	**47.9**	**–2,688.2**	**105.4**	**–5,746.3**	**783.2**	**–3,685.3**	**–4,506.7**
Interest-rate derivatives, nominal flows, net		–680 .2						

Technical provisions are recognised gross (before ceded reinsurance). Annuities are not included in the nominal value of technical provisions. Figures for the first year have not been specified in detailed time intervals, meaning that the estimate presented for the >3 months < 1 year interval pertains to the entire first year, without specifying when exactly the provision is expected to be regulated during the first year.

3 PREMIUM INCOME

	2013	2012
Direct insurance, Sweden	1,450.9	1,388.8
Direct insurance, other EEA	5.2	5.0
Assumed reinsurance	2,357.5	2,316.0
Total	**3,813.6**	**3,709.8**

4 INVESTMENT INCOME TRANSFERRED FROM FINANCIAL OPERATIONS

	2013	2012
Transferred investment income	136.9	144.3
Interest rates, %		
Provisions for insurance policies with long-term claims in run-off, SEK	2.0	1.8
Provisions for insurance policies with short-term claims in run-off, SEK	1.4	1.8

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).

5 CLAIMS PAID

	2013	2012
Claims paid	–1,523.5	–1,552.5
Operating expenses for claims adjustment	–177.8	–160.3
Total	**–1,701.3**	**–1,712.8**

6 OPERATING EXPENSES

Total operating expenses by type of cost

	2013	2012
Staff costs	–172.6	–177.1
Costs for premises	–38.5	–33.8
Depreciation/amortisation	–34.9	–54.3
Service income	39.1	38.9
Other expenses	–517.2	–510.9
Total	**–724.1**	**–737.2**

Total operating expenses by function

	2013	2012
Operating expenses in asset management	–100.1	–124.1
Operating expenses for claims adjustment	–177.8	–160.3
Operating expenses for procurement and administration	–446.2	–452.8
Total	**–724.1**	**–737.2**
Operating expenses		
Acquisition costs[1]	–279.5	–276.7
Change in Prepaid acquisition costs	2.0	2.3
Administration expenses	–286.2	–294.1
Commission and profit shares in ceded reinsurance	117.5	115.7
Total	**–446.2**	**–452.8**
[1] Of which, commission for direct insurance	–93.7	–96.2
Of which, expenses for the leasing of premises, equipment and IT equipment	–83.3	–72.1

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

7 FEES AND REMUNERATION OF AUDITORS

The following fees have been paid to auditors

	2013	2012
KPMG AB, audit assignments	1.4	1.3
KPMG AB, audit activities in addition to audit assignment	–	–
KPMG AB, tax consulting	–	–
KPMG AB, other services[1]	–	3.2

[1] Of fees and remuneration to auditors, other services, SEK 0.0 M (3.2) was capitalised as Other intangible assets in the balance sheet.

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.

8 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES

Average number of employees, Sweden	2013	2012
Men	61	55
Women	85	84
Total number of employees	**146**	**139**

Salaries, other remuneration and social security expenses, other employees	2013	2012
Salaries and remuneration	83.1	77.2
of which, variable remuneration	–	–
Social security expenses	56.3	67.2
of which, pension costs	23.9	32.8
	139.4	**144.4**

Board of Directors and senior executives, 13 (15)	2013	2012
Salaries and remuneration	10.5	10.2
of which, fixed salary to President	2.9	2.7
of which, variable salary to President	–	–
of which, fixed salary to other senior executives	6.4	6.2
of which, variable salary to other senior executives	–	–
Social security expenses	8.4	8.0
of which, pension costs	4.1	3.8
	18.9	**18.2**

Total salaries, other remuneration and social security expenses	2013	2012
Salaries and remuneration	93.6	87.4
of which, variable remuneration	–	–
Social security expenses	64.7	75.2
of which, pension costs	28.0	36.6
	158.3	**162.6**

Remuneration of the Board of Directors
Directors' fees are payable to the Chairman and members of the Board in accordance with a decision of the Annual General Meeting. No fee is payable to employee representatives.

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. Senior executives are the individuals who, together with the President, comprise corporate management.

8 EMPLOYEES, STAFF COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont.

Remuneration and other benefits for senior executives (Amount in SEK 000s)

2013	Basic salary	Variable remuneration	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary, % Defined-contribution
Ann Sommer, President	2,892	–	2	1,258	4,152	43
Mikael Sundquist, Board member	223	–	–	–	223	–
Axel von Stockenström, Board member	178	–	–	–	178	–
Göran Spetz, Board member	178	–	–	–	178	–
Mariette Nicander, Board member	204	–	–	–	204	–
Carl Henrik Ohlsson, Board member	178	–	–	–	178	–
Ann-Christine Norrström, Board member	130	–	–	–	130	–
Kjell Lindfors, former Deputy Chairman of the Board	111	–	–	–	111	–
Other senior executives						
Parent Company (5 people)	6,385	–	25	2,854	9,264	44
Subsidiaries (2 individuals)	3,907	–	10	1,797	5,714	46
Total 2013	**14,386**	–	**37**	**5,909**	**20,332**	–
Total remuneration from Parent Company	**10,478**	–	**28**	**4,112**	**14,618**	–
Total remuneration from subsidiaries	**3,907**	–	**10**	**1,797**	**5,714**	–

2012						
Ann Sommer, President	2,749	–	3	1,187	3,939	41
Kjell Lindfors, Deputy Chairman of the Board	227	–	–	–	227	–
Jan Fock, former Deputy Chairman of the Board	110	–	–	–	110	–
Mikael Sundquist, Board member	220	–	–	–	220	–
Axel von Stockenström, Board member	176	–	–	–	176	–
Göran Spetz, Board member	176	–	–	–	176	–
Mariette Nicander, Board member	103	–	–	–	103	–
Carl Henrik Ohlsson, Board member	103	–	–	–	103	–
Anders Stigers, former Board member	73	–	–	–	73	–
Lars-Göran Pettersson, former Board member	73	–	–	–	73	–
Other senior executives						
Parent Company (5 people)	6,161	–	44	2,649	8,854	41
Subsidiaries (2 individuals)	2,904	–	7	1,171	4,082	31
Total 2012	**13,075**	**–**	**54**	**5,007**	**18,136**	**–**
Total remuneration from Parent Company	**10,171**	**–**	**47**	**3,836**	**14,054**	**–**
Total remuneration from subsidiaries	**2,904**	**–**	**7**	**1,171**	**4,082**	**–**

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 Swedish Insurance Employers' Association (FAO), the Swedish Union of Insurance Employees (FTF) and the Swedish Confederation of Professional Associations (SACO). Furthermore, an additional pension premium corresponding to one price base amount per year is paid every year.

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 senior executives

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, %	Dec 31, 2013	Dec 31, 2012
Board members	33	22
Other senior executives	38	40

9 INVESTMENT INCOME, REVENUE

	2013	2012
Dividends on shares and participations	6.2	14.8
Dividend from associated companies	–	3.2
Interest income		
Bonds and other interest-bearing securities	271.5	328.7
Other interest income	10.1	16.5
Profit from partnership participations	107.0	91.1
Translation gain, annuity reserve	473.7	–
Exchange-rate gains, net	9.1	12.1
Capital gains, net		
Shares and participations	89.6	–
Interest-bearing securities, Group companies	–	275.0
Shares and participations[1)]	–	–
Total	**967.2**	**741.4**

[1)] Investment assets identified as items measured at fair value in profit and loss.

10 INVESTMENT INCOME, EXPENSES

	2013	2012
Asset management expenses	–100.1	–124.1
Interest expense		
Deposit accounts and management fees	–5.0	–9.4
Interest expense, currency futures and derivatives	–5.3	-16.7
Other interest expense	–1.9	–3.6
Translation loss, annuity reserve	–	–31.2
Exchange-rate losses, net	–	–
Capital losses, net		
Shares and participations	–	–0.0
Interest-bearing securities, Group companies	–30.4	–
Other investment assets	–	–19.2
Total	**–142.7**	**–204.2**

11 NET INVESTMENT INCOME, PER MEASUREMENT CATEGORY

Gain/loss by measurement category

	2013	2012
Derivative assets intended for risk management, non-hedge accounting	32.3	30.4
Other financial assets measured at fair value in profit and loss	–367.8	250.4
Other financial liabilities	–1.6	–3.5
Loans and receivables	3.9	5.8
Items not specified by category		
Exchange-rate gains	7.1	12.1
Translation gain/loss, annuity reserve	473.7	–31.2
Asset management expenses	–100.1	–124.1
Non-financial items included in investment income, net	72.6	155.3
Total	**120.1**	**295.2**

12 UNREALISED GAINS AND LOSSES ON INVESTMENT ASSETS

	Unrealised gains		Unrealised losses	
Unrealised gains/losses	**2013**	**2012**	**2013**	**2012**
Shares and participations	–	–	–85.8	–30.2
Bonds and other interest-bearing securities	–	18.8	–590.4	–197.0
Derivatives	–	0.7	–	–
Other financial assets	7.6	0.6	–	–
Total	**7.6**	**20.1**	**–676.2**	**–227.2**

13 OTHER NON-TECHNICAL EXPENSES

	2013	2012
Amortisation, goodwill	–28.9	–29.0
Total	**–28.9**	**–29.0**

14 TAXES

	2013	2012
Current tax	–36.0	–39.1
Total current tax	**–36.0**	**–39.1**
Deferred tax		
Deferred tax expense pertaining to temporary differences	4.5	1.4
Deferred tax income, utilised capitalised tax-loss carryforward	–	–56.8
Total deferred tax	**4.5**	**–55.4**
Total recognised tax income/expense	**–31.5**	**–94.5**

	2013	2012
Reconciliation of effective tax rate		
Profit before tax	139.0	324.8
Tax at applicable tax rate	–30.6	–85.4
Tax on non-deductible costs	–7.3	–9.3
Tax on non-taxable income	3.9	0.0
Tax attributable to earlier years	2.5	–3.0
Tax attributable to changed tax rates	–	3.3
Total tax on net profit for the year	**–31.5**	**–94.5**
Current tax rate, %	22.0%	26.3%
Effective tax rate, %	22.7%	29.1%

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

	Deferred tax assets		Deferred tax liabilities		Net	
December 31	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Intangible assets	–	–	–	4.4	–	4.4
Receivables	–3.1	–8.1	15.3	20.4	12.2	12.3
Utilisation of loss carryforwards	–	–	–	–	–	–
Deferred tax assets (–) /deferred tax liabilities (+)	**–3.1**	**–8.1**	**15.3**	**24.8**	**12.2**	**16.7**
Offset	–	–	–	–	–	–
Net deferred tax assets (–) /deferred tax liabilities (+)	**–3.1**	**–8.1**	**15.3**	**24.8**	**12.2**	**16.7**

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

Change in deferred tax in temporary differences and loss carryforwards

	Amount at January 1	Recognised in equity	Recognised in profit and loss	Amount at December 31
Intangible assets	4.4	–	–4.4	–
Receivables	12.3	–	–0.1	12.2
Utilisation of loss carryforwards	–	–	–	–
Deferred tax assets (–) /deferred tax liabilities (+)	**16.7**	–	**–4.5**	**12.2**

15 PROPERTY AND EQUIPMENT

	Dec 31, 2013	Dec 31, 2012
Cost		
Opening cost, January 1	2.5	–
Acquisitions for the year	1.8	2.5
Closing cost, December 31	**4.3**	**2.5**
Depreciation		
Opening accumulated depreciation, January 1	–0.2	–
Depreciation for the year	–0.7	–0.2
Closing accumulated depreciation, December, 31	**–0.9**	**–0.2**
Carrying amount, December 31	**3.4**	**2.3**

No impairment losses were recognised.

16 GOODWILL

	Dec 31, 2013	Dec 31, 2012
Capitalised acquisition cost of goodwill		
Opening cost	144.4	144.4
Closing cost	**144.4**	**144.4**
Amortisation		
Opening accumulated amortisation	–74.7	–45.7
Amortisation for the year	–28.9	–29.0
Closing accumulated amortisation	**–103.6**	**–74.7**
Carrying amount at year-end	**40.8**	**69.7**

17 OTHER INTANGIBLE ASSETS

	Internally developed IT systems	Acquired IT systems	Acquired customer-based assets	Total
Accumulated cost				
Opening cost, January 1, 2012	143.8	13.3	322.8	479.9
Acquisitions for the year	11.8	–	–	11.8
Closing cost, December 31, 2012	**155.6**	**13.3**	**322.8**	**491.7**
Opening cost, January 1, 2013	155.6	13.3	322.8	491.7
Acquisitions for the year	–	–	–	–
Reclassification, cost	–13.2	13.2	–	–
Closing cost, December 31, 2013	**142.4**	**26.5**	**322.8**	**491.7**
Accumulated amortisation				
Opening amortisation, January 1, 2012	–48.8	–8.0	–239.9	–296.7
Amortisation for the year	–3.5	–2.6	–48.0	–54.1
Closing amortisation, December 31, 2012	**–52.3**	**–10.6**	**–287.9**	**–350.8**
Opening amortisation, January 1, 2013	–52.3	–10.6	–287.9	–350.8
Amortisation for the year	–14.3	7.7	–27.5	–34.1
Closing amortisation, December 31, 2013	**–66.6**	**–2.9**	**–315.4**	**–384.9**
Accumulated impairment				
Opening impairment, January 1, 2012	–74.6	–	–	–74.6
Closing impairment, December 31, 2012	**–74.6**	**–**	**–**	**–74.6**
Opening impairment, January 1, 2013	–74.6	–	–	–74.6
Closing impairment, December 31, 2013	**–74.6**	**–**	**–**	**–74.6**
Carrying amount				
December 31, 2012	**28.7**	**2.7**	**34.9**	**66.3**
December 31, 2013	**1.2**	**23.6**	**7.4**	**32.2**

Acquisitions for the year pertain to proprietary systems. All intangible assets were amortised, see the accounting policies.

18 SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Participating interest	Carrying amount, property	Market value, property	Equity Dec 31, 2013	Of which, profit 2013	Carrying amount, Dec 31, 2013
Försäkringsaktiebolaget Agria (publ)	516401-8003	Stockholm	40,000	100	–	–	531.6	102.7	823.8
Länsförsäkringar Sak Fastighets AB	556683-6416	Stockholm	1,000	100	67.9	424.1	68.0	-0.0	68.0
Länsförsäkringar Grupplivförsäkrings AB (publ)	516401-6692	Stockholm	28,000	100	–	–	259.4	51.1	338.8
Utile Dulci 2 HB	916601-0067	Stockholm	3,996	100	1,256.7	2,247.8	524.6	107.0	721.4
Total December 31, 2013							**1,383.6**	**260.8**	**1,952.0**
Total December 31, 2012							**1,132.2**	**204.7**	**1,845.0**

All shares and participations are unlisted.

Cost	Dec 31, 2013	Dec 31, 2012
Opening balance	1,845.0	1,708.1
Added and deducted assets	107.0	136.9
Closing balance	**1,952.0**	**1,845.0**
Total carrying amount	**1,952.0**	**1,845.0**

19 LOANS TO GROUP COMPANIES

	Dec 31, 2013	Dec 31, 2012
Promissory notes to Utile Dulci 2 HB	750.0	915.0
Länsförsäkringar Bank AB (publ)	405.5	442.0
Länsförsäkringar Hypotek AB (publ)	741.0	733.7
Total	**1,896.5**	**2,090.7**

The loan to Utile Dulci 2 HB is current. The interest-rate period is determined by STIBOR, three-months at a time. Interest dates are March 31, June 30, September 30 and December 31. Matures on demand. With respect to Länsförsäkringar Hypotek, the loan comprises listed bonds.

20 SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

Company name	Corporate Registration Number	Registered office	Number of shares and participations	Share of equity %	Equity Dec 31, 2013	Profit 2013	Carrying amount Dec 31, 2013
Länsförsäkringsbolagens Fastighets HB Humlegården	916604-6459	Stockholm	188,722	29	0.0	0.0	0.0
Consulting AB Lennermark & Andersson	556131-2223	Örebro	1,582	29	63.9	18.0	10.7
European Alliance Partners Company AG[1)]	CH-0203026423-1	Zürich	10,570	14	58.0	1.6	6.8
Total							**17.5**

All shares and participations are unlisted.

Cost	Dec 31, 2013	Dec 31, 2012
Opening balance	17.5	17.5
Added and deducted assets	–	–
Closing balance	**17.5**	**17.5**
Total carrying amount	**17.5**	**17.5**

Summary of financial information pertaining to associated companies
Information pertains to Länsförsäkringar Sak's participating interest

	2013	2012
Income	50.0	47.6
Earnings	5.4	3.9
Assets	41.5	32.2
Liabilities	14.8	11.0
Equity	26.7	21.2

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

21 SHARES AND PARTICIPATIONS

	Fair value	
	Dec 31, 2013	Dec 31, 2012
Unlisted shares and participations	32.0	294.0
Total	**32.0**	**294.0**
Cost	155.6	333.7

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

22 BONDS AND OTHER INTEREST-BEARING SECURITIES

	Fair value	
	Dec 31, 2013	Dec 31, 2012
Issued by		
Swedish government	5,835.5	6,054.8
Swedish mortgage institutions	2,109.0	2,080.3
Other Swedish issuers	884.0	1,152.5
Other foreign issuers	842.0	650.4
Total	**9,670.5**	**9,938.0**
Market status		
Securities listed	9,670.5	9,938.0
Amortised cost	9,667.6	9,355.7

The carrying amounts of the securities compared with their nominal amounts

	Dec 31, 2013	Dec 31, 2012
Total surplus	1,911.9	2,541.6
Total deficit	–21.6	–0.5
Net difference	**1,890.3**	**2,541.1**

23 DERIVATIVES

Derivative instruments with positive values or valued at zero

	Fair value		Nominal amount	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Interest-rate derivatives	0.7	0.8	–2,412.9	–710.2
Currency derivatives	3.2	19.2	316.8	1,563.0
Total	**3.9**	**20.0**	**–2,096.1**	**852.8**

Derivatives with negative values

	Fair value		Nominal amount	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Interest-rate derivatives	0.0	0.1	169.2	30.0
Currency derivatives	20.4	4.6	124.9	–812.4
Total	**20.4**	**4.7**	**294.1**	**–782.4**

24 RECEIVABLES, DIRECT INSURANCE

	Dec 31, 2013	Dec 31, 2012
Receivables, policyholders	321.2	301.4
Receivables, insurance brokers	5.1	24.5
Receivables, insurance companies	–3.9	0.5
Total	**322.4**	**326.4**

25 OTHER RECEIVABLES

	Dec 31, 2013	Dec 31, 2012
Receivables, Group companies	369.8	388.8
Receivables, Parent Company	226.2	148.3
Receivables, Länsförsäkringar Liv Försäkrings AB	0.0	0.1
Other receivables	25.9	11.9
Total	**621.9**	**549.1**

26 ACCRUED INTEREST INCOME

	Dec 31, 2013	Dec 31, 2012
Accrued interest rates pertaining to Group companies	18.5	17.8
Other accrued interest rates	62.6	73.0
Total	**81.1**	**90.8**

27 PREPAID ACQUISITION COSTS

	Dec 31, 2013	Dec 31, 2012
Opening prepaid costs	22.0	19.7
Amortisation for the year	–22.0	–19.7
Provision for the year	24.0	22.0
Total	**24.0**	**22.0**

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

28 OTHER PREPAID EXPENSES AND ACCRUED INCOME

	Dec 31, 2013	Dec 31, 2012
Other accrued income	1.2	1.5
Other prepaid expenses	13.5	18.8
Total	**14.7**	**20.3**

29 UNEARNED PREMIUMS AND UNEXPIRED RISKS

	Dec 31, 2013			Dec 31, 2012		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
Unearned premiums						
Opening balance	444.9	14.1	430.8	479.8	40.3	439.5
Provisions during the period	18.8	0.2	18.6	–23.3	–25.7	2.4
Exchange-rate changes	2.6	0.1	2.5	–11.6	–0.5	–11.1
Closing balance	**466.3**	**14.4**	**451.9**	**444.9**	**14.1**	**430.8**
Unexpired risk						
Opening balance	11.0	–	11.0	24.4	1.1	23.3
Provisions during the period	–4.2	–	–4.2	–13.4	–1.1	–12.3
Closing balance	**6.8**	–	**6.8**	**11.0**	**0.0**	**11.0**
Total of unearned premiums and unexpired risks	**473.1**	**14.4**	**458.7**	**455.9**	**14.1**	**441.8**

30 CLAIMS OUTSTANDING

	Dec 31, 2013			Dec 31, 2012		
	Gross	Reinsurers' portion	Net	Gross	Reinsurers' portion	Net
Claims incurred and reported	6,078.8	2,342.5	3,736.3	8,186.7	2,304.0	5,882.7
Claims incurred and not reported	7,189.2	4,360.8	2,828.5	5,228.7	4,025.2	1,203.5
Annuities	4,779.9	–	4779.9	4,635.1	–	4,635.1
Claims adjustment costs	277.4	4.6	272.8	301.4	5.8	295.6
Total opening balance	**18,325.3**	**6,707.9**	**11,617.5**	**18,351.9**	**6,335.0**	**12,016.9**
Provisions for the period	131.8	475.4	–343.6	–62.8	381.8	–444.6
Exchange-rate changes	–4.6	6.0	–10.6	–29.8	–8.1	–21.6
Effect of interest-rate revaluations for annuities	–473.7	–	–473.7	31.2	–	31.2
Upward adjustment of provision for annuities[1]	35.7	–	35.7	34.8	–	34.8
Impairment	–	–	–	–	–0.8	0.8
Total change for the year	**–310.8**	**481.4**	**–792.3**	**–26.6**	**372.9**	**–399.4**
Claims incurred and reported	6,198.6	2,712.5	3,486.1	6,078.8	2,342.5	3,736.3
Claims incurred and not reported	7,221.9	4,473.3	2,748.6	7,189.2	4,360.8	2,828.5
Annuities	4,339.8	–	4,339.8	4,779.9	–	4,779.2
Claims adjustment costs	254.2	3.5	250.7	277.4	4.6	272.8
Total closing balance	**18,014.5**	**7,189.3**	**10,825.2**	**18,325.3**	**6,707.9**	**11,617.5**

[1] Note that Transferred investment income does not include provision for annuities, and the discount rate for the annuities is 2.65%.

31 PENSIONS AND SIMILAR COMMITMENTS

Provisions for early retirement in accordance with pension agreement, SEK 000s	Dec 31, 2013	Dec 31, 2012
Opening balance	26.7	17.3
Provision(+)/reversal (–) for the year	1.0	9.4
Closing balance	**27.7**	**26.7**

According to the pension agreement for the insurance sector, persons born in 1955 or earlier can voluntarily retire at the age of 62. The provision is calculated on an actuarial basis according to the insurance guidelines and basis for calculation applied for individually issued life assurance. The calculations are based on a summary of the ages and annual pensions calculated as an average per age group. A probability assessment has determined that 20% will utilise the option for early retirement. The remaining 70% is recognised under contingent liabilities.

32 OTHER PROVISIONS

	Dec 31, 2013	Dec 31, 2012
Provision for contractual obligations	34.7	21.4
Other provisions	–22.2	13.3
Total	**12.5**	**34.7**

33 LIABILITIES, DIRECT INSURANCE

	Dec 31, 2013	Dec 31, 2012
Liabilities, policyholders	307.2	292.4
Liabilities, insurance brokers	3.4	3.1
Liabilities, insurance companies	283.1	279.9
Total	**593.7**	**575.4**

34 OTHER LIABILITIES

	Dec 31, 2013	Dec 31, 2012
Liabilities, Group companies	0.2	99.3
Liabilities to the Parent Company	159.2	18.1
Other liabilities	17.8	17.2
Total	**177.2**	**134.6**

35 PENSIONS

Defined-benefit pension plans

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

	Dec 31, 2013	Dec 31, 2012
Pension commitments		
Provisions for pensions	6.2	5.7
Other provisions	14.3	14.4
Total	**20.5**	**20.1**
Of the amounts recognised as Pension provisions, only the following amounts are encompassed by the Swedish Pension Obligations Vesting Act.	6.2	5.7
The year's change in capital value of own commitments for which there are no separated assets		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	14.4	10.7
Income/expense excluding interest expense that impacted earnings	–0.1	3.7
Interest expense	0.0	0.0
Capital value at December 31	**14.3**	**14.4**
The year's change in capital value of own commitments which are wholly or partly covered by separated assets:		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	5.7	6.2
Pensions paid	–1.0	–1.2
Other change in capital value	1.5	0.7
Capital value at December 31	**6.2**	**5.7**
The year's change in the total capital value of the company's own commitments		
Opening capital value on January 1 in accordance with Swedish principles for calculation of pension commitments	20.1	16.9
Income/expense excluding interest expense that impacted earnings	–0.1	3.7
Interest expense	0.0	0.0
Pensions paid	–1.0	–1.2
Other change in capital value	1.5	0.7
Capital value at December 31	**20.5**	**20.1**
Fair value of separated assets		
Fair value at January 1	16.1	16.7
Return on separated assets	0.0	0.6
Payments to and from pension foundations	–1.0	–1.2
Surplus in separated assets (Fair value of separated assets to the extent that the value does not affect the company's accounts)	–8.2	–9.7
Fair value on December 31	**6.9**	**6.4**
Net pension commitments on December 31	**13.6**	**13.7**

	Dec 31, 2013	Dec 31, 2012
Costs regarding pensions **The company's own pensions**		
Income/expense excluding interest expense	–0.1	3.7
Interest expense	0.0	0.0
Return on separated assets	0.0	0.6
Cost of the company's own pensions	**–0.1**	**4.3**
Costs covered by surplus in separated assets	0.0	–0.6
Recognised net cost attributable to pensions	**–0.1**	**3.7**
Fair value of separated assets		
Participations in fixed-income funds	17.4	17.3
Cash and bank balances	2.3	2.2
Other assets	0.1	0.0
Liabilities	–11.5	–9.8
Total	**8.2**	**9.7**
Return on separated assets	**0.3%**	**4.0%**
Assumptions pertaining to defined-benefit commitments		
Discount rate	0.4%	0.4%
Percentage expected to retire voluntarily at age 62	30.0%	30.0%
Future salary increases	2.5%	0.0%
Capital in separated assets that exceeds the capital value of pension commitments to employees. This surplus is not recognised in the balance sheet.	8.2	9.7

Defined-contribution pension plans

Defined-contribution pension plans are plans according to which the company pays fixed contributions to a separate legal entity and does not have a legal or informal obligation to pay additional contributions. The Group's payments of defined-contribution plans are recognised as expenses during the period in which the employee performed the services to which the contributions refer. Primarily, contributions to the Insurance Industry's Pension Fund (FPK) are recognised here. This plan includes all company employees.

	2013	2012
Expenses for defined-contribution plans	14.3	23.3

36 OTHER ACCRUED EXPENSES AND DEFERRED INCOME

	Dec 31, 2013	Dec 31, 2012
Premiums, received but not due	132.4	105.8
Other deferred income	6.4	4.6
Accrued holiday and overtime remuneration	10.2	9.1
Accrued expenses to the Parent Company	0.3	11.0
Other accrued expenses	30.3	23.9
Total	**179.6**	**154.4**

37 INFORMATION ABOUT OFFSETTING

Information per type of instrument. Financial assets and liabilities covered by a legally binding agreement regarding netting or a similar agreement but that are not offset in the balance sheet. ISDA and CSA agreements are in place with all derivative counterparties, which means that all exposures are covered by both types of agreements.

		Related amounts not offset in the balance sheet			
SEK M Dec 31, 2013	**Amounts recognised in the balance sheet**	**Financial instruments**	**Paid (+)/Received (–) collateral – securities**	**Paid (+)/Received (–) cash – collateral**	**Net amount**
Assets					
Derivatives	3.9	–3.9	–		0.0
Repurchase agreements	–	–	–	–	–
Liabilities					
Derivatives	–20.4	3.9		2.5	–14.0
Repurchase agreements	–	–	–	–	–
Total	**–16.5**	**0.0**		**2.5**	**–14.0**

		Related amounts not offset in the balance sheet			
SEK M Dec 31, 2012	**Amounts recognised in the balance sheet**	**Financial instruments**	**Paid (+)/Received (–) collateral – securities**	**Paid (+)/Received (–) cash – collateral**	**Net amount**
Assets					
Derivatives	20.0	–4.7	–	–6.4	8.9
Repurchase agreements	–	–	–	–	–
Liabilities					
Derivatives	–4.7	4.7	–	–	0.0
Repurchase agreements	–	–	–	–	–
Total	**15.3**	**0.0**			**8.9**

38 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY

		Financial assets measured at fair value in profit and loss				
Dec 31, 2013	Loans and receivables	Financial assets measured at fair value	Held for trading	Non-financial assets	Total carrying amount	Fair value (financial assets)
ASSETS						
Goodwill	–	–	–	40.8	40.8	–
Other intangible assets	–	–	–	32.2	32.2	–
Shares and participations in Group companies	–	–	–	1,952.0	1,952.0	–
Shares and participations in associated companies	–	–	–	17.5	17.5	–
Loans to Group companies	–	1,896.5	–	–	1,896.5	1,896.5
Shares and participations	–	32.0	–	–	32.0	32.0
Bonds and other interest-bearing securities	–	9,670.5	–	–	9,670.5	9,670.5
Derivatives	–		3.9	–	3.9	3.9
Other financial investment assets	–	77.2	–	–	77.2	77.2
Deposits with companies that have ceded reinsurance	54.5	–	–	–	54.5	54.5
Reinsurers' portion of technical provisions	–	–	–	7,203.7	7,203.7	–
Receivables, direct insurance	322.4	–	–	–	322.4	322.4
Receivables, reinsurance	177.6	–	–	–	177.6	177.6
Other receivables	615.9	–	–	6.0	621.9	615.9
Deferred tax assets	–	–	–	3.1	3.1	–
Property and equipment	–	–	–	3.4	3.4	–
Cash and bank balances	174.6	–	–	–	174.6	174.6
Prepaid expenses and accrued income	29.6	62.6	–	27.6	119.8	92.2
Total assets	**1,374.6**	**11,738.8**	**3.9**	**9,286.3**	**22,403.6**	**13,117.3**

	Financial assets measured at fair value in profit and loss					
	Financial liabilities measured at fair value	Held for trading	Other financial liabilities	Non-financial liabilities	Total carrying amount	Fair value (financial liabilities)
LIABILITIES						
Technical provisions	–	–	–	18,487.6	18,487.6	–
Deferred tax liabilities	–	–	–	15.3	15.3	–
Other provisions	–	–	–	40.2	40.2	–
Deposits from reinsurers	–	–	29.1	–	29.1	29.1
Liabilities, direct insurance	–	–	593.7	–	593.7	593.7
Liabilities, reinsurance	–	–	369.4	–	369.4	369.4
Derivatives	–	20.4	–	–	20.4	20.4
Other liabilities	–	–	176.0	1.3	177.3	176.0
Accrued expenses and deferred income	–	–	176.6	3.0	179.6	176.6
Total liabilities	–	**20.4**	**1,344.8**	**18,547.4**	**19,912.6**	**1,365.2**

38 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY, cont.

		Financial assets measured at fair value in profit and loss				
Dec 31, 2012	Loans and receivables	Financial assets measured at fair value	Held for trading	Non-financial assets	Total carrying amount	Fair value (financial assets)
ASSETS						
Goodwill	–	–	–	69.7	69.7	–
Other intangible assets	–	–	–	66.4	66.4	–
Shares and participations in Group companies	–	–	–	1,845.0	1,845.0	–
Shares and participations in associated companies	–	–	–	17.5	17.5	–
Loans to Group companies	–	2,090.7	–	–	2,090.7	2,090.7
Shares and participations	–	294.0	–	–	294.0	294.0
Bonds and other interest-bearing securities	–	9,937.9	–	–	9,937.9	9,937.9
Derivatives	–	–	20.0	–	20.0	20.0
Other financial investment assets	–	52.7	–	–	52.7	52.7
Deposits with companies that have ceded reinsurance	62.7	–	–	–	62.7	62.7
Reinsurers' portion of technical provisions	–	–	–	6,721.9	6,721.9	–
Receivables, direct insurance	326.4	–	–	–	326.4	326.4
Receivables, reinsurance	155.3	–	–	–	155.3	155.3
Other receivables	531.3	17.8	–	–	549.1	549.1
Deferred tax assets	–	–	–	8.1	8.1	–
Property and equipment	–	–	–	2.3	2.3	–
Cash and bank balances	140.1	–	–	–	140.1	140.1
Prepaid expenses and accrued income	29.1	73.0	–	31.1	133.2	102.1
Total assets	**1,244.9**	**12,466.1**	**20.0**	**8,762.0**	**22,493.0**	**13,731.0**

	Financial assets measured at fair value in profit and loss					
	Financial liabilities measured at fair value	Held for trading	Other financial liabilities	Non-financial liabilities	Total carrying amount	Fair value (financial liabilities)
LIABILITIES						
Technical provisions	–	–	–	18,781.2	18,781.2	–
Deferred tax liabilities	–	–	–	24.8	24.8	–
Other provisions	–	–	–	86.2	86.2	–
Deposits from reinsurers	–	–	26.9	–	26.9	26.9
Liabilities, direct insurance	–	–	575.4	–	575.4	575.4
Liabilities, reinsurance	–	–	311.2	–	311.2	311.2
Derivatives	–	4.7	–	–	4.7	4.7
Other liabilities	–	–	104.2	6.5	110.7	104.2
Accrued expenses and deferred income	–	–	151.8	2.6	154.4	151.8
Total liabilities	**–**	**4.7**	**1,169.5**	**18,901.3**	**20,075.5**	**1,174.2**

38 ASSETS AND LIABILITIES PER MEASUREMENT CATEGORY, cont.

Applied fair value valuation techniques

Financial instruments measured at fair value in the balance sheet.

Level 1: According to prices listed in an active market for the same instrument.
Level 2: Based on direct or indirect observable market data not included in Level 1.
Level 3: Based on inputs not observable in the market.

	Dec 31, 2013				Dec 31, 2012			
ASSETS	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Shares and participations	–	3.7	28.3	32.0	–	3.4	290.6	294.0
Bonds and other interest-bearing securities	10,817.0	750.0	–	11,567.0	11,113.6	915.0	–	12,028.6
Derivatives	0.7	3.2	–	3.9	0.8	19.2	–	20.0
Other financial investment assets	73.8	–	3.5	77.3	52.7	–	–	52.7
Total assets	**10,891.5**	**756.9**	**31.8**	**11,680.2**	**11,167.1**	**937.6**	**290.6**	**12,395.3**
LIABILITIES								
Derivatives	0.0	20.4	–	20.4	0.0	4.7	–	4.7

The fair value of other receivables, cash and cash equivalents, other financial investment assets, deposits with companies that have ceded reinsurance, receivables, direct insurance, receivables, reinsurance, other receivables, cash and cash equivalents, prepaid expenses and accrued income, liabilities, direct insurance, liabilities, reinsurance and other 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.

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. During 2013, a larger individual unlisted investment was sold that was previously measured by an independent external party. The company's holdings in private equity funds were also sold in 2013. Measurement data for earlier measurement of private equity funds was received quarterly from each fund. Measurement complies with the guidelines of the European Private Equity and Venture Capital Association. The measurement data is certified every year by each fund's external auditors.

There were no significant transfers between Level 1 and Level 2 during 2013 or during 2012. There were no transfers from Level 3 in 2013 or 2012.

For further information about how the fair value was determined for financial instruments measured at fair value in the balance sheet, see note 1 Accounting policies.

Gains and losses are recognised in profit and loss under Investment income, net.

Financial instruments measured at fair value according to Level 3 above

	Dec 31, 2013		
	Shares and participations	**Other financial investment assets**	**Total**
Opening balance, January 1, 2013	290.6	–	290.6
Total profits and losses recognised:			
– recognised in net profit for the year	13.0	–	13.0
Cost, acquisitions	–	3.5	3.5
Sales proceeds, sales	–275.3	–	–275.3
Transfer to Level 3	–	–	–
Closing balance, December 31, 2013	**28.3**	**3.5**	**31.8**

	Dec 31, 2012
	Shares and participations
Opening balance, January 1, 2012	332.5
Total profits and losses recognised:	
– recognised in net profit for the year	–41.9
– cost, acquisitions	–
Sales proceeds, sales	0.0
Transfer to Level 3	–
Closing balance, December 31, 2012	**290.6**

39 ANTICIPATED RECOVERY AND SETTLEMENT PERIODS, AMOUNTS EXPECTED TO BE RECOVERED

	Dec 31, 2013			Dec 31, 2012		
	Not more than 1 year	More than 1 year	Total	Not more than 1 year	More than 1 year	Total
ASSETS						
Goodwill	28.9	11.9	40.8	28.9	40 .8	69, 7
Other intangible assets	14.1	18.1	32.2	34 .4	31.9	66.3
Participations in Group companies	–	1,952.0	1,952.0	–	1,845.0	1,845.0
Shares and participations in associated companies	–	17.5	17.5	–	17.5	17.5
Loans to Group companies	1,867.3	29.2	1,896.5	–	2,090 .7	2,090.7
Shares and participations	–	32.0	32.0	–	294.0	294.0
Bonds and other interest-bearing securities	1,579.3	8,091.2	9,670.5	1,782.4	8,155.6	9,938.0
Derivatives	3.9	–	3.9	20.0	–	20 .0
Other financial assets	–	77.2	77.2	–	52.7	52.7
Deposits with companies that have ceded reinsurance	54.5	–	54.5	62 .7	–	62 .7
Reinsurers' portion of technical provisions	1,192.0	6,011.7	7,203.7	544.3	6,177.7	6,722.0
Receivables, direct insurance	322.4	–	322.4	326 .4	–	326 .4
Receivables, reinsurance	177.6	–	177.6	155 .3	–	155 .3
Other receivables	621.9	–	621.9	549.1	–	549.1
Deferred tax assets	–	3.1	3.1	8 .1	–	8 .1
Property and equipment	0.7	2.7	3.4	0.2	2.1	2.3
Cash and bank balances	174.6	–	174.6	140 .1	–	140 .1
Prepaid expenses and accrued income	119.8	–	119.8	133.1	–	133.1
Total assets	**6,175.2**	**16,228.5**	**22,403.6**	**3,785.0**	**18,708.0**	**22,493.0**
LIABILITIES						
Technical provisions	2,745.3	15,742.3	18,487.6	1,913.0	16,868.2	18,781.2
Other provisions	–	40.2	40.2	–	61.4	61.4
Deposits from reinsurers	29.1	–	29.1	26 .9	–	26 .9
Current tax liabilities	–	–	–	0.9	–	0.9
Deferred tax liabilities	–	15.3	15.3	–	24.8	24.8
Liabilities, direct insurance	593.7		593.7	575.4	–	575.4
Liabilities, reinsurance	369.4		369.4	311.2	–	311.2
Derivatives recognised as liabilities	20.4		20.4	4.7	–	4.7
Other liabilities	177.2		177.2	134.6	–	134.6
Accrued expenses and deferred income	179.6		179.6	154.4	–	154.4
Total liabilities	**4,114.7**	**15,797.8**	**19,912.5**	**3,121.2**	**16,954.4**	**20,075.5**

The fair value of shares and participations in Group companies and shares and participations in associated companies is deemed to reflect the anticipated recoverable amount and settlement amounts. The carrying amount for shares and participations in Group companies amounted to SEK 1,952 M (1,845) and shares and participations in associated companies to SEK 17.5 M (17.5). For other items, no assessment has been made of the value that best reflects the anticipated recoverable amount and settlement amounts.

40 MEMORANDUM ITEMS

	Dec 31, 2013	Dec 31, 2012
Pledged assets		
Total registered investment assets on behalf of policyholders	13,720.3	14,077.7
– of which, pertain to preferential commitments	13,720.3	14,077.7
Bank balance/bonds	–	–
Total	**13,720.3**	**14,077.7**

	Dec 31, 2013	Dec 31, 2012
Contingent liabilities		
Part-owner of Utile Dulci 2 HB	3.2	5.0
Early retirement at age 62 in accordance with pension agreement, 70%	24.9	47.8
Total	**28.1**	**52.8**

The technical liabilities which correspond to registered assets amount to SEK 11,450.4 M.

Registered assets in accordance with Chapter 6, Section 30 of the Swedish Insurance Business Act amount to SEK 13,720.3 M. In the event of insolvency, the policyholders have a priority right to the registered assets. During the course of the operations, the company has the right to add and withdraw assets from the register as long as all insurance undertakings are covered for liabilities in accordance with the Insurance Business Act.

41 DISCLOSURES ON RELATED PARTIES

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

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

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

Agreements
Significant agreements for Länsförsäkringar Sak are primarily outsourcing agreements with Länsförsäkringar AB regarding asset management, IT, service and development. Furthermore, agreements have been entered into with Länsförsäkringar Mäklarservice regarding sales and with the regional insurance companies regarding commission for sales, claims adjustment and reinsurance management. Additional agreements that have been entered into are with Humlegården Fastigheter AB regarding the administration of Utile Dulci 2 HB and partnership agreements with Länsförsäkringar AB regarding Utile Dulci 2 HB. Länsförsäkringar Sak leases its office premises from the Parent Company Länsförsäkringar AB, which in turn leases from the property owner Utile Dulci 2 HB. The property owner is a subsidiary of Länsförsäkringar Sak. Utile Dulci 2 HB is financed by Länsförsäkringar Sak on the basis of a loan of SEK 750 M (915).

Related-party transactions 2013

	Income	Expenses	Receivables	Liabilities
Parent Company	3.6	322.6	228.6	159.5
Group companies	187.7	–	2,301.9	0.2
Life Group	0.0	0.0	1.8	–
Associated companies	–	–	17.5	–
Regional insurance companies	545.9	438.7	6,547.7	7,975.7
Other related parties	–	–	–	–

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

Cash and cash equivalents with Länsförsäkringar Bank AB	SEK 326.6 M
Interest income received	SEK 2.5 M

42 SUPPLEMENTARY DISCLOSURES ON INCOME-STATEMENT ITEMS BY INSURANCE CLASS

2013	Total	Accident and health	Motor third-party liability	Motor hull, other classes	Marine, air and cargo	Fire and other property damage	General liability	Legal protection	Total, direct insurance	Assumed reinsurance
Premiums earned, gross	3,793.9	954.8	42.7	104.0	108.1	83.9	132.0	2.8	1,428.3	2,365.6
Claims payments, gross	–2,735.7	–671.1	–5.0	–95.3	–54.1	–65.3	–103.6	–0.6	–995.0	–1,740.7
Operating expenses, gross	–563.7	–234.1	–20.6	–24.9	–28.9	–19.7	–35.1	–0.1	–363.4	–200.3
Profit/loss from ceded reinsurance	–436.7	–0.3	–18.5	–2.5	–6.8	–2.2	–3.3	–0.6	–34.2	–402.5
Profit/loss	**57.8**	**49.3**	**–1.4**	**–18.7**	**18.3**	**–3.3**	**–10.0**	**1.5**	**35.7**	**22.1**
Premium income, gross	3,813.6	970.2	39.9	102.7	110.0	84.4	146.3	2.6	1,456.1	2,357.5

The Annual Report was approved for publication by the Board of Directors on February 26, 2014.
The company's income statement and balance sheet will be adopted at the 2014 Annual General Meeting.

Sten Dunér
Chairman

Ann-Christin Norrström
Board member

Mariette Nicander
Board member

Carl Henrik Ohlsson
Board member

Göran Spetz
Board member

Axel von Stockenström
Board member

Mikael Sundquist
Board member

Åsa Jansson
Employee Representative

Tomas Jönsson
Employee Representative

Ann Sommer
President

My audit report was submitted on February 26, 2014.

Gunilla Wernelind
Authorised Public Accountant

Audit report

To the Annual General Meeting of shareholders in Länsförsäkringar Sak Försäkringsaktiebolag (publ), Corporate Registration Number 502010-9681

Report on the annual accounts

I have audited the annual accounts of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for 2013.

Responsibilities of the Board of Directors and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act for Insurance Companies, and for the internal control deemed necessary by the Board of Directors and the President for the preparation of annual accounts that are free from material misstatement, whether such misstatement is due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The auditor chooses such procedures based on such assessments as the risk of material misstatement in the annual accounts, whether such misstatement is due to fraud or error. In making these risk assessments, the auditor considers internal control measures relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate taking the circumstances into account, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts.

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

Opinions

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 December 31, 2013 and its financial performance and cash flows for the year in accordance with the Annual Accounts Act for Insurance Companies. The statutory Board of Directors' Report is consistent with the other parts of the annual accounts.

I therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

Report on other legal and regulatory requirements

In addition to my audit of the annual accounts, I have also examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Länsförsäkringar Sak Försäkringsaktiebolag (publ) for the year 2013.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on my audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion on the Board of Directors proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal complies with the Companies Act.

As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. I also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

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

Opinions

I recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, February 26, 2014

Gunilla Wernelind
Authorised Public Accountant

Board of Directors, management and auditors

Board of Directors

STEN DUNÉR

Born 1951. Title: President of Länsförsäkringar AB. Elected 2009. **Other Board appointments:** Chairman of Länsförsäkringar Bank and Länsförsäkringar Fondliv, Board member of Länsförsäkringar Liv, Insurance Sweden, Swedish Insurance Employers' Association (FAO) and Fastighets AB Balder.

MARIETTE NICANDER

Born 1960. Title: President of Länsförsäkringar Gotland. Elected 2012. **Education:** Bachelor of Legal Science. **Board appointments:** Brandförebyggarna Gotland. **Background:** Worked in the insurance industry since 1984.

ANN-CHRISTIN NORRSTRÖM

Born 1952. Title: President of Länsförsäkringar Uppsala. Elected 2013. **Education:** Master of Science in Business and Economics, advanced insurance courses at IFU. **Board appointments:** Chairman of Uppsala Regional Office of the Chamber of Commerce, Board member of Länsförsäkringar Fondliv, Stockholm Chamber of Commerce, SLU Holding, STUNS, Uppsala County Administrative Board. **Background:** Board member of Länsförsäkringar AB, Länsförsäkringar Fastighetsförmedling and Länsförsäkringar Liv and member of Länsförsäkringar AB's Research Fund. Aktietorget Uppsala, Gefle Dagblad.

CARL HENRIK OHLSSON

Born 1953. Title: President of Länsförsäkringar Skaraborg. Elected 2012. **Education:** Master of Science in Agriculture. **Board appointments:** Chairman of Gothia Intresseförening and Skaraborg Invest, Board member of Länsförsäkringar Fastighetsförmedling and University of Skövde. **Previous experience:** President of Agricultural Society of Skaraborg County.

GÖRAN SPETZ

Born 1956. Title: President of Länsförsäkringar Västerbotten. Elected 2010. **Education:** Mechanical engineer. **Board appointments:** Chairman of Länsförsäkringar i Norr Holding AB, Board member of Ekonord Invest AB and Länsförsäkringar Fastighetsförmedling. **Previous experience:** Head of Claims Department at Länsförsäkringar Västerbotten.

AXEL VON STOCKENSTRÖM

Born 1949. Title: Chairman of Länsförsäkringar Södermanland. Elected 2009. **Education:** Master of Science in Business and Economics. **Board appointments:** Länsförsäkringar Södermanland, Ånhammar Säteri AB. **Previous experience:** Self-employed, Länna Godsförvaltning, Canaxa AB, Chairman of Landshypotek Mälarprovinserna.

MIKAEL SUNDQUIST

Born 1961. Title: President of Länsförsäkringar Bergslagen. Elected 2008. **Education:** Master of Science in Business and Economics. **Board appointments:** Chairman of Mälardalen Chamber of Commerce and Mäklarservice AB.

Employee representatives

ÅSA JANSSON

Born 1972. Title: Claims adjuster, employee representative Union of Insurance Employees (FTF). Elected 2009. **Education:** Food engineering upper-secondary school. **Previous experience:** Deputy Chairman of Profit-sharing Association Ekorren at Agria Djurförsäkring.

Deputy:
Susanne Lindberg

TOMAS JÖNSSON

Born 1951. Title: Claims adjuster, employee representative Swedish Confederation of Professional Associations. Elected 2001. **Education:** Bachelor of Legal Science, Master of Science in Engineering. **Other Board appointments:** Länsförsäkringar AB, Bank and Insurance Section of Jusek. **Previous experience:** Bank attorney Föreningsbanken.

Deputy:
Lotta Möller

Auditor

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

Executive management

Ann Sommer
President

Thomas Abrahamsson
Business Area Health

Carina Bodesand
Business Support

Ulrica Hedman
Business Area Commercial Special Insurance

Gunnel Karlsson
CFO

Göran Laurén
Finance

Birger Lövgren
Agria Djurförsäkring

Tor Mellbye
Business Area Reinsurance

Totte Pikanen
Corporate Senior Actuary

Michael Truwert
Head of Legal Affairs

Marie-Louise Skånberg
HR

Employee representatives

Åsa Jansson
Employee representative FTF

Tomas Jönsson
Employee representative SACO

Definitions

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

Capital base
Recognised equity after proposed dividend, plus untaxed reserves and surplus values of property, less intangible assets.

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. Run-off profit/loss arises since some of the claims in the provision are either settled during the fiscal year at amounts differing from those allocated or are revalued pending final settlement.

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

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

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

Deferred tax
Deferred tax liabilities/assets pertain to temporary taxable temporary differences.

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

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

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

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

Investment income transferred from financial operations
Premiums are paid in advance, while operating expenses and claims costs are paid in arrears. Funds that have not yet been paid out are invested in order to obtain a return. The estimated interest (the cost of capital) on these investments is transferred from investment income to the insurance operations. With the amendment of the accounting policies for indexed annuities, this is recognised as an increased capital cost for investment income transferred from financial operations, to the change in provision for claims outstanding reducing the total claims payments. 2011 and 2010 have been recalculated according to the new policy, but prior years are recognised according to the previous policies.

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

Premiums earned
The proportion of premium income attributable to the fiscal year.

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.

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

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

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

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

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

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

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

Total return ratio
Total return ratio refers to the sum of the direct yield and changes in the value of the investment portfolio for the assets encompassed by the investment principles, including direct transaction costs but excluding management costs, in relation to the average value of these assets during the year. The changes in the value of the discounted technical provisions are not included in the total return.

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

Address

Länsförsäkringar Sak
SE-106 50 Stockholm
Visit: Tegeluddsvägen 11–13
Tel: +46 8-588 400 00
E-mail: info@lansforsakringar.se

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