

A close-up photograph of a man with a beard and a baby. The man is smiling and looking up at the baby. The baby is wearing a blue polka-dot scarf and is holding the man's face. The background is blurred.

# Annual Review 2012

Folksam

## CEO letter: The customers' companies are stepping into the future

In 2012, Folksam consolidated its position as a stable player in insurance and investment. We remain committed to what our customers care about.



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## We are growing with the customers' needs

In 2012, the earned premiums increased in Folksam by nearly 6 per cent or SEK 2 billion to SEK 35.2 billion. Demand for Folksam's products grew in all segments.



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## Higher standards lead to positive development

Solvency 2 is the collective name for the new rules on solvency for insurance companies that have been prepared in the EU. The directive is intended to strengthen the link between solvency requirements and risks.



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## As a customer, you can influence Folksam

Because Folksam is customer owned, there are no shareholders. The policyholders exercise their influence at the General Meeting in part through specially elected delegates and in part through direct elections of policyholders.



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## Renowned corporate governance

Folksam is convinced that companies that take responsibility for the environment and human rights are more profitable in the long term. Consequently, Folksam exercises influence on the companies in which it invests through criteria for sustainable development.

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# Welcome to the Customers' insurance company

We insure almost one out of two Swedes and we manage the pensions of nearly two million people. With us, you can insure your home, your car, your four-legged friend and your pension! Our job is to ensure that security accompanies you through every phase of life. We help you review your insurance protection so that it matches your living situation and family.

We get involved in what our customers care about and therefore do things that are not always associated with insurance companies. Our commitment involves such areas as the environment, traffic and ethical investment – all to encourage development towards a sustainable world.

## Our goal

Our goal is to have the most satisfied customers within the insurance and investment industry.

Every time we meet a customer, we also meet an owner. Everything we say and do affects the customer's perception of us.

## Our vision

People shall feel secure in a sustainable world.

This is what our vision looks like and it applies to all brands in Folksam. As an important investor, we have the opportunity to exercise influence to realise the vision.

## Our promise to you

We are committed for you – so that you and your family are secure today and tomorrow.

Our job is to create security for you and everything you care about. We work based on your needs when we design our offerings.



# This is Folksam

## Customer-owned

Folksam is a mutual insurance company. This means that the customers are owners and that all surplus goes back to the policyholders.

## Broad offering

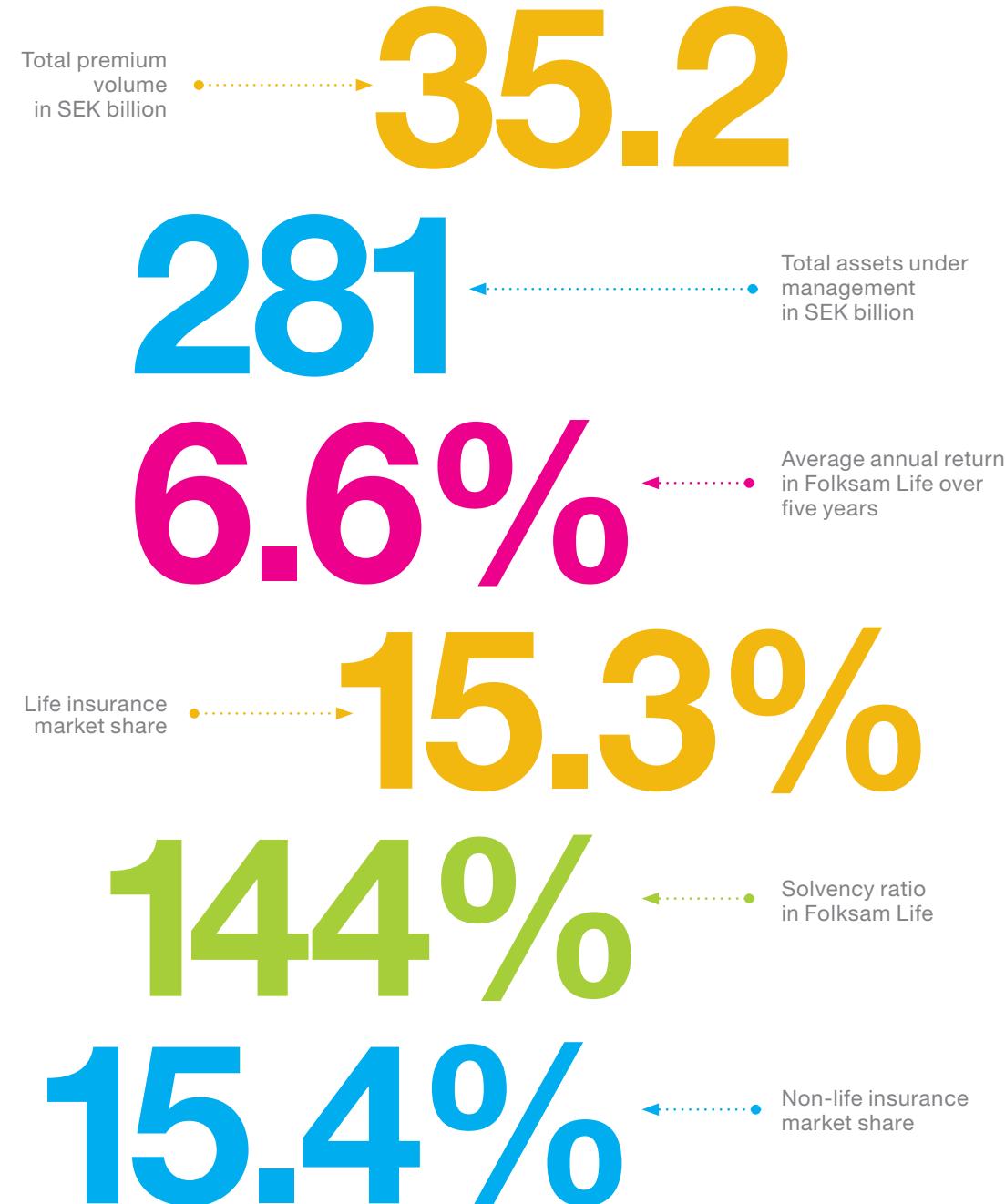
Folksam offers a broad product range which includes car and household insurance policies, commercial policies within selected areas, occupational pensions and pension plans for private individuals, directly or through group collaboration, as well as group life insurance and other risk insurance.

## Financial strength

The financial strength is evident from solvency ratios which amounted to 144 per cent in Folksam Life and 150 per cent in the subsidiary KPA Pension at year-end. This strength provides the customers good chances for a strong long-term return on their pension savings. In the past five years, the average total return in KPA Pension and Folksam Life has been the highest in the industry. In light of the strong financial position in Folksam General, a bonus programme is being introduced with the first disbursements in 2013.

## Added value

Folksam has conducted active environmental efforts since the 1960s. Knowledge gained from Folksam's road safety research is used to save lives in traffic. All managed assets of SEK 281 billion are covered by criteria for the environment, human rights and anti-corruption.



A professional portrait of a middle-aged man with short brown hair and glasses, wearing a dark blue suit jacket, a light blue plaid shirt, and a small yellow pin on his lapel. He is smiling and resting his hands on a white surface. In the background, there are large windows and a red chair. A blue speech bubble is positioned to the right of the man.

“ The bonus is the ultimate proof that we are the customers' company.

# The customers' companies are stepping into the future

In recent years, Folksam has gone from being one among many insurance and investment companies to being one of the role models. The move from a product to a customer focus, the concentration of asset management and co-location with KPA Pension are important success factors. Altogether, these changes have meant that we have weathered several financial crises well and when we again find ourselves in turbulent times, all of Folksam's companies develop in the right direction.

In 2012, our premium volumes increased as did market share in both life and non-life operations. We are reaping the benefits of the brand relocation we have worked with since 2008. The number of customers is constantly increasing – new customers, many of whom never thought of Folksam as an alternative before. We know that often choose us because we are guided by our values and that we stand for the values even in tough times.

Despite dreary signals from many places around Europe and in Sweden, Folksam is financially strong. We continue to provide security to our customers through good insurance solutions. The solvency of both Folksam Life and KPA Pension is at a

prudent level. This strength provides our customers good chances for a strong long-term return on their pension savings.

For many years and under various market conditions, Folksam has shown that it can manage risks and opportunities in asset management. Over a five-year period, KPA Pension has had the highest average annual return among the companies that accept new policies. Folksam Life is second in comparison. Over five really tough years, our customers have received an average annual total return of around 7 per cent. This can stand up to comparison with other kinds of savings in the market.

As the CEO of a customer-owned company, I am proud to be able to introduce a bonus programme in our non-life company. The bonus is a further proof for our customers that they have chosen a company that safeguards their interests by offering good products and competitive premiums, and not paying any dividends to external owners.

Our focus on individual occupational pensions, together with the work with ITP, will be our major efforts in the pension area in 2013. The step into ITP is historic and greater cooperation with salaried employees and university graduates strengthens Folksam for the future.

In non-life insurance, focus will be on prices and costs. We will review our pricing model. Folksam is seeking to become the best in the industry at setting prices that reflect risk, customer behaviour and market conditions.

Folksam's relatively high cost situation is primarily due to higher claims costs. Through the work in our claims cost project, we will further improve the efficiency of claims handling; the key is becoming more efficient in how we use our resources.

The playing field for the insurance industry will continue to be variable with many unresolved regulatory issues such as the life insurance commission, the occupational pension directive and Solvency 2. We have a major challenge ahead of us in preparing and implementing the necessary adjustments without losing our clear customer focus. Folksam is the customers' company and it is important that we build strong relationships with our customers and thereby build a stable customer base.

In 2012, Folksam consolidated its position as a stable player in insurance and investment. It is therefore that I will be concluding my service as the CEO in 2013 with great pride. We remain committed to what our customers feel is important, and with new experiences and lessons learned, we have a strong starting position for 2013.

We have never been better prepared for the future.



Anders Sundström



# A summary of the past year

2012 was an eventful year for Folksam and its subsidiaries. The following is a brief summary of the year's most important events.

## We grew with the customers' needs

Folksam increased its total premium income in 2012 by 6 per cent to a total of SEK 35.2 billion. Assets under management increased by SEK 28 billion and reached SEK 281 billion by the end of 2012.

## More satisfied customers

According to the Svenskt Kvalitetsindex survey (Swedish Quality Index), Folksam increased its already positive lead over the average customer satisfaction for the industry.

## Best in class

An annual average return of 7.9 per cent over five years places KPA Pension at the top of the companies that accept new policies. Folksam Life is second at 6.6 per cent.

## Stronger market position

Folksam's market shares increased in both the life and non-life operations.

## Bonus in Folksam General

Folksam is a customer-owned company where the profit goes back to the owners. The bonus is calculated in arrears and varies from year to year.

## Lundin Petroleum

After Lundin Petroleum's AGM rejected the proposal for an independent audit of the operations in Sudan and Ethiopia, all of Folksam's companies opted for divestment.

## Strategic cooperation in Finland

The acquisition of 51 per cent of the shares in Aktia Skadeförsäkring is an initial expansive step and an important part of Folksam's strategy for the Nordic insurance market.

## More can take part in the General Meeting

This decision means that more organisations are given the right to appoint delegates to Folksam's general meetings. This is supplemented with direct elections of individual customers.

## Property portfolio grew

Folksam purchased the Kungsbrohuset building in Stockholm, Sweden – one of the world's most environmentally smart buildings.

## SalusAnsvar

Folksam acquired SalusAnsvar from Norwegian DNB.

## Streamlining of operations

Swedbank Robur assumed the management right for the Folksam LO funds. By streamlining and transferring the management right of the funds, Folksam can represent the customers entirely and fully.

# 2012 – a year of strong finances

In 2012, Folksam consolidated its position as a stable player in insurance and investment. This financial strength lays the foundation for being able to continue providing security to the customers through good insurance solutions.

The solvency ratios of KPA Pension and Folksam Life amounted to 150 per cent and 144 per cent, respectively. The solvency ratio describes financial strength and shows how well a life insurance company lives up to guaranteed obligations vis-à-vis the customers.

Simply put, one can say that for every SEK 100 guaranteed to the customer, Folksam Life has assets worth SEK 144. The solvency ratio is a prerequisite to be able to give good future returns on managed assets.

Over the period 2008-2012, KPA Pension had the highest average annual return among the companies that accept new policies. Folksam Life is second on the same list. During this tough five-year period, Folksam's customers received an average annual return of around 7 per cent. This is far above the competitors and has a very strong standing in comparison with all other forms of saving.

## Folksam General at year-end

Consolidation ratio, Parent Company	143.3%
Total expense ratio, Group	102%
Total return 2012	8.2%

## KPA Pension at year-end

Solvency ratio	150%
Collective consolidation	100%
Rate of return	7.2%
Total return 2012	7.2%
Total return 2008-2012	7.9%

## Folksam Life at year-end

Solvency ratio	144%
Collective consolidation	118.0%
Bonus interest	4.5%
Total return 2012	7.0%
Total return 2008-2012	6.6%

## Cooperative occupational pension at year-end

Collective consolidation	116.1%
Bonus interest	6.0 %

### Fact box

#### Solvency ratio

The ratio between asset values and the commitments guaranteed to the customers.

#### Consolidation

Consolidation capital in relation to one year's premium income.

#### Collective consolidation

The relationship between the asset values and the amount allocated to the customers. The allocation includes both guaranteed and non-guaranteed obligations.

#### Bonus interest

Folksam Life is a customer-owned company. Our surplus goes back to our owners through the bonus interest. This interest is not guaranteed and the company can take back the portion that exceeds the guaranteed interest.

#### Total return

The sum of yield and realised and unrealised changes in the value of investment assets in relation to assets managed.

#### Bonus

Folksam General is a customer-owned company. Our surplus goes back to our owners through the bonus.

# We are growing with the customers' needs

The total premium volumes increased in 2012. Folksam grew from a strong position in both the life and non-life markets.

The premium income in Folksam increased by nearly 6 per cent or SEK 2 billion in 2012 to total SEK 35.2 billion. Demand for Folksam's products grew in all segments.

## Pension savings

Sustainably strong key ratios and broad distribution contributed to the premium volume in traditional insurance increasing strongly. KPA and Folksam Life belong to the leading companies within the industry. The growth in unit-linked insurance continued and development of the fund offering to customers is an important success factor.

Contractual pensions for SAF-LO and KAP-KL\* account for a significant part of the premium volume and, within the Folksam brand, there is continued development of the offerings for the individual occupational pension market. In conjunction with Folksam being chosen as a provider of traditional life insurance for the ITP plan for the period 2013-2018, everyone who works in any of the major contractual areas can now choose Folksam for their occupational pension.

The market share measured in total premium income for life insurance amounted to 15.3 per cent, up from 11.0 per cent in 2011. Folksam is thus the second largest life insurance company after Skandia.

In unit-linked insurance, Folksam's market share was 17.3 (12.2) per cent and in other life insurance 14.0 (10.3) per cent. Insurance capital moved from other insurance companies as well as indexation on paid-up policies count as premium income in the statistics.

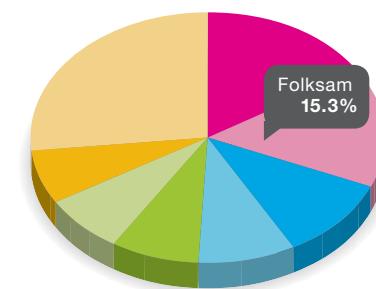
## TOTAL PREMIUM VOLUME 2008 – 2012

Premiums comprise premiums earned in non-life insurance, premiums written in life insurance, and receipts and fees from unit-linked insurance investors.

- 2012 SEK 35,266 million
- 2011 SEK 33,263 million
- 2010 SEK 30,496 million
- 2009 SEK 29,356 million
- 2008 SEK 27,158 million

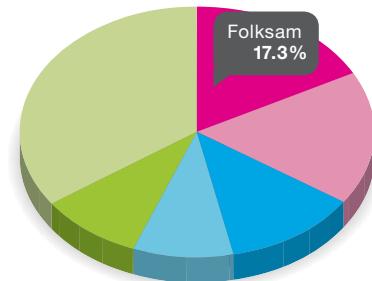


## MARKET SHARE TOTAL LIFE MARKET



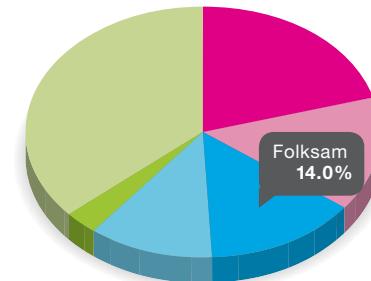
Source: Swedish Insurance Federation

## MARKET SHARE, UNIT-LINKED INSURANCE



Source: Swedish Insurance Federation

## MARKET SHARE, OTHER LIFE INSURANCE



Source: Swedish Insurance Federation

\* Contractual pensions SAF-LO – collective agreement regarding pensions between the Confederation of Swedish Enterprise and LO  
KAP-KL – collective agreement regarding pensions for all employees in municipalities, county councils, regions and the employers' association Pacta.

## Personal risk

Customised group life, and also illness and accident insurance are offered to trade unions, companies and organisations, such as different sport club federations. The premium volume was stable during the year. A new individual accident insurance was launched in 2012, with supplements for financial invalidity and diagnosis insurance.

The market share in group life insurance for Folksam Life amounted to 28 (27) per cent while the collective market share for all Folksam companies amounted to 49 (47) per cent.

## Non-life insurance

Growth in non-life insurance continued and, through the acquisition of Folksam Skadeförsäkring AB (formerly Aktia Skadeförsäkring) in Finland, the establishment of a Nordic platform was begun. Continued focus on combination customers and distribution through bank cooperation contributed to a growing stock, mainly in vehicle insurance, but also in other areas.

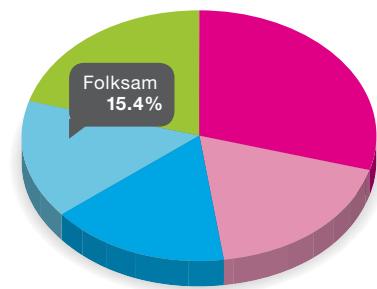
Of the total non-life insurance premium market of SEK 64 billion, Folksam achieved 15.4 per cent, which is unchanged compared with 2011. Premium income increased in both household and home-owner insurance as well as vehicle insurance with a positive sales trend at the end of the year and a dropping cancellation ratio.

The number of combination customers in Folksam increased and was around 500,000 at year-end. In order to be considered a combination customer, the customer must have both the car and the home insured by Folksam. In order to meet customers' requirements of clearer and simpler alternatives, the offering Base, Medium and Plus was introduced as different types of household and home-owner insurance at the beginning of the year. Household insurance is the most strategically important product and comprises the core of the whole insurance offering.

The positive trend in vehicle and road traffic insurance continued. Folksam's market share (measured in the number of policies) in the private car market increased by 0.1 per cent to 21.6 per cent.

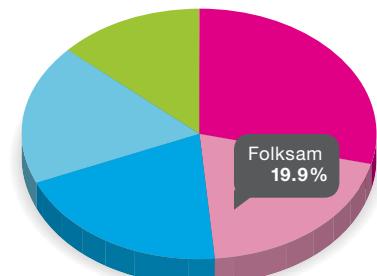
The commercial market continued to develop positively during the year with a focus on small businesses, property and vehicle.

MARKET SHARE NON-LIFE INSURANCE



● Länsförsäkringar	29.5%
● If	18.5%
● Trygg-Hansa	16.2%
● Folksam	15.4%
● Others	20.4%

MARKET SHARE, HOUSEHOLD MARKET



● Länsförsäkringar	28.9%
● Folksam	19.9%
● If	19.9%
● Trygg-Hansa	18.1%
● Others	13.2%

Source: Swedish Insurance Federation



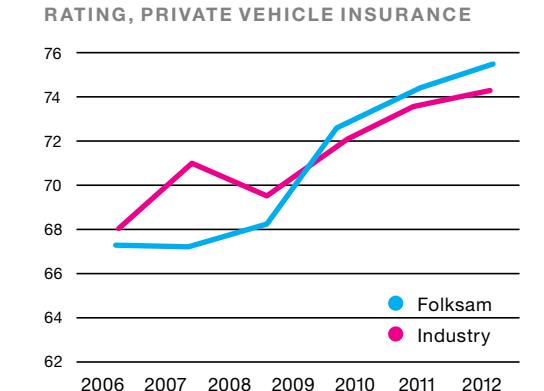
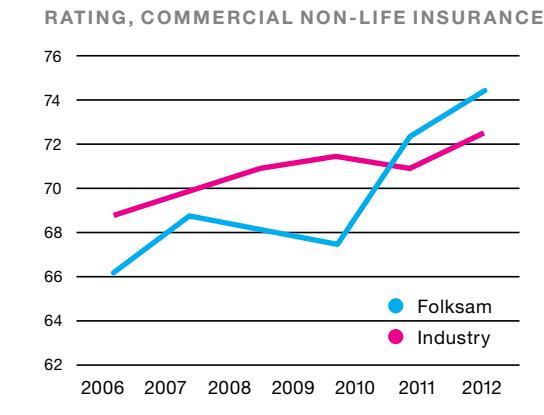
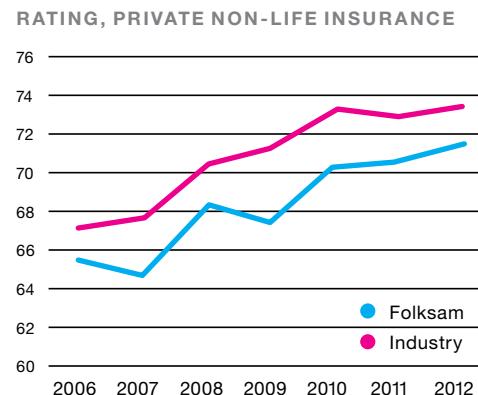
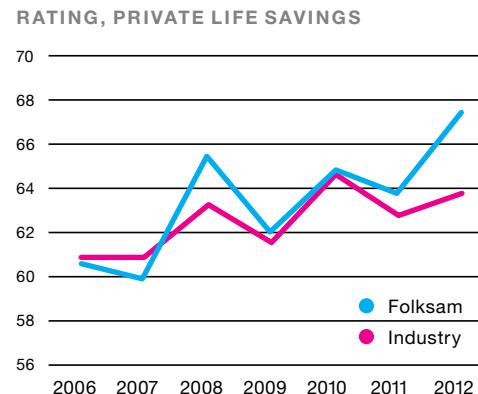
Source: Swedish Insurance Federation

# Folksam's customers more satisfied than the average

Folksam continuously monitors its level of customer satisfaction. These surveys show that the customers who have contacted Folksam are more satisfied than those who have not. Customer satisfaction increased further during the year.

At the same time that competition for the customers is increasing, the difference between the players is also decreasing. Consequently, how the companies handle contact with customers is of major importance to customer satisfaction. Of the customers who have been in contact with Folksam – either through customer service or in claims matters – 90 per cent are satisfied.

Every year, Svenskt Kvalitetsindex (SKI - Swedish Quality Index) measures customer satisfaction in several public and private sectors. SKI shows that Folksam increased its already positive lead over the industry average satisfaction for private vehicle and life insurance, as well as commercial non-life insurance in 2012. The area of private non-life insurance increased



Source: Svenskt Kvalitetsindex (SKI), Insurance Sweden

more for Folksam than for the industry average. The subsidiary KPA Pension continued to maintain high levels of satisfaction over the industry average for occupational pensions.

## A brand in change

The brand's importance increases in pace with the ever increasing proportion of sales occurring on the internet. The trust that used to be created by personal contact needs to increasingly be created by the brand.

The brand work is important to achieve the business targets. In 2010, a new brand strategy was adopted with the intention of adjusting Folksam's profile. This work is focused on strengthening Folksam's three core values of being personal, committed and responsible.

## As a result of the new brand strategy, growing numbers of people associate the company with its core values.

I associate Folksam with:	Target 2012	Result 2012	Result 2010
Personal	42%	45%	40%
Committed	40%	40%	37%
Responsible	52%	54%	48%

# We are preparing Folksam for the future

The strategic focus planned by the boards stipulates the areas towards which Folksam will steer and focus on. It is long range and directed towards increasing customer benefit, strengthening the brand and rationalising the use of resources.

The overall focus is to continuously improve operations based on the dialogue with the customers. Folksam shall have more satisfied customers and have a high level of awareness of the customers' perceptions.

Folksam is growing with the customers' needs. Non-life operations will primarily develop existing customer relations and partnerships. Growth will be created with combination offers and cross-sales. With Sweden as a base, Folksam will also actively seek opportunities to address the Nordic market.

Focus within life insurance operations is on creating growth within the occupational pension market, in the individual market as well as in the self-select (contractual pensions) market.

## Focal areas

### Perceived customer benefit

Folksam will ensure that existing and new customers consider it an advantage to be a customer of any of the alternatives offered by the company.

### Better than the competition

Folksam will continuously improve all areas of its operation by learning from good examples from the surrounding world and by ensuring that the company's position is improved compared with the competition.

### Growth through its own strength

Folksam will endeavour to create growth and in doing so ensure financial stability and efficiency.

### Responsible influence

Folksam will distinguish itself from the competitors by taking a more active responsibility for the surrounding world and for the future. Folksam will strive to ensure that its offers are always designed to take responsible influence into consideration.

### Attractive employer

Folksam will have clear and attractive offers to current and future personnel.



# Higher standards lead to positive development

Insurance is an important part of society's safety net. Demands on the insurance industry from both private customers and politicians are growing in pace with major changes in our surroundings.

In recent years, we have seen a major increase in new regulations from the EU and the Swedish government. These provide a clear illustration of a political need to create more control. The industry is awash with requirements of greater transparency and comparability for the consumers.

**” Solvency 2 is an important part of the modernisation of Folksam and the rest of the industry**

*Solvency 2* is the collective name for the new solvency regulations governing insurance companies under development within the EU. The directive is intended to strengthen the link between solvency requirements and the risks for insurance companies. Through greater risk control, the companies will

be governed in a more sound and suitable manner. A clear customer perspective is also included. Solvency 2 forms part of a wider effort to create a common European financial market.

Folksam began the adaptation to the Solvency 2 regulations as early as 2010. The work has since mainly focused on coordinating the adaptation of processes and system support for governance and reporting of the business. Otherwise, efforts have primarily concerned a strengthening of the qualitative characteristics in the companies' organisation and regulations. Solvency 2 is an important part of modernising Folksam and the rest of the industry – a positive development for both the customers and Folksam.

According to the original timetable, Solvency 2 should have entered into effect on 1 November 2012, but this date was moved during the year to 1 January 2014. At the same time, work is under way on *Omnibus 2*, a supplement to the Solvency 2 directive. This includes transitional rules and revised implementation dates for Solvency 2. Because the decision on *Omnibus 2* has also been postponed, 2014 is no longer a realistic date for Solvency 2. Folksam is working based on the hypothesis that introduction will take place in January 2016.





# Folksam – an attractive workplace

In the past ten years, the world has changed rapidly as has Folksam. Its expertise and offering as an employer have been improved and the organisation has become more efficient. Customer interaction is now increasingly taking place where the customers want to meet us – online and over the phone. Folksam also offers terms of employment that support the right performance and customer benefit.

In ten years, Folksam will be a more attractive, development-oriented and learning organisation. To get there, work is under way on further development of the terms of employment, strengthening Folksam's attractiveness, increasing recruitment accuracy and improving occupational health and safety. In addition to this, development is being conducted of performance management, expertise and leadership.

## Employee survey shows continued commitment

To support the development of operations, expertise, leadership and the working environment, an employee survey is

conducted every year. In this year's survey, the total index was 72 per cent and the response frequency was 93 per cent.

These results show that commitment and job satisfaction increased. Leadership remained at a good level. The proportion of employees who have individual targets for their performance increased from 91 to 93 per cent. In the work groups, several areas improved – including cooperation and the perception that targets, plans and decisions are clear and that targets and activities are followed up in a good way. More employees than before feel that it is easy to implement necessary changes in the organisation.

The results of the employee survey are utilised in dialogue, action plans and development activities at all levels in the company. Folksam has well established procedures for the after work, such as individual coaching for the managers, workshops and support in group development.

## Good start for new employees

To make new employees feel welcome and give them the conditions to rapidly get into their new jobs, an introduction process was developed in 2012. The introduction is common to all of Folksam and comprises both one's own workplace and the company as a whole.

The process begins as soon as the employment contract is signed. The new employee then receives access to a mobile

website that includes a welcome video by CEO Anders Sundström and where more information is provided about Folksam as an employer.

In the first few weeks, this is followed by a local introduction arranged by the employee's immediate manager and colleagues, interspersed with various online training sessions. One of the online training sessions, Introduction to Folksam, was awarded third prize in the Best E-Learning 2011 category of the Swedish Learning Awards competition.

After three to six months, the new employee participates in an introduction day at the head office at Skanstull in Stockholm. There, the employees learn more about the various parts of Folksam and what others work with by meeting other new employees.

After around one year, the introduction process is followed up by Human Resources and the immediate manager, and the introduction process transitions to continuous development. The new introduction process will be evaluated at the beginning of 2013, but the opinions expressed by the participants have been very positive so far.

## Personal development and career support

An important part of Folksam's offering to its employees is stimulating work, clear career paths and personal development

support. To increase awareness of this among the employees and to encourage active career choices, an internal career day was held in 2012. There, the employees had the opportunity to participate in activities and lectures on the career theme and there was an exhibition with Folksam's various operations and professional areas. Information was also provided here on employee benefits and the support offered by HR and external partners in career and development. The career day was carried out as a pilot activity at Skanstull and some 400 people took part. The evaluation of the day showed very positive scores and a clear majority of the respondents feel that this kind of activity is a good support.

During the year, Folksam's new performance and development process was also launched, with the aim of creating the conditions for every employee to perform and develop in a way that helps Folksam achieve its goals. The new process is more flexible and tailored to the business' needs than the previous one. The manager and the employee jointly prepare an individual plan of objectives and a development plan that they check off on a running basis. Focus is on a coaching approach, clear expectations in the role and what activities the employee should pursue to achieve his or her goals.

## Folksam's employees in figures

Employees	2012	2011	2010	2009	2008
Number of employees	3497	3400	3637	3863	3510
— Of which women	52%	51%	50%	50%	49%
— Of which men	48%	49%	50%	50%	51%
Average age	45.3	45.2	45.5	45.3	44.8
Number of managers	356	334	360	347	311
— Of which women	47%	47%	43%	44%	44%
— Of which men	53%	53%	57%	56%	56%
Employee turnover	12%	8%	5%	6%	8%

## Sickness absence

Sickness absence	2012	2011	2010	2009	2008
Sickness absence, %	3.4%	3.4%	3.4%	3.9%	5.6%

In 2012, Folksam's middle-management programme (MCU) was launched. The objective is to develop the leadership of managers of other managers or specialists. MCU combines development in programme format with coaching in groups. One of the programmes is also directed at more senior managers.

## Health-promoting work for less sickness absence

Folksam shall have a working environment that promotes good health, motivation and productivity, which is why efforts have been conducted for many years to reduce sickness absence. During 2012, a telephone service was introduced offering medical advice in conjunction with staff reporting in sick. With this, Folksam wants to provide the employees support in staying healthy, rapidly identifying signals of poor health and working more preventively. In 2013, the telephone service will be integrated with the new personnel and salary administration system, which will mean that the employees avoid reporting sick manually. Work with targeted support efforts for individuals and groups will continue in 2013.

## Office of the future

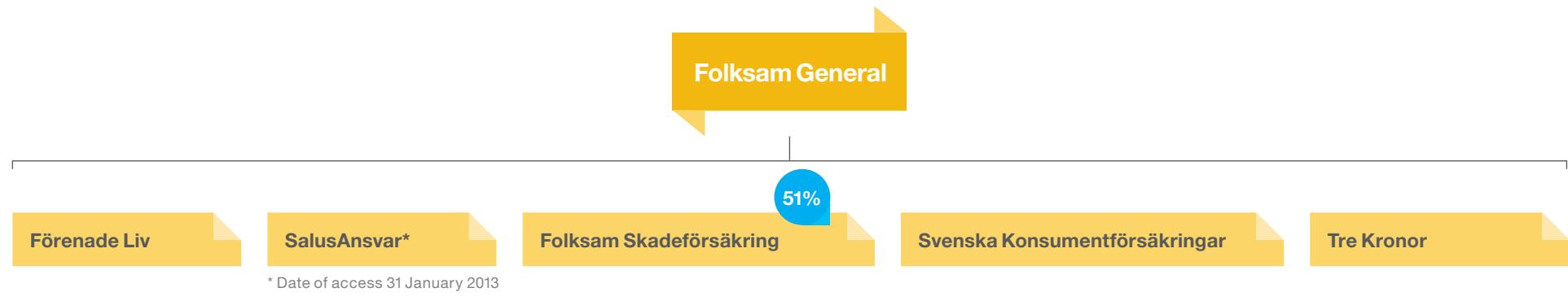
To adapt Folksam's workplaces to the future way of working, one floor of the office in Skanstull was converted to an activity-based office in 2012. Focus is on a flexible approach and good technical solutions, and is in line with creating a more learning organisation. This first renovation is a part of a pilot project and, after evaluation, a decision will be made as to how Folksam's future workplaces will look on other floors and offices.

## An attractive workplace for the employees of today and tomorrow

Folksam shall be an attractive workplace with competitive offers for current and future staff. To increase awareness of the insurance industry and Folksam as an employer, Folksam took part in various university programmes through cases and thesis projects and summer jobs for students. Folksam also collaborates with the four insurance programmes offered in Sweden, through participation in management groups and by offering internships. Over a five-year period, some 40 people from these programmes have been employed. During the year, Folksam also participated in 15 job fairs for students and four labour market events for professionals.

The presented employee turnover for 2012 is higher than previous years. This increase is attributable to a multi-year reorganisation mainly in the customer-oriented operations of claims, customer service, advice and telemarketing. The change has entailed internal relocations and restraint in external recruitment in 2010 and 2011, but at the end of 2011 and all of 2012, these operations were staffed through large-scale recruitment. In addition to this, Folksam, like many other companies, has large numbers of retirements to handle, just over 100 per year in recent years, and is working systematically to replace consultants with employees in areas such as IT.

# One brand, two corporate groups and ten insurance companies



Folksam comprises the two parent companies Folksam ömsesidig sakförsäkring (Folksam General) and Folksam ömsesidig livförsäkring (Folksam Life) with subsidiaries. Two of the insurance business' subsidiaries in Folksam Life are part-owned; Folksam LO Pension, 51 per cent owned, and KPA Pension, 60 per cent owned. In Folksam General, the subsidiary Folksam Skadeförsäkring (formerly Aktia Skadeförsäkring) is part-owned at 51 per cent.

In the consolidated accounts for Folksam General and Folksam Life, Förenade Liv Gruppförsäkring (Förenade Liv) and the companies in KPA Pension are not consolidated. This is because these companies are non-profit-sharing and all surplus in these companies therefore accrues to the policyholders. In

order to achieve economies of scale for the benefit of the customers, collaboration is pursued in distribution, administration and asset management.

## Folksam General

Folksam General is customer owned and offers non-life insurance principally focused on the Swedish household market. The company offers a full range of insurance to households and individuals with vehicle and household insurance as the base, supplemented by commercial insurance within selected areas.

Svenska Konsumentförsäkringar's operations cover individual and group non-life insurance for private individuals and for small and medium-sized enterprises. The policies are brokered by SalusAnsvar for their customer groups.

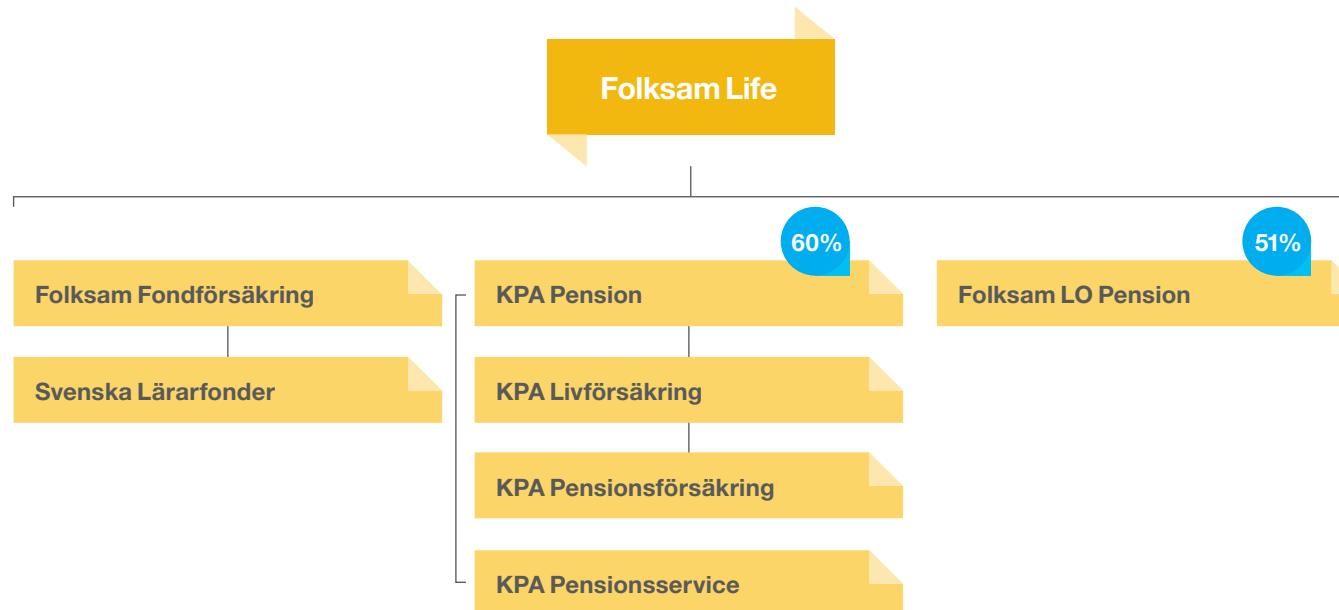
Tre Kronor offers non-life insurance in Sweden. Its business concept is to offer non-life insurance to companies and organisations wishing to sell and market insurance under their own brand names. Tre Kronor currently collaborates with Swedbank and 59 independent saving banks and in doing so provides non-life insurance to a broad market.

At the beginning of 2012, Folksam General acquired 51 per cent of the shares in Aktia Skadeförsäkring through an agreement with Aktia ABP in Finland. On 1 March 2013, the business changed name to Folksam Skadeförsäkring. The company conducts non-life insurance operations and is primarily active in the coastal area of Finland.

Förenade Liv offers group insurance for life, health, accident, medical care and also child and pregnancy insurance to white collar workers through the employers and organisations that represent them.

At year-end, Folksam General acquired Förenade Liv from Folksam Life. This is primarily to strengthen the market position in risk insurance.

Folksam General acquired SalusAnsvar AB effective on 31 January 2013. SalusAnsvar owns 49 per cent of SACO SalusAnsvar Försäkrings AB and 100 per cent of SalusAnsvar Personförsäkring AB.



## Folksam Life

Folksam Liv is customer owned and offers life insurance. The company offers occupational pensions and pension investments to private individuals, directly or through partnerships, but also group life insurance and other types of risk insurance.

Folksam Fondförsäkring conducts unit-linked insurance with ties to mutual funds. Customers can choose among a large number of selected funds, such as ethical funds, funds with low charges and award winning top performing funds.

KPA Pension is the common term for KPA Pensionsförsäkring, KPA Livförsäkring and KPA Pensionsservice. KPA

Pension is the leading pension company for the local government sector and manages occupational pensions for employees in local government, county councils, and municipal and cooperative companies.

KPA Pensionsservice offers employer service for the handling of municipal pension commitments, administration of the employees' individual pension choices and qualified consulting services, occupational group life insurance and professional pension advice. Folksam owns 60 per cent of KPA Pension and the Swedish Association of Local Authorities and Regions (SALAR) owns 40 per cent.

Folksam LO Pension is focused on collectively agreed occupational pensions and mainly offers administration and management of pension funds. The operations are conducted in Folksam LO Fondförsäkring, which is 51-per cent owned by Folksam Life and 49-per cent owned by LO.

In 2012, Förenade Liv Gruppförsäkring was sold to Folksam General and the company structure was thereby streamlined with a focus on savings.

# An organisation with the customer in focus

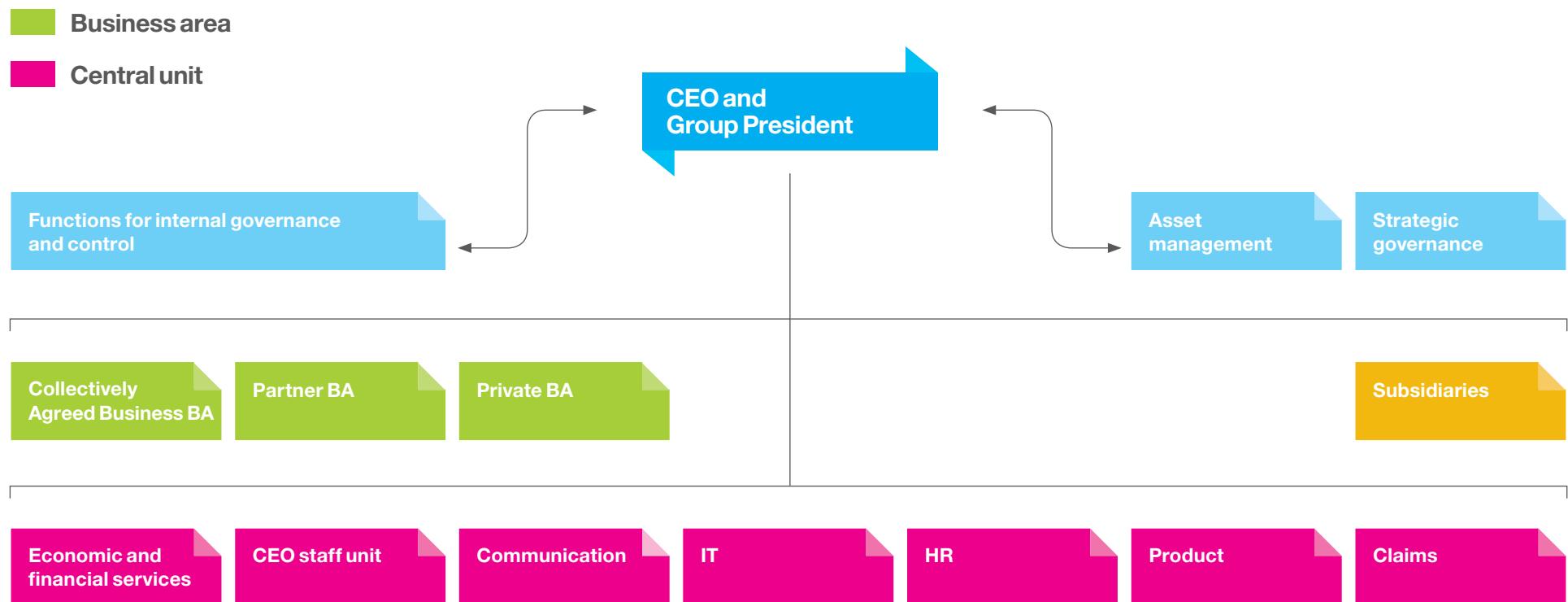
Folksam is organised into three business areas: Private, Partner and Collectively Agreed Business and subsidiaries. In addition, there are seven central units.

The Private business area is responsible for the private market for individual insurance and pension savings. This includes both life and non-life insurance under the Folksam brand, and all operations related to sales and customer service in relation

to private individuals. The Partner business area is responsible for Folksam's business with partner, and organisational customers. It includes the group insurance business and commercial insurance. The business is aimed at non-life insurance and personal insurance and savings. The Collectively Agreed business area is responsible for relationships with the parties to collective bargaining agreements in the Swedish labour market. This includes both insurance and pension savings, for example occupational group life insurance and health insurance, as well as services such as administrative service for employers.

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The Partner business area is responsible for Folksam's business with partner, and organisational customers.



# Broad offering in three central groups

Folksam conducts non-life and life insurance business with a focus on the Swedish market under several brands. The product offer can be divided into three central groups: pension savings, personal risk, and general insurance.

## Pension savings

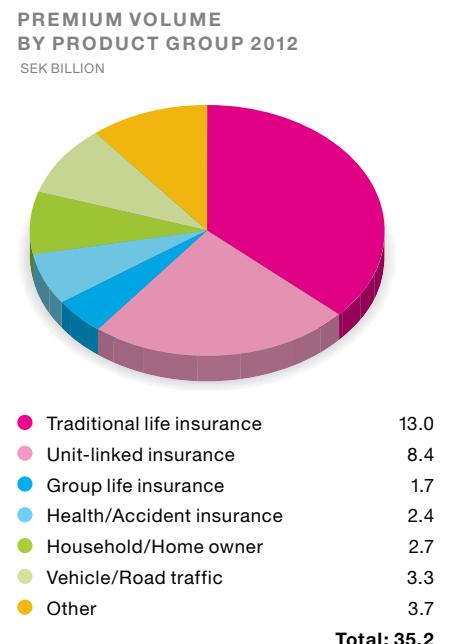
Folksam offers traditional life insurance within two companies: Folksam Life and KPA Pensionsförsäkring. The traditional life insurance is a form of saving where Folksam manages the invested capital. The savers do not influence their risk level themselves, but rather Folksam invests the capital in shares, interest-bearing securities and other assets. The company guarantees an agreed guarantee interest. Potential surpluses in the management are distributed among the savers with the help of bonus interest or a rate of return.

In Folksam, deposits in traditional life insurance increased in 2012. The higher premium volumes are largely due to the fact that savers tend to choose more secure alternatives when there is uncertainty in the market. Another explanation is that Folksam continued to successfully manage customers' money. In 2012, the total return for Folksam Life and KPA Pension amounted to 7.0 per cent and 7.2 per cent, respectively. Seen over the last five years, the total return has on average been 6.6 per cent for Folksam Life and 7.9 per cent for KPA Pension.

Folksam offers savings in unit-linked insurance through four companies: Folksam Life, Folksam Fondförsäkring, KPA Pensionsförsäkring and Folksam LO Pension. Unit-linked insurance means that the customer decides which funds the capital is invested in.

Premium payments to Folksam from policyholders in unit-linked insurance have increased sharply in the past five years. The average annual growth has been just over 10 per cent since 2008. This is a result of the efforts Folksam has made in the agent distribution market and in contractual pensions. The total unit-linked insurance assets in the four companies amounted to just over SEK 62 billion at year-end.

To facilitate the choice of funds, Folksam's policyholders are offered a guided product range. In contrast to a fund market, some 70 funds are presented with various investment emphases, and fund managers and funds are regularly reviewed in a selection process. As an additional complement to the guided product range, two fund selectors are offered, Trend and Multi. →



## Personal risk

Folksam offers personal risk insurance within five companies: Folksam Life, Folksam General, Förenade Liv, Tre Kronor and KPA Livförsäkring.

Group insurance is a one-year risk insurance without saving aspects. Group insurance is offered as group life and occupational group life, respectively health and accident insurance. From group life and occupational group life insurance products, a non-recurring payment is made to the beneficiary when the insured person dies.

Health insurance reimburses loss of income or consists of fixed lump sums. Health or accident insurance reimburses costs that can arise in connection with an accident, and offers compensation in cases of invalidity.

Folksam has a very strong position in the Swedish market for group life insurance. Customised group life insurance and

health and accident insurance is available for unions, companies and organisations within for example various sports organisations and also as individual solutions.

Occupational group life insurance, TGL-KL, for municipalities and county councils is regulated by collective agreements. In recent years, it has been possible to lower premiums for collectively agreed occupational group life insurance due to good capital returns.

## Non-life insurance

Folksam offers non-life insurance in four companies: Folksam General, Folksam Skadeförsäkring (formerly Aktia Skadeförsäkring), Svenska Konsumentförsäkringar, and Tre Kronor. The latter two are so-called white brands, that is, brands that do not interact with customers, but instead are responsible for the actual products. Household insurance is the most strategically important product and comprises the core of the whole insurance offering. In order to meet customers' requirements

of clearer and simpler alternatives, the offering Base, Medium and Plus was introduced as different types of household and home-owner insurance during the year.

The number of combination customers in Folksam increased in 2012 and was around 500,000 at year-end. In order to be considered a combination customer, the customer must have both the car and the home insured by Folksam. We continued our initiative with customised combination offers in order to further strengthen relations with our most important customers. The positive development in sales of add-on insurance continued in 2012.

The commercial market continued to develop positively during the year with a focus on small businesses, property and vehicle.

### PREMIUM INCOME, LIFE

- 2012 SEK 13.0 billion
- 2011 SEK 11.5 billion
- 2010 SEK 10.2 billion
- 2009 SEK 10.3 billion
- 2008 SEK 10.6 billion



### DEPOSITS, UNIT-LINKED

- 2012 SEK 8.4 billion
- 2011 SEK 8.6 billion
- 2010 SEK 7.6 billion
- 2009 SEK 6.4 billion
- 2008 SEK 4.4 billion



### PREMIUM INCOME, NON-LIFE

- 2012 SEK 8.9 billion
- 2011 SEK 8.2 billion
- 2010 SEK 7.7 billion
- 2009 SEK 7.0 billion
- 2008 SEK 6.5 billion



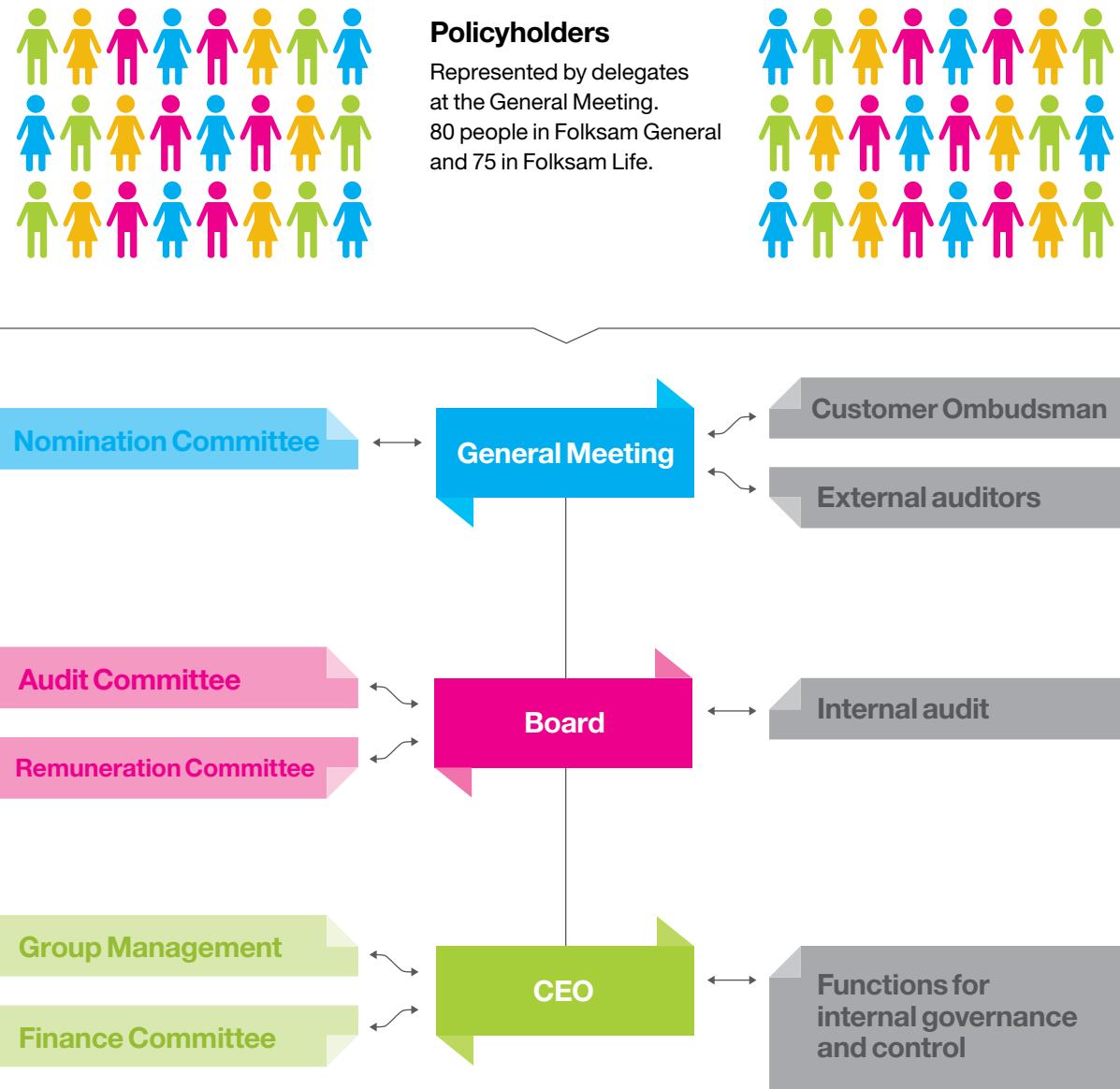
# As a customer, you can influence Folksam

Folksam is a mutual insurance company. This means that our customers are also our owners.

Good corporate governance is about ensuring that a company is run on behalf of its owners in as efficient a manner as possible. An overall objective with Folksam's corporate governance – apart from conforming to the company's vision and ethical principles – is to ensure good returns for its customers. Corporate governance is derived from legislation, primarily the Insurance Business Act, but also the Financial Supervisory Authority's regulations and general recommendations. Folksam also applies the Swedish Code of Corporate Governance.

This diagram presents the structure of the governing bodies in Folksam. As Folksam is customer owned, there are no shareholders. The influence of policyholders in the form of voting rights, the right of expression and proposal at the General Meeting is exercised in part through specially elected delegates (appointed by organisations that represent the policyholders) and in part through direct elections of policyholders (which are held by a specially appointed election coordinator).

The boards of directors of the parent companies consist of customer representatives from the Swedish popular movements (cooperation, labour unions, the sports movement and the elderly movement). It is the Nomination Committee that proposes to the general meetings who should sit on the boards and ensures that the boards are given an appropriate composition with regard to competence, age and gender.



# Strategic asset management

Folksam is one of Sweden's ten largest investors and manages assets of SEK 281 billion. The assets are invested in interest-bearing securities, equities, property and alternative investments.

Folksam's holding of interest-bearing securities mainly consists of bonds issued by the Swedish government, Swedish mortgage institutes or Swedish companies. The equities portfolios consist of listed Swedish and non-Swedish equities. At the end of the year, Folksam owned property assets, including property funds, at a total value of SEK 18.6 billion. The overwhelming majority of directly owned properties are located in Sweden and has a total market value of SEK 15.7 billion. The value of the alternative investments was SEK 3.8 billion at year-end. Alternative investments are investments that have a low correlation with equity and interest rate markets.

## Investment strategy

The Board of Directors of each company establishes objectives and levels of risk for the asset management, thus establishing the limits within which the capital may be invested. The greatest risk for an insurance company is to not be able to cover its obligations towards policyholders in the long run. To manage this risk, special consideration is given to the nature and duration of the insurance commitments in the composition of the investment assets.

Special rules apply to the asset management, primarily the placement regulations of the Insurance Business Act. In addition, the asset management complies with the Financial Supervisory Authority's regulations and general guidelines as well as

## Managed assets by asset class \*

Folksam, SEK m	2012	2011	2010	2009	2008
Assets under management	280,973	252,653	235,070	215,005	173,190
— Of which interest bearing	186,575	174,906	148,621	137,242	125,375
— Of which equities	72,017	58,664	70,086	63,579	33,432
— Of which alternative investments	3,754	3,183	2,010	1,887	2,810
— Of which directly and indirectly owned property	18,627	15,900	14,353	12,297	11,573

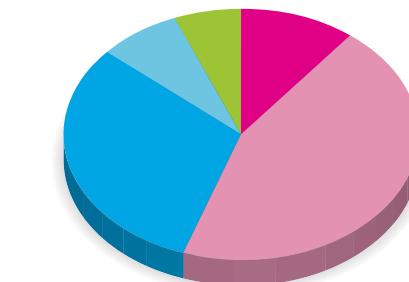
each principal's rules for environmental and ethical considerations. The risk level of each principal's asset portfolio is monitored on an ongoing basis. The risk level may be no higher than the statutory requirements for each portfolio can be met with a high probability, even during a very negative trend of the financial and insurance markets.

## Management Mandates

The role of Folksam asset management is to be responsible for governance, monitoring and evaluation. In order to achieve good risk diversification, the holdings are distributed between a wide variety of asset classes and markets. Certain types of investments are managed internally, while others are managed externally. Positions managed internally are primarily conducted through derivatives to tailor each principal's level of risk. For example, stock options can be used that reduce (or increase) the effects of stock market volatility, but also interest rate derivatives may be used to ensure that benefits that have been promised to life insurance policyholders can actually be paid.

Management mandates are given to the internal functions of Folksam Fastigheter and Alternative investments, and externally to Swedbank Robur, Aktia Asset Management, DNB and JP Morgan. The most extensive external assignment is taken care of by Swedbank Robur and comprises approximately

MANAGED ASSETS BY COMPANY 2012  
SEK BILLION

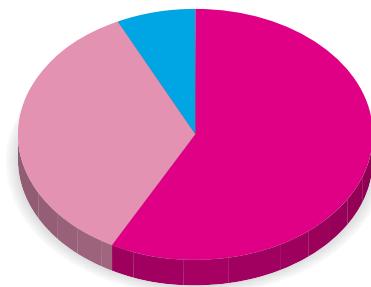


Folksam General	29.9
Folksam Life	125.6
KPA Pension	87.4
Konsumentkooperationens pensionsstiftelse	21.6
Other	16.5
<b>Total: 281.0</b>	

\* Assets under management represent assets according to the total return table less strategic holdings, which principally relate to the value of subsidiaries, plus assets under management in KP Pensionsstiftelse. As of Q1 2012, assets in Svenska Lärfonder and Folksam Skadeförsäkring (formerly Aktia Skadeförsäkring AB) have also been added. In 2012, the management right of Folksam LO Fonder was transferred to Robur. The historical data is adjusted for comparability.

SEK 215 billion. Swedbank Robur also manages the majority of the continuous administration of transactions and securities holdings. The directly owned properties are managed by Folksam Fastigheter whose purpose is to generate good returns on capital by owning the right properties and developing

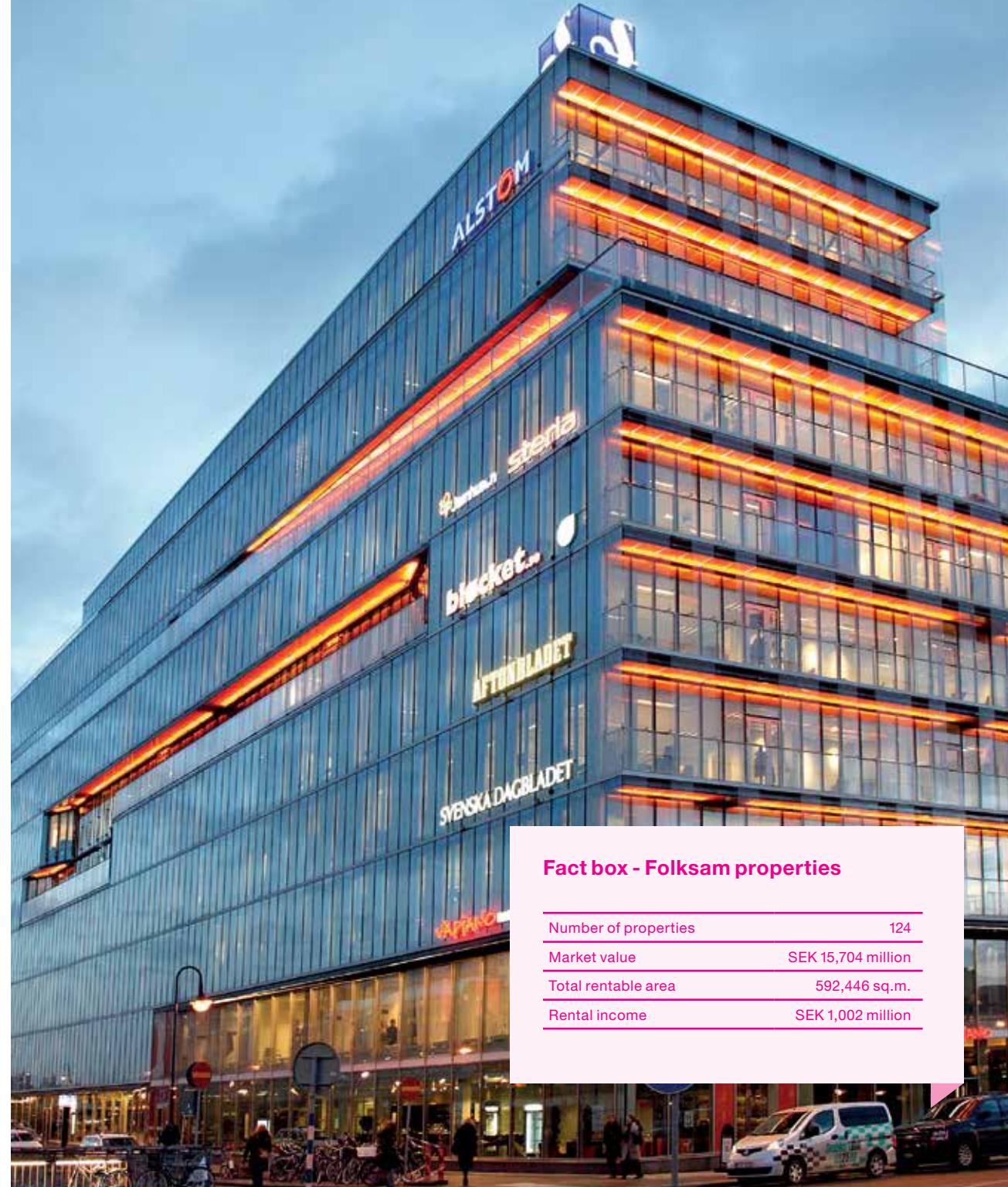
FOLKSAM PROPERTIES – TOTAL AREA DISTRIBUTION

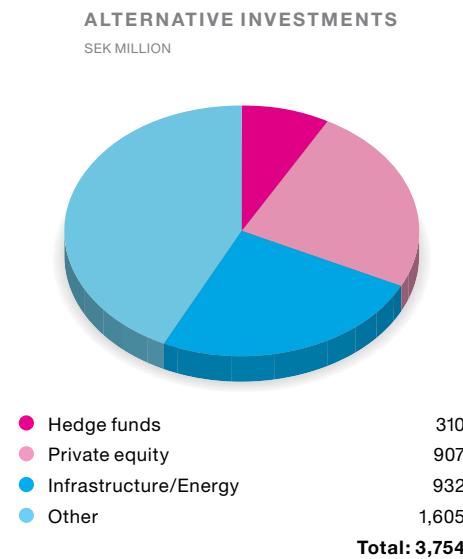


Commercial	58%
Residential	35%
Other	7%

them in the best possible way. The goal is to create value for Folksam's policyholders while benefits for tenants increase through construction, management and development of homes, care facilities, offices and shops in attractive locations.

The property portfolio is growing. During the year, Folksam acquired the internationally renowned office property Kungsbrohuset. The property is located in the expansive Västra City in Stockholm and is one of Sweden's most modern buildings both with regard to environmental concept and technical solutions. →





Alternative investments refer to an internal management mandate with a long investment horizon which aims to give policyholders access to unlisted assets. Investments must show a low correlation with the interest rate and equity markets and are made mainly in fund-like structures.

In 2012, investments were directed towards, for example, infrastructure and private equity funds. Folksam also acquired half of Kvarnholmen Utvecklings AB together with Peab. Kvarnholmen Utvecklings AB has the task of developing building rights for the production of some 1,500 new apartments.

## Strategic holdings

Corporate strategic investments are investments of particular strategic importance to each principal and are characterised by the fact that it is the Boards that decide on purchases or disposals.

## Total return

In per cent	2012	2011	2010	2009	2008
Folksam General	8.2%	6.9%	6.7%	8.1%	2.5%
Folksam Life	7.0%	6.5%	8.7%	10.3%	0.9%
KPA Pension	7.2%	5.6%	8.2%	12.4%	6.3%

One example of a strategic holding is Swedbank, where Folksam owns nearly 10 per cent of the shares. At year-end, the value of the shares in Swedbank was SEK 13.2 billion.

## Total return

The objective of investment management varies between the different companies. For Folksam Life and KPA Pensionsförsäkring AB, the objective is to achieve the highest level of real return under relevant risk and investment limits, while in Folksam General and the rest of the companies it is to contribute to stable and competitive premiums. For the life business, the objective should mean at the very least, an annual real rate of return of three per cent on average, measured over a period equal to the average maturity of the insurance policies. Folksam has, for a number of years and in different market conditions, proved to be able to manage the risks and opportunities in asset management in order to create long-term good returns for policyholders. The total return for 2012 was 8.2 per cent for Folksam General, 7.0 per cent for Folksam Life and 7.2 per cent for KPA Pensionsförsäkring AB. When comparing total return over five years, both Folksam Life and KPA Pensionsförsäkrings AB rank at the absolute top of the market.

## Market Development 2012

The 2012 stock exchange year began strong with an upturn that lasted until the middle of March with a roughly 15 per cent increase for Swedish equities and around 10 per cent for the global index. The market was supported by expectations that the ECB's resolute measures at the end of 2011 would have positive effects and that positive economic indications came from the U.S. The Swedish economy also continued to develop relatively stably. Accordingly, the year also began with rising Swedish interest rates.

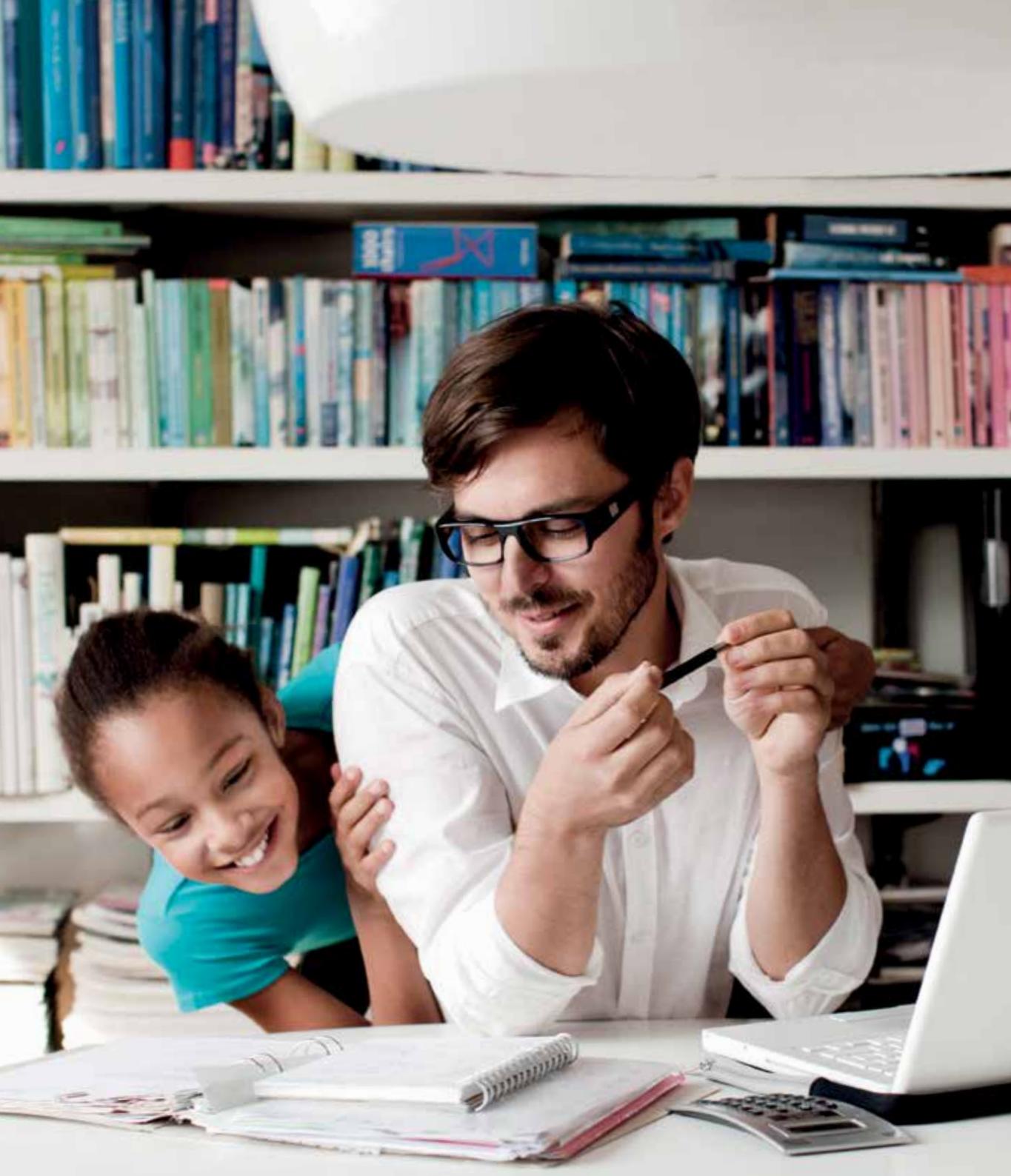
In March, a period of less positive outlooks began. Greater concern for the euro crisis together with weaker economic

statistics from both Europe and the U.S. as well as China and Japan resulted in both Swedish and international stock exchanges dropping back at the beginning of June to the levels that prevailed at the beginning of the year. Political and economic uncertainty in several countries mainly in Southern Europe led to higher bond interest rates in Greece, Italy and Spain. In Spain, concern was worsened by a banking sector in a difficult crisis. This, together with a relatively stable development in Germany and Sweden, among others, led to greater interest in German and Swedish government bonds, which caused long Swedish bond rates to drop by around 1 percentage point in the period March to the end of June. At the same time, the SEK gained strength. Swedish interest rates was thereby down to historically low levels and the 10-year government bond ate bottomed out at just over 1.1 per cent.

In June, elections were held in Greece, which eventually led to a government being able to be formed. The euro countries' summit agreed to allow the European rescue fund to buy government bonds and to be able to provide direct support to individual banks. This was welcome news for Spain and others. Later in the summer, a preliminary political agreement was reached to provide emergency loans to Spanish banks and the head of the ECB, Maria Draghi, expressed the ECB's strong support of the euro. This led to some stabilisation of the situation and was also a signal that caused the Swedish housing bond rates to drop by nearly 1 percentage point compared with government bond rates during the autumn until year-end.

During the summer and the autumn, the world's stock markets also stabilised, supported by the EU leaders' rescue measures, dropping key interest rates and stimulus packages being proposed in China and Japan as well as continued stimulus measures in Europe and the U.S.

In the autumn, some further clarifications were made about how the ECB support funds will work and the ECB said that it intends to carry out its chosen low-interest policy until 2015. The German constitutional court established its approval of ECB's support fund in September. Growing confidence was gradually established that the chosen path can lead to a stabilisation of the economies of Europe. For the countries in crisis,



“ The 2012 stock exchange year began strong with an upturn that lasted until the middle of March with a roughly 15 per cent increase for Swedish equities and around 10 per cent for the global index.

especially in Southern Europe, this meant lower government rates. For Sweden, it meant gradually increasing interest rates and the year ended with somewhat higher interest rates for durations of more than 10 years and somewhat lower interest rates for durations of less than 10 years compared with the rates at the beginning of the year. The 10-year Swedish government bond rate ended the year at 1.5 per cent, which was approximately 0.1 per cent lower than at the beginning of the year.

After a stock market rally in October, not even less positive economic signals from Sweden or budget problems in the U.S. could prevent a strong end to the stock market year and both Swedish and non-Swedish equities had total increase of some 16 per cent for whole year 2012. In SEK, the increase for non-Swedish equities was around 10 per cent due to a strengthening of the SEK of approximately 5 per cent.

Value growth in the property market in Sweden was relatively good in 2012, especially for property in prime locations. Strong demand for centrally located commercial premises continued and contributed to good value appreciation. Demand for housing in Stockholm was high and also contributed to a stable positive value growth. In Malmö, housing values levelled out since demand was affected by the recession in Copenhagen. There was an increasing interest in the market with regard to sheltered and assisted living.

# Risk management – an key part of the business

The ability to identify, prevent and manage risks is important. Risks that are managed in the right way can lead to new opportunities and value creation. Risks that are not handled properly can, however, lead to considerable damage and expense. Folksam's risks are managed in a uniform manner based on a holistic view of risk situations in both the present and the future.

Folksam is exposed to a wide variety of risks, all of which affect the company's financial position, performance and goal fulfilment. These risks are divided into categories, which are in turn divided into different risk types. The risk map on the next page is a common risk summary that is customised for each company within Folksam.

## 1. Insurance Risks

In all insurance companies, management and valuation of risks is fundamental. Correct pricing of risks secures Folksam's long-term profitability. It is also important to ensure that insurance provisions are adequate. The risks are managed through advanced actuarial methods and the continual review of assumptions. The assessment is based on both internal and external policy data, adjusted for expected future trends.

### Life insurance risk

To manage the *underwriting risk*\*, Folksam regularly re-assesses pricing, terms and conditions of insurance and underwriting rules in order to diversify the risk selection and to cover the costs associated with the insurance contracts. The review

also covers the limitations that ensure that risk selection is in accordance with the guidelines established by the respective Board of Directors.

Underwriting risk is higher in personal insurance than in property insurance. The reason for this is that the adjustment of personal injuries generally takes a longer time and that it is more difficult to adequately capture emerging trends. The longer claims handling time also means that any legislative changes can have a greater impact.

*The provision risk*, i.e. the risk that the reserves are not sufficient to settle incurred claims, is managed through advanced actuarial methods and rigorous continuous analysis of reported claims and cash flows. Provisions are checked and evaluated in the regular financial reporting and forecasting work. Virtually all insurance contracts run for one year and have an in-built right for the insurer to decline extension or to change the conditions and requirements upon extension.

### Life insurance risk – Savings insurance

*Insurance interest rate risk* is of great importance for the traditional life insurance, both when new policies are signed and when calculating provisions. In connection with the signing, the risk is that the guaranteed interest is too high in relation to market interest rates, which has implications for solvency and risk capacity. The insurance interest rate risk in the calculation of provisions, i.e. the risk that the value of the liability increases due to falling market interest rates, was one of the more significant risks in 2012. Even *longevity risk*, i.e. the risk that lifetime is underestimated upon signing and for the calculation of provisions, is of great importance in savings insurance. In addition, there is a *mortality risk*, *operational cost risk*, and *surrender risk*.

Risk provisions in unit-linked insurance and insurance with conditional bonuses are very limited for the company as the policyholder carries the financial risk.

### Life insurance risk – Risk insurance

Incorrect assumptions regarding mortality, morbidity or operating costs can cause losses if the premium does not cover insurance claims and operating expenses (*underwriting risk*) or if the provisions are not sufficient for claims that are not finally settled (*provision risk*). Risks are managed through an annual analysis of mortality, morbidity and operating costs, which is used as a basis for decisions on changes in premiums or provisions.

### Risk when allocating surpluses

According to the Insurance Business Act, distribution of surpluses in life insurance companies must be governed by the each insurance contract's contribution to the surplus. There are insurance risks when managing the surplus, both in the context of how much surplus is allocated to the policyholders' insurance bonuses, and in conjunction with how the surplus payout is distributed over time.

The consequence of incorrect surplus management is an unfair distribution of surplus between different insurance policies. The risks at the time of distribution of surpluses are dealt with through ongoing reviews and updating of the assumptions and collective consolidation as well as the design of actuarial guidelines and insurance terms and conditions.

### Concentration risk

Folksam underwrites non-life insurance policies throughout Sweden in all of the major insurance classes. Thanks to the large number of customers, the insurance portfolio is well diversified, but it does have a certain preponderance of group insurance policies and a deficiency of commercial insurance

\* The risk that the premiums paid do not cover all costs related to the policy.

## 1 Insurance Risks



### Concentration risk

The risk categories of **concentration risk** and **matching risk** can describe risks both in insurance risks and financial risks.

## 2 Financial risks



### Matching risk

## 3 Operational Risks



policies, the latter being a relatively young business area. Insurance linked to group insurance agreements is well spread in both age and geographical terms, which means that the *concentration risk* is limited. Folksam's life insurance business is generally directed towards large collectives. This results in consolidation of separate risks and thus reduces them.

The concentration risks identified are handled through health assessments in connection with the signing of insurance with death risk. These requirements are most stringent for individually signed insurance, where an individual risk assessment is applied.

### Reinsurance

Reinsurance is an important part of the risk management of insurance risks. The reinsurance programme is used mainly as a cost protection against major damage, but is also a tool to cover excess risk levels. During 2012, Folksam reinsured its business primarily by non-proportional reinsurance solutions with excesses adapted to conditions in each class.

## 2. Financial risks

Respective Boards of Directors have the ultimate responsibility for the management of the company's assets and sets the framework and guidelines on how assets will be distributed among the various asset classes. The managing director is responsible for the management of the company's assets within the limits and instructions given by the Board as well as for the review of placement guidelines. The maximum risk level, as formulated by the Board (in the respective companies within Folksam), is that the risk level must not exceed the conditions yielding a *green light* in the Financial Supervisory Authority's traffic light model. The starting point for the optimisation and investment policy of each asset portfolio is that the company shall be able to withstand very weak financial markets. Compliance with the legal restrictions on funding and solvency has top priority in the placement policy. Only then will the company's internal risk preferences and business goals be taken into account.

In order to achieve good risk diversification, assets are distributed over a wide variety of asset types and markets. Folksam's asset management control how the assets are allocated within the given limits. Certain types of investments are managed internally, while others are external asset management mandate.

### Market risks

The management of *market risks* is based on the company's financial strength. Risk taking is adjusted to the company's selected risk level and expectations of the market. This is applicable for example in the choice of the allocation of investments between asset classes that give rise to market risk and by various types of derivatives, such as futures, interest rate swaps, etc.

### Credit risks

*Credit and counterparty risks* are managed only by allowing investment in securities with a high credit rating. →

“ Folksam is exposed to a wide variety of risks, which affect the company's financial position, performance and goal fulfilment. These risks are divided into categories, which are in turn divided into different risk types.

#### **Liquidity risks**

*Liquidity risks* are considered to be of minor importance for Folksam in the overall risk assessment. By investing assets in listed securities with high liquidity, the liquidity risk is kept at a low level.

#### **Matching risk**

The greatest risk for a life insurance company is to not be able to cover contractual obligations towards policyholders in the long run. To deal with this *matching risk*, special consideration is given to the nature and duration of the insurance undertakings when selecting the composition of the investments.

#### **Concentration risk**

Folksam's largest *concentration risk* is the holding of shares in Swedbank. This concentration risk is taken into account in the choice of placement policy and especially in the composition of share portfolios in Folksam's parent companies and subsidiaries. As a rule, the investments shall also be able to be used as debt coverage.

### **3. Operational Risks**

Identification and assessment of these risks is carried out primarily through self assessment where there is a qualitative evaluation of the impact and probability of the risk occurring. All risks are allocated a risk owner and a person in charge of measures who is responsible for e.g. monitoring risks on a continuous basis. Information about risks that are realised is systematically collected in Folksam's incident reporting system and is an important part of the self evaluation.

### **The Risk Management Process**

The risk management process is divided into steps in order to identify, evaluate, manage, monitor and report all material risks.

#### **• Identification**

Risks are identified in a uniform and systematic manner in accordance with the company's risk categorization. Identified risks are described, registered and categorised. All risks are linked to information about which units and companies that are affected. All identified risks are assigned risk owners, and measures for managing and preventing risks are drawn up.

#### **• Evaluation**

Risks are evaluated in a uniform manner and quantified, where possible, using generally accepted methods. The risk assessment can more or less precise. Depending on the nature of the risk, the assessment is *quantitative* (measured) or *qualitative* (estimated). The Traffic light, which is the Financial Supervisory Authority's tool for measuring risks in insurance companies, is used as a method for evaluating insurance and financial risks. In order to calculate how much capital the company needs to cover its risks (according to the traffic light system), a number of predefined stress scenarios are executed. The scenarios illustrate the company's total capital requirement in relation to the company's available capital.

#### **• Manage**

Risk management takes place with the aid of regulations, processes and control activities. It is the business operations' and management's responsibility to prioritise the measures required.

#### **• Monitor**

Monitoring includes the continuous monitoring of risks and activities, and ensures that the risks are within set limits. It is the business operations' responsibility to continuously monitor operations and risks.

#### **• Reporting**

All material risks are reported to the Board of Directors and the managing director to provide a comprehensive and objective view of the overall risk situation. The aggregated risk situation is reported through written reports.

### **Division of responsibility**

In order to clarify the governance and responsibility of risk management and risk control, responsibilities are divided in three lines of activities.

The *first line of responsibility* consists of organisational units, parent companies and subsidiaries, as well as outsourced operations. They are responsible for managing operations so that the objectives of the Board are met. They own and manage risks, that is to say, they are responsible for risk management, monitoring and compliance.

The *second line of responsibility* is made up of management and control functions to ensure an appropriate and effective risk management. The management and control functions support and follow up the first line of responsibility based on frameworks for internal management and control, are responsible for having an overall picture of the risk situation of the company and reporting this to the Board and the managing director.

The *third line of responsibility* consists of internal audit. Internal audit reviews and evaluates, on behalf of the Board, internal governance and control including risk management.



# World-famous traffic research

Road traffic injuries mean huge losses for both public health and the economy, but above all for the individual. Folksam has over 30 years of experience in research in road safety issues, with emphasis on studying real road accidents.

The knowledge Folksam's traffic research provides is used to save lives on the road. By analysing the injuries and damage that occurs, Folksam can provide advice on the best products and how one can prevent accidents and injuries. Fewer traffic injuries also mean lower road traffic insurance premiums, which benefits Folksam's customers. The ambition is also to integrate this knowledge into the insurance – for example, having secure and more environmentally sustainable cars and lower premiums, and motorcycles with ABS are rewarded. Folksam's traffic research costs approximately SEK 7-8 per vehicle insurance policy and year.

## Road traffic increasingly safer

A great deal has happened in the past 10 years. The number of traffic deaths have been cut in half since the beginning of the 2000s and the number of people disabled has decreased substantially. This is primarily due to roads and vehicles having become safer. Safety systems such as anti-lock brakes, seat-belt reminders and whiplash protection have been of major significance, as well as centre-divided 2+1 roads, roundabouts and lower speeds in cities and on accident-prone roads. Folksam's efforts during this time period have included:

- conducting the first evaluation of seat-belt reminders in Europe - an important milestone to encourage car makers to have them as standard
- initiate crash tests of whiplash protection tests that are currently integrated into the consumer test Euro NCAP
- conducting a national policy for how long children should sit in rear-facing car seats.

On the long term, Folksam sees a number of important trends. The car will increasingly be connected to various networks, which entails new safety solutions, including semi-automatic driving and vehicle insurance solutions linked to how the individual drives. Congestion and noise in the cities are driving a new cityscape where pedestrians, bicycles and public transport are the base and the car is present on the terms of unprotected people, rather than the opposite. There will be invisible alcohol safety interlock devices in cars that are not noticeable of the driver is sober. Based on the development that has occurred and the changes expected, Folksam's road safety work has been more focused on the driver's behaviour and on increased injuries among unprotected road users, which was apparent in the 2012 activities.

## Green and safe – less expensive insurance

The "Green light" research project, which was concluded in 2012, shows that car drivers can be encouraged to use a safer and more environmentally friendly style of driving if they are rewarded with a lower insurance premium. Besides the car driver him or herself being able to save money on premiums and fuel costs, more than 40 lives a year could be saved and 300 severe injuries

avoided. Carbon dioxide emissions would also decrease substantially. Folksam has the intention of developing a new type of vehicle insurance based on the results of the research project.

At the annual Tylösand seminar, the project was presented that Folksam conducted together with the Swedish Transport Administration, the Swedish Abstaining Motorists' Association (MHF) and SalusAnsvar. The results show that it is possible to cut driver speeding violations by more than half, as well as reducing the more severe speeding.

Approximately 250 private drivers took part in the project. To be able to ensure the research results, the participants were randomised into a test group and a control group. Using GPS equipment, the speed of the car was measured relative to the road's speed limit, but it was only the test group that received direct feedback on the speed of the car. By driving according to the applicable speed limit, they were able to get up to a 30 per cent discount on their insurance premium.

## Bicycle accidents cause the most personal injuries

Road safety work often focuses on fatal accidents and then car accidents account for the greatest danger. However, in densely developed areas where fatal accidents rarely occur, it is most often bicycle accidents that cause personal injuries. In Sweden, bicycle accidents cause more road injuries than car accidents, as shown by new statistics from Folksam. Nearly half of all traffic injuries in the country that lead to severe injuries in densely developed areas are accounted for by bicycle accidents, a whole 48 per cent - compared with 28 per cent for cars, 8 per cent for mopeds and 7 per cent for pedestrians.

In the spring, Folksam conducted tests of the 13 most common bicycle helmets in the Swedish market. The results showed that most need improvement.

The fact that bicycle accidents have not received the same attention as before has been because bicycle injuries have been unreported to some extent. Single-party accidents have not been apparent in the statistics since focus has been on bicycle-car collisions. However, these only account for some 15 per cent. The majority of the severe injuries occur in single-party accidents.

### **Eight out of ten bicycle injuries are arm and leg injuries**

Every year, around 1,900 bicyclists are severely injured in Sweden. Arm and leg injuries account for a whole 80 per cent of all severe injuries in bicycle accidents, and shoulder injuries are the absolutely most common. These injuries cannot be prevented with bicycle helmets. A bicycle jacket that protects the arms and shoulders would, however, be able to sharply reduce the number of severe injuries according to Folksam's traffic researchers. Shock-dampening material in, for instance, a jacket or a vest like in some clothes for mountain biking, could be further developed to suit a broad market. Folksam has the intention of developing a testing method for protective clothing to stimulate the emergence of effective protection on the market.

### **Major deficiencies among the most popular bicycle helmets**

In the spring, Folksam conducted tests of the 13 most common bicycle helmets in the Swedish market. The tests reflected both single-party accidents and accidents when a cyclist is struck by a car. The results showed that most bicycle helmets need to be improved, and that there are large differences between the best and the worst helmets. This was in spite of the fact that all helmets that were a part of the test had previously been tested and approved according to CE norms. The invisible helmet Hövding, which is inflated in an accident and functions as an airbag for the head, received the best results by far in the impact test. Popular skateboarding helmets generally provide worse protection than traditional bicycle helmets.

As of 2012, Folksam is a member of the Swedish Transport Administration's analysis group to prepare strategies for safer bicycling.

### **Motorcycle guardrails**

The risk of injury for motorcyclists is just as high in a collision with the cable guardrails as other steel guardrails - approximately 50 per cent - regardless of what kind of guardrail is involved. This is what was shown in a study from Folksam in cooperation with the Swedish Transport Administration and Vectura, which debunked the myth that cable guardrails are more dangerous for a motorcyclist. In order to increase road safety for motorcyclists, it is rather all kinds of guardrails that must be improved. As early as 2009, a study from VTI showed that cable guardrails have increased road safety and reduced the number of fatalities for both cars and motorcycles. For cars, cable guardrails have reduced the number of fatalities by 75-80 per cent on 2+1 roads and the number of motorcycle fatalities have decreased by 40-50 per cent.

### **Folksam lists safe and sustainable cars**

The cars that are purchased today will be on the road for many years to come and therefore have a major impact on both safety and the environment for a long time to come. Folksam therefore conducted a review of new car models for the 15th consecutive year. The list separates out around 10 per cent of the market's cars that meet Folksam's requirements to be safe and environmentally sustainable. There is now important safety equipment even in the compact car class. Automatic brakes are one of the safety systems that has a major effect in terms of reducing traffic injuries. Folksam's calculations show that the number of people injured and killed would decrease by at least 20 per cent if all cars had automatic brakes of a modern standard. Automatic brakes can now be obtained in several car models, and it is important for customers to know that they exist and demand the systems.

The complete list of safe and sustainable cars is presented on [folksam.se](http://folksam.se).

### **Retirement of cars without antilock brakes?**

Major safety benefits can be achieved by replacing older, less safe cars with new, safer models. This came forth at the Tylösand seminar in September 2012, where Folksam presented a report on what various alternatives for retiring old cars may mean. The issue has been discussed earlier and the government investigated it some 10 years ago. In recent years, however, several effective safety systems like automatic brakes have been introduced, which has meant that the conditions have changed. Folksam's proposal was therefore to appoint a new commission to investigate the issue again.



# Renowned corporate governance

Folksam is convinced that companies that take responsibility for the environment and human rights are more profitable in the long term. With criteria concerning the environment, human rights and anti-corruption, Folksam therefore influences the companies that it invests in.

Certain companies are excluded regardless of how small their environmental impact is or how good their working environment is. These exclusion criteria are tobacco and illegal weapons, such as cluster bombs, anti-personnel mines and nuclear weapons. All companies within Folksam apply these criteria. The subsidiary KPA Pension has adopted even tougher disqualifying criteria and, it does not invest in the tobacco industry, the arms industry, the alcohol industry or commercial gambling. Folksam General has the Good Environmental Choice label and has the same disqualifying criteria as KPA Pension plus the exclusion of coal, nuclear power and uranium.

## UN principles guide Folksam

The United Nation's Principles for Responsible Investments (PRI) are a UN initiative launched in 2006, the aim of which is to incorporate sustainability issues into the investment process for institutional investors and pension managers. Folksam was the only Swedish investor that participated in the formulation of the principles and was also one of the first investors to sign them.

## PRINCIPLE 1

Folksam includes environmental, social issues and corporate governance in the financial analysis and the decision-making process.

An ethical analysis forms the basis of decisions on which companies Folksam invests in and which companies Folksam chooses to conduct a more in-depth dialogue with. Folksam participated in 39 annual general meetings and three nominating committees during the 2012 general meeting season. Besides this, Folksam was involved in a number of dialogues with corporate boards with regard to sustainability work and incentive systems.

Folksam sometimes votes for and sometimes against share-related incentive systems. During the year, Folksam voted no to three companies' proposals for variable remuneration programmes.

## Dialogue as a means of influence

Folksam's work to influence companies in sustainability issues is partly aimed at reducing the risks associated with environmental crime, human rights abuse and corruption, and partly to make more people see the commercial potential of a responsible business. In 2012, the activities of 2,140 companies were audited focusing on corporate performance regarding the environment and human rights.

Folksam's 20 largest Swedish holdings were contacted and meetings were held with six of these during the year. In addition to this, 43 Swedish companies were identified that ran the greatest risk of exposure to incidents in the environment and human rights. All companies were contacted and nine were chosen where meetings and/or phone conferences were held with a review of the companies' risk situation. The review has meant that several companies have restructured and improved their environmental work or their way of working with human rights after dialogue with Folksam.

## PRINCIPLE 2

Folksam is an active owner and incorporates environmental and social issues into the corporate governance policy and the method of working

Folksam's Boards of Directors have established a corporate governance policy and ethical investment criteria for the companies' holdings. Activities are followed up by an internal corporate governance committee. The results are reported to the boards.

## Dialogue with listed companies after incidents

Insofar as it is possible, Folksam tries to influence the companies it invests in. Here are a few examples:

### Lundin Petroleum

In 2012, Folksam had multiple contacts with the Swedish oil company, Lundin Petroleum.

Folksam proposed that the annual general meeting assign the company's board to initiate and finance an independent audit of Lundin Petroleum's operations in Sudan and Ethiopia. The main objective of the audit would have been to investigate accusations of violations of principles 1 and 2 in the UN Global Compact and the OECD Guidelines for Multinational Enterprises. The proposal was voted down despite being supported by 22 per cent of the shareholders.

Folksam remains a committed owner as long as it is deemed possible to get companies to improve their sustainability work. After a long dialogue with Lundin Petroleum, Folksam decided in May to sell its holdings. →

## TeliaSonera

In 2011, TeliaSonera was linked to questions regarding human rights violations in connection with regimes purchasing equipment that was used to wiretap, conduct surveillance of and track political dissidents. Folksam prepared a proposal to the 2012 annual general meeting to assign the company's board to adjust the ethical guidelines for TeliaSonera in accordance with the UN Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises.

TeliaSonera's board was positive to Folksam's proposals and before the general meeting already decided to adjust the company's ethical code.

**“** Folksam remains a committed owner as long as it is deemed possible to get companies to improve their sustainability work

Later in the spring, Sveriges Television broadcast an investigative report that concerned TeliaSonera's activities in a number of non-democratic countries in Central Asia. This led to Folksam initiating an intensive dialogue with the company. Folksam also met TeliaSonera's principal owner, the Swedish state, to discuss how the company could improve its operations. TeliaSonera then decided to implement an external audit of its sustainability work with particular focus on the freedom of speech and integrity issues. In parallel, internal efforts were begun to develop risk analysis, strengthen reporting, increase transparency and train the employees in human rights.

In the autumn, TeliaSonera was accused of having used bribes in Uzbekistan. The company denied all accusations, but initiated an external review of their activities. The prosecutor at the National Unit against Corruption began a pretrial investigation. Folksam will continue to have a close dialogue with the company.

## PRINCIPLE 3

Folksam promotes transparency and increased reporting on environmental, social issues and corporate governance from the companies in which we invest.

### Sustainable value creation

Since 2009, as one of 14 Swedish investors, Folksam participated in the project "Sustainable value creation" in order to influence Swedish listed companies towards sustainable development and long-term value creation. In autumn 2011, the project carried out a survey among the 100 companies with the highest market capital on the Stockholm Stock Exchange. The results, which were presented in a report in January 2012, showed that one third of the listed companies had a far too low pace of change and that the gap to the forefront had grown since the first survey in 2009.

### Folksam at the UN environmental meeting

Folksam participated in the UN Global Compact Rio +20 in Rio de Janeiro, Brazil and spoke of how the results from Rio +20 can contribute to sustainability reporting becoming standard practice among companies worldwide.

## PRINCIPLE 4

Folksam actively works in support of the approval of principles for responsible investments and their implementation within the financial services industry.

### Folksam provides information to external funds

Fund managers engaged by Folksam are encouraged to adopt the UN Principles for Responsible Investments (PRI). Folksam continually informs the fund management companies about the exclusions that have been made due to Folksam's ethical investment criteria, and requests information about how the fund management company acts on the basis of this information. Ethical funds shall also meet the criteria that the Ethics Board for fund marketing (ENF) has established. Ethical funds shall have both a well-defined selection process and clearly presented ethical criteria. Folksam presents which external fund manager have signed the PRI in the fund brochure and on the website.





## PRINCIPLE 5

Folksam cooperates with other investors in order to promote the use of the principles.

### Nordic cooperation for responsible enterprise

Since 2008, Folksam has been cooperating with the insurance company Norska Liv, the life insurance company KLP and the Finnish pension company Ilmarinen in the Nordic Engagement Cooperation (NEC). The objective is to coordinate corporate governance activities relating to the environment, human rights and anti-corruption. In 2012, NEC had a dialogue with 13 different companies, all based outside the Nordic region.

### Global Network Initiative

In 2011, Folksam was accepted as a member of the Global Network Initiative (GNI), an international organisation aiming to work in order to secure human rights within the IT and telecommunications sectors. GNI was founded by the IT companies Google, Microsoft and Yahoo after they had been strongly criticised for their activities in China.

### Initiative for greater responsibility in the mining of oil sand

In 2012, Folksam signed an initiative with nearly 50 other investors to encourage oil sand companies to take greater responsibility for the environment and human rights.

## PRINCIPLE 6

Folksam reports on the measures taken and how the work to implement principles for responsible investment progresses.

### En katt bland hermelinerna

Since 2009, Folksam's department for Responsible ownership has been featured on the blog En katt bland hermelinerna ([www.agarstyrning.folksamblogg.se](http://www.agarstyrning.folksamblogg.se)). The blog is also supplemented with a Twitter account, @etikkatten, where current updates are published. In 2012, a number of internal and external presentations about Folksam's work on responsible ownership were also held.

## Folksam's corporate governance work

	2012	2011	2010	2009	2008	2007	2006	2005
Number of companies with which Folksam held an active dialogue	45	57	77	45	38	41	7	14
Number of Swedish general meetings in which Folksam participated	39	42 <sup>1</sup>	39	35	28	21	18	15
Number of nominating committees Folksam is in	3	2	3	4	2	1	—	—

<sup>1</sup> Includes one extraordinary annual general meeting



# Active environmental work

Folksam has the ambition of being on the forefront in environmental and climate work and has worked with sustainability issues since the 1960s.

A large company also has considerable opportunities to exert an influence and Folksam's high environmental requirements have contributed to a higher environmental standard at several large subcontractors. Both the vehicle and construction damage operations, which are the parts of Folksam with the greatest impact on the surroundings, are environmentally certified in accordance with ISO 14001.

## All emissions are climate compensated

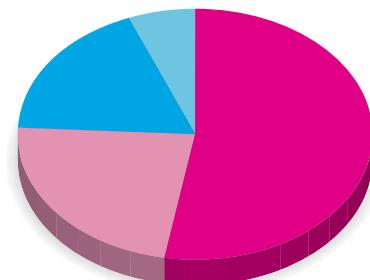
Folksam's climate emissions for 2012 were measured at 4,613 tonnes of CO<sub>2</sub>e. This measure includes all six greenhouse gases, not just carbon dioxide. Compared with last year, the climate footprint increased by 638 tonnes, or 16 per cent. This was mainly due to higher heating consumption in properties, a larger property portfolio and more travel by air and car. This year, the climate footprint also includes the climatic impact from water, which accounts for 41 tonnes of CO<sub>2</sub>e.

Folksam's climate footprint is fully compensated through the tree planting project, Vi-skogen. Vi-skogen plants an average of six trees for every tonne carbon dioxide emitted. The total carbon footprint for 2012 measured 4,613 tonnes of carbon dioxide. This means that just over 27,000 trees will be planted to compensate for Folksam's climate footprint. The trees are planted in Tanzania in cooperation with poor farmers whose living situation is improved by them receiving higher incomes. The planted trees planted by Vi-skogen are shady and enrich the soil, which means that both trees and crops can be planted together, also known as agroforestry.

## Emissions by activity in tonnes CO<sub>2</sub>e

Activity	2012	2011	2010
Road travel	873	800	843
Air travel	1,092	940	838
Train travel	2	0.003	0.22
Heating	2,422	2,075	2,152
Electricity consumption	18	17	19.4
Printed matter	74	64	—
Paper	78	65	—
Coffee	13	14	—
Water	41	—	—
<b>TOTAL</b>	<b>4,613</b>	<b>3,975</b>	<b>3,853</b>

EMISSIONS BY ACTIVITY



● Heating	52%
● Air travel	24%
● Road travel	19%
● Other	5%

By counting conservatively and being generous when the underlying data is sparse, Folksam ensures that its entire climate impact is climate compensated.

## Greater travel

Air travel accounts for 24 per cent of the climate footprint and increased by 16 per cent in comparison with the previous year. The number of domestic flights decreased, however. Folksam's travel policy provides clear guidelines for business travel. Every trip must be well-planned and justified, and train travel should be used for environmental reasons on distances up to 500 kilometres, such as the route Stockholm-Gothenburg.

At the same time that domestic air travel decreased, train travel increased by 244,576 kilometres. This is positive since the climate impact from train travel is marginal compared with emissions from air travel. Train travel accounts for only 2 tonnes of Folksam's total climate footprint.

The distance driven for business travel by car increased from 4,876,800 kilometres to 5,133,810 kilometres. Cars are used by Group management and employees who are required to travel meet Folksam's high requirements of environmental and safety performance.

## Larger property portfolio resulted in higher energy consumption

Heating consumption accounted for 52 per cent of Folksam's climate impact and totalled 2,422 tonnes CO<sub>2</sub> in 2012. This corresponded to an increase of 17 per cent. The increase was due to Folksam expanding its property portfolio and the fact that 2012 was a cold year. Folksam has a distinct strategy to increase the proportion of properties in investments and increased the property portfolio by just over 50,000 sq. m. in 2012. At the same time, active work is under way to improve the efficiency of energy consumption in the properties and to replace fossil fuels in the long term.



The climate footprint from Folksam's electricity consumption amounted to 18 tonnes of CO<sub>2</sub>e in 2012, which was an increase of 1 tonne compared to the previous year. The electricity Folksam purchases is 100-per cent origin-specified from wind power.

### **Ambition to reduce the number of printed items**

In 2012, the climate footprint from printed materials increased from 64 tonnes to 74 tonnes. However, Folksam has a clear ambition to reduce the number of printed items. The ambition is to increasingly shift away from physical printed materials to publishing in digital format. This means that customers should be given the opportunity to get their insurance conditions and invoices digitally.

### **Environmentally friendly car repairs**

To reduce the environmental impact from car repairs, the repair shops that Folksam engages extensively recycle spare parts instead of automatically choosing new spare parts. In addition, plastic parts and windows are repaired instead of always using new spare parts. To reuse and repair instead of buying new not only benefits the environment, but is also good business for Folksam and its customers. In 2012, this approach contributed to the avoidance of a mountain of 1,330 tonnes of waste and saved just over SEK 100 million in repairs of damaged cars.

### **Folksam – a Good Environmental Choice**

In November 2011, Folksam became the first insurance company that was approved according to the Good Environmental Choice label - the world's toughest environmental label. The Swedish Society for Nature Conservation awards the Good Environmental Choice and the certification covers vehicle and home-owners' insurance. This is proof that Folksam takes environmental issues seriously and takes responsibility for its own climate impact.

In 2012, work continued with the incorporation of the 43 criteria that the Swedish Society for Nature Conservation sets on the insurance companies that are licensed as a Good Environmental Choice. This entails extensive requirements that repairs should be done in an environmentally friendly manner, reusing working, but used parts, that safe and sustainable replacement cars are offered in accidents and that the assets that Folksam manages are invested in a responsible manner. A selection of the criteria are reviewed for fulfilment, in part by the Swedish Society for Nature Conservation itself and in part by a third party in the form of a public accounting firm.

### Continuous efforts for a sustainable world

Folksam actively works to live up to its environmental label. The following are some examples of this:

- We help entrepreneurs and customers choose sustainable materials in construction and car repair.
- We set high requirements on purchases of goods and services, like coffee, electronics, paper, cleaning supplies, energy, transports and travel.
- Folksam's own staff restaurant, one of Sweden's largest, is converting to ecological produce.
- We conducts research on improved safety and better environmental performance for Sweden's fleet of vehicles.
- We only use origin-specified and renewable electricity for our properties.
- We plant trees through the Vi-skogen project to compensate for the company's climate footprint.

### Purchasing

Folksam is a large-volume purchaser in both its operations and claims business. The vision of a sustainable society characterises the way of working with purchasing issues and has a major impact on the suppliers Folksam works with. In 2012, the work involved collecting and unifying the sustainability

requirements in the purchasing areas of construction, automotive and operations/IT. Sustainability should be a unifying theme in the cooperation with external suppliers, from contract signing to delivery follow-up. The supplier requirements shall not only reflect Folksam's own environmental policy, but also the certifications the company is affiliated with, such as the Good Environmental Choice label. The purchasing department has close cooperation with the environmental manager to find new sustainable approaches with the suppliers.

### Property management

Folksam Fastigheter actively works with environmental and energy issues in administration, projects and acquisition. Folksam environmentally classifies its buildings according to the Environment Building and Green Building systems, conducts energy surveys in properties with high energy performance and purchases electricity that is 100-per cent wind power. In 2012, Folksam Fastigheter became a member of the Sustainability Manual - a tool for assessing how well quality, environmental and health issues are managed - both in general and in individual projects.

### Green leases

On 19 December, Folksam signed its first Green Lease with the tenant White Arkitekter for their head office. A green lease means that the landlord and tenant cooperate to reduce energy consumption. The lease includes requirements for energy surveys, that the tenant receives information about its energy consumption and pledges to buy renewable or climate-neutral energy for heating. The lease also means that the carbon dioxide emissions are calculated every year and that source sorting will be pursued to the furthest possible extent.

### Wind power – next step

Gnosjö Energi AB is a wind power company that is wholly owned by Folksam with four wind power plants in Kulltorp with a total power of 10 megawatts. This corresponds to one year's heating for around 1,000 single-family homes. Folksam is investigating the possibility of supplying the directly owned properties with self-produced wind power. Besides environmental and profile benefits, this would lead to a lower energy cost to the company. The investigation is scheduled for completion in 2013.





# Folksam General

Folksam General runs a non-life insurance business with a main focus on the Swedish household market. The company offers a full range of insurance products to households and individuals with car and household insurances as the base, supplemented with commercial insurance products within selected areas. The operations are carried out in two business segments, Partners and Private.

## Results

The premium income (after reinsurance) in the Group increased to SEK 10,287 million (9,362) and in the parent company to SEK 8,340 million (8,068). The Group includes Folksam Skadeförsäkring AB (name change from Aktia Skadeförsäkring AB) in Finland as of 1 March 2012.

The Group's profit before appropriations and tax was SEK 2,014 million (1,749) and in the parent company SEK 1,856 million (1,381). The result from insurance operations deteriorated as a result of increased claims costs while return on assets contributed strongly to the positive result.

Insurance claims (after reinsurance) increased during 2012 and amounted to SEK -8,506 million (-7,983) for the Group and to SEK -6,937 million (-6,909) in the parent company. The total claims cost ratio was lower compared with the previous year. Adjusted for fluctuations in life annuities and claims settlement, the claims cost ratio was somewhat higher compared with the previous year. Winter-related claims were somewhat lower than the previous year and personal injury in road traffic insurance continued to develop better than expected.

Unfortunately, this was countered by higher claims costs for property insurance and continued high claims costs for household insurance. During the year, household and home-owners' insurance had unusually many complete fires and a continued high number of water damage claims.

The claims costs have increased sharply in recent years, but in 2012, claims costs stabilised as a share of the premium income, although at a high level. The number of reported claims in the Group continued to increase in 2012 compared with previous years, but at a lower pace, 4 per cent (8) for vehicle insurance and 7 per cent (14) for household, home-owners' and holiday home insurance. For example, water damage due to leakage, which is the largest contributor to costs in home and house insurance, increased sharply in the past three years.

The total cost ratio in the parent company increased to 102 per cent (104). Operating costs increased during the year by SEK 134 million. The cost increase was due to higher costs for claims adjustment and higher development costs, mainly for the Solvency 2 programme. The operating cost ratio as a percentage of premiums decreased to 19 per cent (18). Operating costs were also affected in a positive manner by the continuing efforts to develop and improve organisation and processes.

## Financial position

Consolidation capital in the parent company continued to strengthen and amounted to SEK 11,942 million (10,072). At year-end 2012, the consolidation ratio amounted to 143 per cent (121) in the parent company and the solvency factor amounted to 7.7 (7.1).

In December 2012, the Board decided on guidelines for a bonus programme. For 2012, SEK 220 million has been reserved. Disbursements will take place in 2013 and the bonus comprises a total of 18 million customers.

## Consolidated subsidiaries

Tre Kronor Försäkring AB continued to grow. Premium income (after reinsurance) increased by 22 per cent and amounted to SEK 709 million (581). Profit before tax amounted to SEK 32 million (loss: 1). The strong earnings are largely attri-

butable to the claims trend in the winter months not being in parity with previous years, which was clearly visible in vehicle insurance. Premium income continued to increase thanks to continued strong sales and an increase in the product range.

Svenska Konsumentförsäkringar AB presented a loss of SEK 15 million (profit: 21) as a result of a negative claims development. Premium income increased somewhat during the year.

Folksam Skadeförsäkring AB's (formerly Aktia Skadeförsäkring AB) presented profit before appropriations and tax of SEK 93 million. Return on assets was good and amounted to 9.5 per cent (8.9). Compared with previous years, the company had a positive development with higher premium income and paid compensation. The claims ratio also improved compared with previous years.

## Significant events during the financial year

Folksam General took possession of the Indecap AB shares and divested the shares in Folksam Spar AB on 1 February 2012 in accordance with an earlier agreement.

At 29 February 2012, Folksam General took possession of 51 per cent of the shares of Folksam Skadeförsäkring AB (formerly Aktia Skadeförsäkring AB) in Finland after an agreement with Aktia ABP in Finland. The investment in Folksam Skadeförsäkring, which is active in the coastal area of Finland, is the first step and an important part of Folksam's expansion strategy for the Nordic insurance market. The purchase price was EUR 24 million.

As a part of Folksam's strategy to strengthen the owner positioning around Skanstull, the prize-winning property *Katsan 1* was acquired from Länsförsäkringar Liv. The building is a part of the expansive Skanstull area and has a clear environmental profile. The investment was made by Folksam General. *Katsan 1* was completed in 2003 and is a modern and flexible office building that meets the absolutely highest requirements for energy consumption. Its low energy consumption allows the Gold rating according to the Environmental Building classification. In 2003, White Arkitekter was awarded the Kasper Sahlin award for *Katsan 1*.

Folksam General, Folksam Life and Peab acquired KF Fastigheter's share of Kvarnholmen Utvecklings AB on 28 December 2012. After the acquisition, Kvarnholmen is owned in equal parts by JM and a company jointly owned by Folksam and Peab. Folksam General and Folksam Life participated in the investment, mainly through loan financing. Kvarnholmen Utvecklings AB has the task of developing building rights for the production of some 1,500 new apartments.

The previous corporate structure in the Netherlands, Folksam Property Holding, jointly owned by Folksam Liv Fastighets AB and Folksam Sak Fastighets AB is under liquidation. The participations in property funds that were in the structure are now directly owned by the respective companies.

Folksam General is strengthening its market position in risk insurance with the aim of providing combined offers with

personal risk insurance and non-life insurance for companies, organisations and their members. At 31 December, Folksam General acquired the subsidiary Förenade Liv Gruppförsäkring AB from Folksam Life.

Folksam General agreed to acquire SalusAnsvar AB with subsidiaries from DnB Bank ASA. The acquisition also includes SalusAnsvar Personförsäkringar AB, a 49-per cent share of Saco SalusAnsvar AB, and the dormant company SalusAnsvar Holding AB. SalusAnsvar AB distributes Folksam's subsidiaries Svenska Konsumentförsäkringar AB's home and vehicle insurance.

The acquisition will lead to greater cooperation with white-collar workers and university graduates. Folksam aims to integrate SalusAnsvar's operations into Folksam's organisation.

## Events after the balance sheet day

At 31 January, Folksam General took possession of the shares in SalusAnsvar AB.

The Data Inspection Board (DI) has initiated a supervisory case against Folksam General. The cause is an Aftonbladet article about Folksam having a register with personal information on customers that are suspected of insurance fraud. The main rule is that it is not permitted for anyone other than authorities to handle personal data on legal violations. However, there is an exception that allows insurance company some room to handle this kind of information, but it is not entirely clear where the boundary goes for what a company may document and how long the information may be saved. Folksam welcomes the review. →

## Folksam General total return, Parent Company, SEK million

	Opening market value 1 January 2012	Closing market value 31 December 2012	Total return 2012, SEK million	Total return 2012	Total return 2011	Total return 2010	Total return 2009	Total return 2008
<b>Interest-bearing investments</b>	21,480	22,285	785	3.6%	7.6%	2.2%	4.1%	6.7%
<b>Equities</b>	3,786	4,941	1,255	33.5 %	-1.0%	33.0%	55.2%	-49.9%
<b>Alternative investments</b>	576	709	48	7.5 %	2.4%	-6.7%	-13.3%	-12.2%
<b>Properties</b>	2,117	1,971	100	5.1%	10.6%	1.7%	-4.1%	6.3%
<b>Strategic company holdings</b>	791	1,159	43	4.2%	3.7%	4.6%	-2.9%	12.2%
<b>Hedging instruments</b>	42	-13	137	—	—	—	—	—
<b>Total</b>	<b>28,792</b>	<b>31,052</b>	<b>2,368</b>	<b>8.2%</b>	<b>6.9%</b>	<b>6.7%</b>	<b>8.1%</b>	<b>2.5%</b>

The total return table has been prepared in accordance with a recommendation from the Swedish Insurance Federation and the company's guidelines for measuring and reporting total return.

” In December 2012, the Board decided on guidelines for a bonus programme. For 2012, SEK 220 million has been reserved.

Recruitment of a new President and CEO for Folksam Life and Folksam General has begun. The recruitment is being carried out by a group consisting of the respective chairmen for

Folksam Life and Folksam General as well as the vice chairman of Folksam Life. The background is that current CEO Anders Sundström has announced that he will devote his full time to board work, including an assignment in Swedbank.

### Future developments

The Folksam General Group has the Swedish market as its base and through the acquisition of Folksam Skadeförsäkring AB in Finland with operations in the household and commercial market and with distribution through bank assurance, the Nordic platform is beginning to be established. The customers' needs for insurance protection for various situations in life are growing and Folksam General is strengthening its market position through the acquisition of Förenade Liv Gruppförsäkring and SalusAnsvar Personriskförsäkring with the aim of providing combined offers with personal risk insurance.

The Board has laid down a strategy for increasing market share within non-life insurance through continued focus on combination customer offers based on vehicle and home insurance. Folksam enjoys good growth in the household market and foresees good conditions for the continued reinforcement of its position both through its own distribution and collaborations and partnerships. The commercial business continues to be developed.

The focus that Folksam General has directed toward claims and offers trends is anticipated to continue in the years ahead.



## Five-year summary and key ratios, SEK million

GROUP	2012	2011	2010 <sup>1</sup>	2009	2008 <sup>2</sup>	GROUP, CONTINUED	2012	2011	2010 <sup>1</sup>	2009	2008 <sup>2</sup>
<b>Results</b>						<b>Key ratios</b>					
Premiums written (after reinsurance)	10,223	9,697	9,125	8,552	8,040	<b>Profit on non-life insurance operations</b>					
Earned premiums (net of ceded reinsurance)	10,287	9,362	8,822	8,579	8,133	Claims ratio	83	85	82	79	67
Net return on capital in insurance operations	524	641	643	626	705	Operating expense ratio	19	19	18	19	22
Other actuarial income (net of reinsurance)	30	26	30	107	78	Total expense ratio	102	104	100	97	89
Claims incurred, net	-8,506	-7,983	-7,265	-6,747	-5,416	<b>Profit from asset management</b>					
Operating expenses in insurance operation	-1,912	-1,734	-1,575	-1,608	-1,824	Yield, per cent <sup>3</sup>	3.1	3.5	2.2	2.7	4.4
Bonuses and rebates, net	-232	-9	-1	6	-24	Total return, per cent	8.2	6.9	6.8	8.2	2.2
Other actuarial expenses (net of reinsurance)	—	—	-38	-1	-1	<b>Financial position</b>					
<b>Actuarial result from insurance operations</b>	<b>191</b>	<b>303</b>	<b>616</b>	<b>962</b>	<b>1,651</b>	Consolidation ratio, per cent	116	107	102	104	106
Remaining return on capital	1,825	1,457	1,074	1279	-144						
Other	-2	-11	23	13	-4						
<b>Profit before appropriations and tax</b>	<b>2,014</b>	<b>1,749</b>	<b>1,713</b>	<b>2,254</b>	<b>1,503</b>						
<b>Financial position</b>											
Investment assets at fair value	32,593	29,225	25,664	24,804	24,885						
Actuarial provisions (net of reinsurance)	25,223	23,456	21,874	20,769	20,152						
<b>Solvency capital</b>											
Taxed equity	9,217	7,717	6,866	5,446	5,989						
Subordinated liabilities	—	—	—	1,475	975						
Deferred tax liability	2,485	2,462	2,255	1,745	1,172						
<b>Surplus value in investments</b>											
Investments in Group companies and associated companies	204	179	146	216	357						
Other financial investments	—	—	—	—	—						
<b>Total surplus value</b>	<b>204</b>	<b>179</b>	<b>146</b>	<b>216</b>	<b>357</b>						
<b>Total solvency capital</b>	<b>11,906</b>	<b>10,358</b>	<b>9,267</b>	<b>8,882</b>	<b>8,493</b>						

1. Restated owing to transition to full IFRS in the consolidated accounts and for provision for pensions and similar obligations. Earlier years are not recalculated in respect of this change of principle.

2. Restated owing to changed valuation principles for technical provisions not classified as occupational pension policies.

3. Yield has been restated for 2009 according to the change regulations FFFS 2009:12. Presented key ratios with regard to yield for 2007-2008 are calculated in accordance with FFFS 2008:26.

Special accounts for applied accounting and valuation principles are provided in connection with annual report notes.

## Five-year summary and key ratios, SEK million

PARENT COMPANY	2012	2011 <sup>1</sup>	2010 <sup>2</sup>	2009	2008 <sup>3</sup>	PARENT COMPANY, CONTINUED	2012	2011 <sup>1</sup>	2010 <sup>2</sup>	2009	2008 <sup>3</sup>
<b>Results</b>						Capital base	11,869	10,033	8,548	7,838	7,346
Premium income (net of reinsurance)	8,332	8,292	7,989	7,607	7,200	Required solvency margin	1,550	1,404	1,296	1,263	1,322
Premium revenue (net of reinsurance)	8,340	8,068	7,789	7,704	7,298	Capital base for the insurance group	12,025	10,110	8,607	7,971	7,471
Net return on capital in insurance operations	479	608	613	595	668	Solvency margin for the insurance group	2,048	1,655	1,509	1,443	1,487
Other actuarial income (net of reinsurance)	31	25	30	75	50	<b>Key ratios</b>					
Claims incurred, net	-6,937	-6,909	-6,354	-6,103	-4,817	<b>Profit on non-life insurance operations</b>					
Operating expenses in insurance operation	-1,606	-1,472	-1,322	-1,378	-1,594	Claims ratio	83	86	82	79	66
Bonuses and rebates, net	-231	-9	-1	6	-24	Operating expense ratio	19	18	17	18	22
Other actuarial expenses (net of reinsurance)	—	—	—	-1	-1	Total expense ratio	102	104	99	97	88
<b>Actuarial result from insurance operations</b>	<b>76</b>	<b>311</b>	<b>755</b>	<b>898</b>	<b>1,580</b>	<b>Profit from asset management</b>					
Remaining return on capital	1,781	1,079	999	1,301	-21	Yield, per cent <sup>4</sup>	2.7	3.2	2.3	3.0	4.9
Other	-1	-9	-3	-3	-3	Total return, per cent	8.2	6.9	6.7	8.1	2.5
<b>Profit before appropriations and tax</b>	<b>1,856</b>	<b>1,381</b>	<b>1,751</b>	<b>2,196</b>	<b>1,556</b>	<b>Financial position</b>					
<b>Financial position</b>						Consolidation ratio, per cent	143	121	110	113	114
Investment assets at fair value	31,075	28,164	25,032	24,058	23,665	1. Restated owing to changed accounting principle of expenditures for development of internally generated intangible assets in accordance with RFR2. Previous years have not been restated with respect to this change of accounting policy.					
Actuarial provisions (net of reinsurance)	22,310	21,719	20,302	19,422	18,897	2. Restated owing to change in accounting policy for provision for pensions and similar obligations. Previous years have not been restated with respect to this change of accounting policy.					
<b>Solvency capital</b>						3. Restated owing to changed valuation principles for technical provisions not classified as occupational pension policies.					
Taxed equity	3,351	2,189	2,131	1,920	3,032	4. Yield has been restated for 2009 according to the change regulations FFFS 2009:12. Presented key ratios with regard to yield for 2008 are calculated in accordance with FFFS 2008:26.					
Untaxed reserves	7,623	7,142	5,998	5,189	3,707	Special accounts for applied accounting and valuation principles for the number of employees and salaries are provided in connection with annual report notes.					
Subordinated liabilities	0	0	0	975	975						
Deferred tax liability	764	562	546	315	150						
<b>Surplus value in investments</b>											
Investments in Group companies and associated companies	204	179	146	216	359						
Other financial investments	—	—	—	—	—						
<b>Total surplus value</b>	<b>204</b>	<b>179</b>	<b>146</b>	<b>216</b>	<b>359</b>						
<b>Total solvency capital</b>	<b>11,942</b>	<b>10,072</b>	<b>8,821</b>	<b>8,615</b>	<b>8,223</b>						

1. Restated owing to changed accounting principle of expenditures for development of internally generated intangible assets in accordance with RFR2. Previous years have not been restated with respect to this change of accounting policy.
2. Restated owing to change in accounting policy for provision for pensions and similar obligations. Previous years have not been restated with respect to this change of accounting policy.
3. Restated owing to changed valuation principles for technical provisions not classified as occupational pension policies.
4. Yield has been restated for 2009 according to the change regulations FFFS 2009:12. Presented key ratios with regard to yield for 2008 are calculated in accordance with FFFS 2008:26.

Special accounts for applied accounting and valuation principles for the number of employees and salaries are provided in connection with annual report notes.

# Folksam Life

Folksam Life conducts life insurance business focused on the Swedish market. The company offers occupational pensions and pension savings to individuals directly or through collaborations as well as group insurance and other personal risk insurance. Operations are conducted in three business segments, Partner, Collectively Agreed Business and Private.

## Results

The premium income for own account in the Parent Company increased by 6 per cent to SEK 6,792 million (6,436). The increase was found mainly in savings insurance where both new policies and relocations contributed. Non-life insurance income amounted to SEK 755 million (694).

Profit before appropriations and tax for 2012 amounted to SEK 10,168 million (loss: 9,371) in the consolidated Group and SEK 10,779 million (loss: 10,125) in the Parent Company Folksam Life. The profit is mainly attributable to a good return on assets and the Parent Company continues to have a strong cash flow.

Life insurance provisions decreased by SEK 2,199 million (increase: 18,228) in 2012. The long interest rates during the year were more stable than in the previous year at a low level with less of an impact on the life insurance provisions. A review of the operating cost assumptions in the life insurance provisions strengthened profit by approximately SEK 2 billion.

Claims incurred amounted to SEK 5,489 million (4,485). The increase compared with the previous year is due to the restatement of the compensation reserves, which was implemented for group life insurance in 2011 and which then decreased the compensation by approximately SEK 1 billion.

Operating expenses increased and amounted to SEK 706 million (623). The higher operating expenses are due in part to higher acquisition costs as a result of the higher sales, in part the higher development expenses in the scope of the Solvency 2 programme. The administrative cost ratio for the savings business was 0.5 (0.4) per cent.

## Financial position

The solvency ratio was strengthened by 10 percentage points and amounted to 144 per cent (134) at year-end.

The collective consolidation at the end of the year was 118 per cent (116) for defined contribution policies and 154 per cent (151) for defined benefit policies. The collective consolidation describes the relationship between the company assets and the amount allocated to the customers. The allocation includes both guaranteed and non-guaranteed obligations.

The bonus interest rate was lowered from 11 per cent to 6 per cent in the Cooperative occupational pension branch on 1 May 2012. In the Folksam branch, bonus interest remained unchanged at 4.5 per cent. The bonus interest rate is reviewed periodically, taking into account the impact of the financial market on the collective consolidation.

For 2012, the pension supplement was adjusted upwards by 2.73 per cent and the paid-up policies by 2.89 per cent. The upward adjustment of pension supplements is thereby in line with the overall level of inflation. For 2013, it has been decided to adjust

the pension supplements and paid-up policies upwards by 0.45 per cent.

In group and occupational group life insurance, SEK 1,008 million was reserved for the fund for allocated policy bonuses. In occupationally related health insurance and premium waiver insurance, SEK 150 million was reserved for the fund for allocated policy bonuses. The fund now amounts to a total of SEK 3,365 million.

## Consolidated subsidiaries

Folksam LO Fondförsäkringsaktiebolag (publ) with its subsidiary Folksam LO Fond Aktiebolag (publ) is 51-per cent owned by Folksam Life and 49-per cent owned by LO's Försäkringshandelsbolag.

The position as the market leader in unit-linked insurance within the contracted SAF-LO market was further strengthened during the year. Payments from policyholders including relocations of capital totalled SEK 4,534 million (4,889) in 2012. The number of agreements in contractual pensions amounted to 715,486 (694,421) at 31 December 2012, of which the largest agreement is the SAF-LO contractual pension with 612,078 (593,746). Other agreements include KAP-KL, ITP-K, PA-KFS, PA03.

In 2012, the board of Folksam LO Fondförsäkringsaktiebolag decided to discontinue operations in its subsidiary Folksam LO Fond AB.\*

Folksam Fondförsäkringsaktiebolag (publ) (hereinafter Folksam Fondförsäkring) is a wholly owned subsidiary that offers unit-linked insurance products. The choice of fund managers and funds is regularly reviewed in a selection process. →

\* The company will then be absorbed by the Parent Company.

On 2 January 2012, Folksam Fondförsäkring acquired an insurance portfolio that is linked to funds managed by Svenska Lärarfonder AB from Försäkringsaktiebolaget Skandia. At the same time, the company took possession of the shares in Svenska Lärarfonder AB, which were acquired from Svenska Lärarförsäkringar.

At 28 December 2012, Folksam Fondförsäkring transferred 40 per cent of the shares in Aktiv Försäkringsadministration i Stockholm AB to Swedbank Försäkring AB. After the share transfer, Folksam Fondförsäkring holds 9 per cent of the shares in Aktiv Försäkringsadministration i Stockholm AB.

The company's premium income before reinsurance increased somewhat compared with the previous year and amounted to

SEK 15 million (11). Fund assets with risks carried by policyholders amounted to SEK 21,958 million (15,852) at year end and receipts from policyholders increased to SEK 3,396 million (3,273).

Reda Pensionsadministration AB is a subsidiary providing services mainly to external principals and the turnover was SEK 60.2 million (66.9). The administrative agreement with SPP Livförsäkrings AB was terminated in 2010 and will end on 31 December 2012.

### Significant events during the financial year

According to a decision by the Swedish Financial Supervisory Authority, insurance companies can temporarily choose to discount their cash flows with the interest curve that applied on

31 May 2012. This possibility applies from 30 June 2012 to 15 June 2013. Folksam Life has to date chosen not to apply this interest curve.

For new insurance policies that are not occupational pension insurance, gender-neutral assumptions were introduced as of 1 December 2012 on the basis of new legislation that entered into effect on 21 December. The calculation of provisions will also be done with gender-neutral assumptions in the future.

The management right of Folksam LO funds was transferred to Swedbank Robur in April. By streamlining and transferring the management right of the funds, Folksam can represent the customers entirely and fully. Folksam LO Fond AB, which no longer conducts fund activities, is being merged with Folksam

## Folksam Life total return, Parent Company, SEK million

	Opening market value 1 January 2012	Closing market value 31 December 2012	Total return 2012	Total return 2012	Total return 2011	Total return 2010	Total return 2009	Total return 2008
<b>Interest-bearing investments</b>	79,925	82,567	2,770	3.4%	9.2%	2.2%	3.0%	10.2%
<b>Equities</b>	26,219	30,272	4,483	18.8%	-11.4%	17.9%	36.6%	-35.0%
<b>Alternative investments</b>	1,838	2,185	77	4.0%	5.0%	-3.7%	-10.2%	-8.2%
<b>Properties</b>	9,110	9,654	418	4.6%	9.5%	5.7%	1.2%	1.0%
<b>Strategic holdings</b>	2,710	2,796	13	0.5%	0.7%	0.7%	-0.4%	-0.7%
<b>Hedging instruments</b>	1,144	1,063	703	—	—	—	—	—
<b>Total</b>	<b>120,946</b>	<b>128,537</b>	<b>8,464</b>	<b>7.0%</b>	<b>6.5%</b>	<b>8.7%</b>	<b>10.3%</b>	<b>0.9 %</b>

The total return ratio table is arranged as per Swedish Insurance Federation recommendations and the company's guidelines for measuring and reporting total return ratio.

LO Fondförsäkring AB, a part-owned subsidiary of Folksam Life. In 2012, Folksam LO Fond AB received a critical comment from the Swedish Financial Supervisory Authority for deficiencies in internal governance and control for 2008-2010.

At 31 December, Folksam Life transferred the subsidiary Förenade Liv Gruppförsäkring AB from Folksam General.

Folksam Life acquired a part of the internationally renowned office property Kungsbrohuset from Jernhusen. The property is located in the expansive Västra City in Stockholm and is one of Sweden's most modern buildings both with regard to environmental concept and technical solutions. The total investment amounts to approximately SEK 2.1 billion and distributed between KPA Pension and Folksam Life.

Folksam Life, Folksam General and Peab acquired KF Fastigheter's share of Kvarnholmen Utvecklings AB on 28 December 2012. After the acquisition, Kvarnholmen is owned in equal parts by JM and a company jointly owned by Folksam and Peab. Folksam Life and Folksam General participated in the investment, mainly through loan financing. Kvarnholmen Utvecklings AB has the task of developing building rights for the production of some 1,500 new apartments.

At the beginning of the year, Folksam Life and Folksam Fondförsäkring AB became one of the companies in Söderberg & Partners large commission-free procurement. Folksam Life is the only company that has traditional insurance with averaged bonuses. Söderberg & Partners' customers can choose both a market-leading traditional insurance and a guided unit-linked insurance offering. The commission-free procurement means that Söderberg & Partners does not receive commissions for the products the pension companies sell. Instead, the customer company pays a fee for advice and administration. There is a continued endeavour regarding individual occupational pension in Folksam Life and its subsidiary Folksam Fondförsäkring AB. This endeavour comprises offers in both traditional insurance and unit-linked insurance through brokers and partners. Folksam has also been chosen as an alternative in UIG 4, Sweden's largest occupational pension plan outside the collective area.

## Events after the balance sheet day

A fund department is being established beginning on 1 March. In recent years, unit-linked insurance has shown strong growth and a business focus in the operations will be increasingly more important at the same time that higher requirements are set on risk management. In connection with the formation of the new department, all expertise in fund issues is being gathered in one location to be able to support the business. This also enables coordination of processes and a better system support, which in turn leads to better risk management.

Recruitment of a new President and CEO for Folksam Life and Folksam General has begun. The recruitment is being carried out by a group comprising the respective chairmen of Folksam Life and Folksam General as well as the vice chairman of Folksam Life. The background is that current CEO Anders Sundström has announced that he will devote his full time to board work, including an assignment in Swedbank.

As one of four companies, Folksam Life has been selected in the procurement of traditional insurance for ITP, the collective agreement regarding pension for privately employed white-collar workers.

## Future developments

Folksam Life enjoys a good financial position, a history of high returns and a positive cash flow. Distribution takes place broadly through both its own organisation, cooperation and brokers. At the same time other market players have ceased accepting new policies within conventional insurance. This provides Folksam Life with good opportunities to continue strengthening its competitiveness by offering conventional life insurance in a customer-owned company. There are good opportunities within unit-linked insurance for continued growth not only through our own distribution but also through agents and collaborative partners.

The board is therefore able to continue to develop the strategy of further strengthening the company's position within occupational pensions, which is a market enjoying strong growth. The endeavour with individual occupational pensions together

with the work with ITP, occupational pensions for privately employed white-collar workers, will be the major endeavours in the pension area. The step into ITP is historic and greater cooperation with salaried employees and university graduates strengthens Folksam for the future. The focus Folksam Life directed toward capital strength and financial stability during 2011 and 2012 against a background of historically low interest rates is expected to continue for the next few years. The playing field for the insurance industry will continue to be variable with many unresolved regulatory issues such as the life insurance commission, the occupational pension directive and Solvency 2. The life insurance commission is addressing relocation regulations and surplus handling and can have a major impact on the life insurance companies. It is important to prepare and implement the adjustments required without losing a clear customer focus. Folksam is the customers' company with strong relationships to our customers and an ability to create a stable customer base.

The Board will maintain its focus on regulations and carefully follow developments and evaluate various alternative forms of action and transition rules.

## Five-year summary and key ratios, SEK million

GROUP	2012	2011	2010	2009 <sup>1</sup>	2008	GROUP, CONTINUED	2012	2011	2010	2009 <sup>1</sup>	2008
<b>Results</b>						<b>Key ratios</b>					
Premium revenue for own account	755	694	700	723	459	<b>Profit from asset management</b>					
Premium income for own account	6,838	6,473	5,672	6,120	6,856	Yield, per cent <sup>2</sup>	2.2	2.4	1.9	2.3	3.7
Return on capital, net	12,977	3,625	14,609	17,952	-8,064	Total return, per cent	7.1	6.5	8.8	10.6	1.1
Claims incurred, net	-5,558	-4,530	-5,358	-5,627	-4,849	<b>Financial position</b>					
Change in life insurance provisions	-2,815	-13,917	-4,528	4,503	-8,542	Consolidation ratio, per cent <sup>2</sup>	198	171	24	21	18
Operating expenses in insurance operation	-1,107	-996	-924	-951	-970						
Bonuses and rebates, net	-1,167	-932	-603	-261	-12						
<b>Profit from insurance operation</b>	<b>10,569</b>	<b>-8,963</b>	<b>9,268</b>	<b>22,459</b>	<b>-15,122</b>						
Remaining return on capital	155	106	308	250	187						
Other	-556	-514	-628	-543	1						
<b>Profit for year before tax</b>	<b>10,168</b>	<b>-9,371</b>	<b>8,948</b>	<b>22,166</b>	<b>-14,934</b>						
<b>Financial position</b>											
Investment assets at fair value	180,428	160,414	157,640	137,004	119,732						
Technical provisions	147,150	135,272	118,348	107,114	106,431						
<b>Solvency capital</b>											
Taxed equity	38,270	30,020	41,478	34,385	14,191						
Deferred tax liability	630	666	576	416	293						
<b>Surplus value in investments</b>											
Investments in Group companies	207	207	207	207	304						
<b>Total solvency capital</b>	<b>39,107</b>	<b>30,892</b>	<b>42,261</b>	<b>35,008</b>	<b>14,788</b>						

1. Restated owing to transition to full IFRS in consolidated reporting. The year 2008 has not been restated.

2. The yield and consolidation ratio have been restated in accordance with FFFS 2011:28.

## Five-year summary and key ratios, SEK million

PARENT COMPANY	2012	2011	2010	2009 <sup>1</sup>	2008	PARENT COMPANY, CONTINUED	2012	2011	2010	2009 <sup>1</sup>	2008
<b>Results</b>						Collective solvency capital	22,513	19,713	18,600	14,944	7,335
Premium revenue for own account	755	694	700	723	459	Capital base	38,590	30,081	42,562	35,453	15,061
Premium income for own account	6,792	6,436	5,639	6,093	6,684	Required solvency margin	4,106	4,062	3,387	3,388	3,909
Net return on capital in insurance operations	8,430	6,977	8,941	10,314	677	Capital base	38,558	30,002	42,062	34,874	14,654
Claims incurred, net	-5,489	-4,487	-5,325	-5,608	-4,831	Required solvency margin	5,980	5,970	4,913	4,921	5,465
Change in life insurance provisions	2,169	-18,184	382	11,998	-17,338	<b>Key ratios<sup>2</sup></b>					
Operating expenses in insurance operation	-706	-623	-549	-603	-670	Non-life insurance operation					
Bonuses and rebates, net	-1,168	-932	-603	-261	-12	Claims ratio	35	-101	83	70	51
<b>Actuarial result from insurance operations</b>	<b>10,779</b>	<b>-10,125</b>	<b>8,885</b>	<b>22,650</b>	<b>-15,046</b>	Operating expense ratio	9	10	10	9	17
Profit before appropriations and tax	10,779	-10,125	8,885	22,650	-15,046	Total expense ratio	44	-91	93	79	68
<b>Financial position</b>						Life insurance operation					
Investment assets at fair value	124,467	116,217	112,675	102,978	96,717	Management expense ratio <sup>3</sup>	0.5	0.5	0.5	0.6	0.8
Technical provisions	90,416	91,538	73,375	72,896	84,497	Management expense ratio for savings products <sup>3</sup>	0.5	0.4	0.4	0.5	0.5
<b>Solvency capital</b>						Acquisition expense ratio	3.6	3.3	2.4	2.3	2.6
Equity	34,822	26,233	38,831	32,208	12,030	Administrative cost ratio for investment products	0.3	0.3	0.4	0.4	0.4
Untaxed reserves	1,748	1,783	1,492	1,238	902	Administrative cost ratio for risk products	5.6	6.6	6.4	5.8	8.5
Deferred tax liability	257	193	163	86	38	<b>Profit from asset management</b>					
<b>Surplus value in investments</b>						Yield, per cent <sup>4</sup>	2.9	3.2	2.6	2.9	3.8
Investments in Group companies	2,283	2,379	2,085	1,887	2,101	Total return, per cent	7.0	6.5	8.7	10.3	0.9
Total surplus value	2,283	2,379	2,085	1,887	2,101	<b>Financial position</b>					
<b>Total solvency capital</b>	<b>39,110</b>	<b>30,587</b>	<b>42,571</b>	<b>35,419</b>	<b>15,071</b>	Consolidation ratio, per cent	198	171	24	21	18
						Collective consolidation level, per cent					
						Retrospective reserve method <sup>1</sup>	118.0	115.6	116.0	113.1	104.9
						Pension supplement method <sup>2</sup>	153.9	150.9	146.4	139.3	126.0

1. Restated owing to provision for pensions and similar commitments. Previous years have not been restated with respect to this change of accounting policy.

2. Restated with key ratios relating to the life insurance operation owing to reported non-life insurance. Reported total return is calculated in accordance with the Swedish Insurance Federation's recommendation for reporting total return

3. Management expense ratio is calculated in accordance with FFFS 2011:28. This ratio is calculated firstly for the life insurance operation and secondly for the investment products, excluding risk products.

4. The yield and consolidation ratio have been restated in accordance with FFFS 2011:28.

# Förenade Liv

Förenade Liv Gruppförsäkring AB is a life insurance company operating an insurance business according to mutual principles in voluntary group life insurance, group health insurance, diagnosis, premium exemption, group pension insurance and group accident insurance.

The business idea is to insure individuals through organisations and employers that represent white-collar employees. Insurance solutions are developed and offered in close liaison with contractual parties with the aim to provide helpful and quick assistance when it is most needed.

## Results

Förenade Liv showed a 2012 result before appropriations and tax of SEK 297 million (219). The company's underwriting result (excluding return on assets) was SEK 109 million (90). This year's positive outcome was a combination of a good return on assets and a strong underwriting result. Premium income before reinsurance rose to SEK 846 million (840).

## Return on assets

The total return on assets in 2012 was 6.7 per cent (5.4), corresponding to SEK 200 million (152). The main explanation for the return on assets is the company's strategic asset allocation, which is governed by the nature of the insurance liabilities and the company's risk tolerance. Return for the year is largely attributable to a very good equities development that provided a return of 14.2 per cent. Interest-bearing investments provided a return of 3.5 per cent, helped by falling housing bond interest rates. Equities exposure was approximately 25 per cent during the year. The duration of the interest-bearing portfolio approximately 3.5 year. Currency exposure decreased during the year from approximately 12 per cent to approximately 10 per cent.

## Folksam Life total return, Parent Company, SEK million

	Opening market value 1 January 2012	Closing market value 31 December 2012	Total return 2012, SEK million	Total return 2012 %	Total return 2011 %	Total return 2010 %	Total return 2009 %
<b>Interest-bearing investments</b>	2,301	2,479	83	3.5%	9.8%	2.4%	2.6%
<b>Equities</b>	645	729	92	14.2%	-9.2%	13.8%	29.6%
<b>Alternative investments</b>	6	2	—	-14.4%	4.2%	-5.1%	-10.1%
<b>Hedging instruments</b>	1	2	25	—	—	—	—
<b>Total</b>	<b>2,953</b>	<b>3,212</b>	<b>200</b>	<b>6.7</b>	<b>5.4</b>	<b>5.2</b>	<b>7.5</b>

The total return ratio table is arranged as per Swedish Insurance Federation recommendations and the company's guidelines for measuring and reporting total return ratio. Note 37 describes how the total return ratio table is connected to the income statement and balance sheet.

## Five-year summary and key ratios, SEK 000s

PARENT COMPANY	2012	2011	2010	2009	2008	Key ratios *					
<b>Results</b>						<b>Non-life insurance operation</b>					
Premium revenue for own account	333,829	323,032	328,223	294,499	269,101	Claims ratio	66	75	47	79	81
Premium income for own account	326,673	345,048	351,224	335,859	335,209	Operating expense ratio	13 (17)	11 (18)	12 (14)	11 (14)	5 (12)
Net return on capital in insurance operations	187,965	128,781	107,004	144,633	23,883	Total expense ratio	79 (84)	86 (93)	59 (61)	90 (93)	86 (93)
Claims incurred, net	-1,459	-508,395	-447,064	-514,111	-468,835	<b>Life insurance operation</b>					
Change in life insurance provisions	-124,010	9,030	12,020	10,030	10,020	Management expense ratio ***	2.5 (5.5)	1.6 (5.1)	1.5 (4.3)	1.8 (4.4)	2.5 (4.7)
Operating expenses in insurance operation	-37,627	-18,062	-16,467	-24,499	-32,095	Administrative cost ratio, per cent	17.0	13.9	10.7	10.2	10.8
Bonuses and rebates, net	-388,250	-60,000	-140,000	—	—	<b>Profit from asset management</b>					
Other technical income and expenses	—	—	2,226	—	—	Yield, per cent ***	2.6	3.0	2.8	2.7	4.0
<b>Actuarial result from insurance operations</b>	<b>297,121</b>	<b>219,434</b>	<b>197,166</b>	<b>246,411</b>	<b>137,283</b>	Total return, per cent ***	6.7	5.4	5.2	7.5	2.4
<b>Profit for the year</b>	<b>193,241</b>	<b>128,670</b>	<b>114,941</b>	<b>142,455</b>	<b>80,578</b>	<b>Financial position</b>					
<b>Financial position</b>						Consolidation ratio, per cent	181 (227)	146 (188)	119 (158)	145	117
Investment assets at fair value	3,008,722	2,828,922	2,632,395	2,369,693	2,055,745	* Key ratios provided in parentheses have been calculated excluding operating expense revenue, primarily containing a share of profit from reinsurers to be comparable with previous years					
Technical provisions	1,828,481	1,857,096	1,782,209	1,632,827	1,513,307	** Key ratios pertaining to yield are presented for the years 2008 – 2009 as per FFFS 2008:26. Key ratios pertaining to total return are presented for the years 2008–2009 according to the Swedish Insurance Federation's recommendation for reporting total return.					
<b>Solvency capital</b>						*** Management expense ratio is calculated in accordance with FFFS 2009:12. This ratio is calculated firstly for the life insurance operation and secondly for the investment products, excluding risk products.					
Equity	1,189,529	996,287	867,617	757,139	615,104						
Untaxed reserves	283,455	234,739	189,078	146,517	94,205						
Deferred tax liability	25,932	26,528	16,417	8,585	—						
<b>Total solvency capital</b>	<b>1,498,916</b>	<b>1,257,554</b>	<b>1,073,112</b>	<b>912,241</b>	<b>709,309</b>						
Capital base, SEK million	1,499	1,258	1,073	913	709						
Required solvency margin, SEK million	155	160	156	138	152						

# KPA Pensionsförsäkring

## KPA Pension

Under the KPA Pension brand, the KPA Group offers traditional pension insurance, unit-linked insurance, life insurance, pension administration and selection centre, and asset management with high ethical standards. KPA Pension is the pensions market leader in the municipality sector and customers are both employers and employees.

All county councils and approximately 80 percent of Sweden's municipalities have contracts with companies in KPA Pension. More than one million employees have their pension in some form with KPA Pension. The company combines secure pensions with ethical investments.

KPA Pensionsförsäkring's business is a natural part of the complete KPA Pension's offering to employers, employees and pensioners. The company provides end-to-end insurance solutions for employers' pension obligations. KPA Pensionsförsäkring also offers personal traditional pension insurance and personal unit-linked insurance as well as alternative pension solutions for employers.

### Results

The Group's profit before tax was SEK 6,979 million (loss: 8,406) and the Parent Company's pre-tax profit was SEK 7,101 million (loss: 8,205).

The premium income for 2012 was SEK 7,713 million (6,664), of which premiums in the KAP-KL area constitutes approximately SEK 6,280 million (5,262). In KAP-KL, there are approximately 80,000 to 100,000 new employees and employees who reach the age of 21 every year, who can choose insurance provider for their occupational pension. In 2012, KPA also received an influx of customers in conjunction with the new connection procedure entering into effect. The addition of choosers meant that KPA Pensionförsäkring AB received approximately 100,000 new pension savers in 2012.

Premiums for the 2011 selection were conveyed to KPA Pensionförsäkring AB on 31 March 2012 and corresponded to just over SEK 6.6 billion, of which nearly SEK 400 million was to one of KPA Pension's ethical funds. In total, KPA

Pensionförsäkring AB has pensions under management for 1.5 million people, of which 80,000 save in one of KPA Pension's ethical funds.

Municipalities and county councils can also insure pension benefits in addition to the individuals' individual component of KAP-KL. It is a defined-benefit retirement pension and survivor pension as well as premium waiver of these benefits that are insured. To-date, some 170 municipalities have signed agreements with KPA Pensionförsäkring AB.

### Assets under management

KPA Pensionförsäkring AB managed approximately SEK 87 billion in assets in the traditional pension schemes at the end of 2012, an increase of SEK 10 billion compared with the previous year. A further amount of approximately SEK 5.2 billion was saved in KPA Pension's ethical funds.

### Return on assets

The total return on assets in 2012 was 7.2 (5.6) per cent, corresponding to SEK 5,809 million (4,110). The main explanation for the return on assets is the company's strategic asset allocation, which is governed by the nature of the insurance liabilities and the company's risk tolerance. Return for the year is largely attributable to a good equities development that provided a return of 13.8 per cent. Interest-bearing investments gave a total return of 3.2 per cent. The return on interest-bearing investments was largely influenced positively by falling interest rates on housing bonds. Equities exposure increased during the year, both as a result of rising share prices and the active increase of exposure and was approximately 34 per cent at year-end. The duration of the interest-bearing portfolio decreased in comparison with the previous year and was just over seven years at year-end. Currency exposure was approximately 10 per cent during the year.

## Allocated asset return

Since 1 July 2004, KPA Pensionsförsäkring AB allocates a yield interest rate, both positive and negative-yield, quarterly in arrears to its policy holders. A consequence of the method is that the level of collective consolidation in defined premium traditional pension always is approximately 100 per cent. The yield rate for 2012 was 7.2 per cent (5.6).

## Strong solvency

In recent years, the company's finances, measured by the solvency ratio, have strengthened. In 2011 and 2012, the decrease in long market interest rates meant that the provisions increased and the solvency ratio decreased. Despite falling market rates, KPA Pensionförsäkring had a solvency ratio of 150 per cent at 31 December 2012. This means that KPA Pensionsförsäkring had 43 per cent more assets than the company needed in order to pay guaranteed pension policies. As a result of dropping market rates, it was decided in 2012 to adjust the guaranteed interest down for defined-benefit pensions by 0.5 percentage points as of 1 January 2013.

## Collective consolidation

Until 30 June 2004, KPA Pensionsförsäkring AB has had a bonus interest that was set based on assumptions of the return. As the first non-dividend yielding insurance company, KPA Pensionsförsäkring AB introduced a new method of allocating the return on assets effective 1 July 2004. Both positive and negative returns are allocated quarterly in arrears to policyholders within the defined-contribution traditional pension scheme which means that the level of consolidation should be 100 per cent at the end of each quarter. This does not affect the guaranteed pension amount of the insurance policies.

The collective consolidation level for defined-contribution policies amounted to 100 per cent and for defined-benefit policies to 111 per cent at 31 December 2012.

## Capital base

The legal requirements on KPA Pensionsförsäkring AB's capital base (required solvency margin) amounted to SEK 2,465 million at 31 December 2012. The actual capital base at the same date amounted to SEK 29,465 million and thereby exceeded the statutory requirement by SEK 26,999 million. The solvency factor amounted to 12.

## Significant events

Several changes in the municipal collective agreement area affected operations in KPA Pension during the year. The labour market parties in the area reached an agreement on the change of insurance terms for TGL-KL that entered into effect on 1 July 2012. Accordingly, the change affected KPA Livförsäkring and the occupational group life insurance that the company offers, but mainly entails minor adjustments. The agreement was reached in light of the insurance conditions needing to be adjusted and clarified in relation to changes in the law and conditions in the rest of the labour market.

At the end of the year, the KAP-KL collective agreement was cancelled by the employer party and negotiations were under way until year-end when the parties met an agreement in principle on a new pension agreement. The parties' joint objective is for an entirely defined-contribution pension agreement to enter effect on 1 January 2013 and apply to employees born in 1986 or later. In conjunction with the agreement in principle, an extension of KAP-KL was agreed on, which means that KAP-KL will continue to apply in the period that the extension is in place. A new collective agreement for the municipal sector may also affect TGL-KL.

In 2012, KPA Pension invested in improving and developing its communications. This included the launch of a new website with the goal of simplifying communication with the customers and clarifying what KPA Pension's brand profit stands

for regarding security and ethical investment. As an actor in the municipal area, KPA Pension also considers it to be important to reflect diversity among employees in municipalities and county councils, and is the only pension company that can offer pension information in nine languages on the website.

In addition, KPA Pension offers functionality for easily read information and to have the information read out loud.

During the year, KPA Pension received proof that the work on sustainability has been successful and positioned KPA Pension as the secure and ethical pension company. KPA Pension was appointed as Sweden's most sustainable company in the finance industry in 2012. This is according to Sweden's largest and most extensive brand survey in the sustainability field - Sustainable Brands.

Another important activity that involved and engaged all KPA Pension employees during the year was the work towards ISO certification in information security. During the autumn, KPA Pension became the first pension company to be security certified in accordance with ISO/IEC 27001. This was an important milestone considering the fact that KPA Pension handles large volumes of sensitive information and pays pension on behalf of municipalities and county councils. This means that both the actual information and the computer systems used for the business must be protected.

## Five-year summary and key ratios, SEK million

GROUP	2012	2011	2010	2009	2008	PARENT COMPANY					
<b>Results</b>						<b>Results</b>					
Earned premiums	7,713	6,664	6,335	6,232	5,996	Earned premiums	7,713	6,664	6,335	6,232	5,996
Net return on capital in insurance operations	5,857	3,952	4,914	6,469	2,884	Net return on capital in insurance operations	6,214	3,969	5,021	6,415	2,923
Claims incurred, net	-1,792	-1,547	-1,272	-1,036	-850	Claims incurred, net	-1,791	-1,547	-1,272	-1,036	-850
Actuarial result from insurance operations	7,246	-8,161	7,211	15,135	-2,855	Actuarial result from insurance operations	7,090	-8,220	7,424	15,086	-2,850
<b>Profit for the year</b>	<b>6,954</b>	<b>-8,465</b>	<b>7,215</b>	<b>14,932</b>	<b>-3,155</b>	<b>Profit for the year</b>	<b>6,816</b>	<b>-8,473</b>	<b>7,180</b>	<b>14,894</b>	<b>-3,104</b>
<b>Financial position*</b>						<b>Financial position*</b>					
Investments at fair value	90,175	78,881	70,871	62,544	46,520	Investments at fair value	89,415	78,900	70,871	62,591	46,549
Technical provisions	63,589	58,569	41,481	38,397	40,921	Technical provisions	63,589	58,568	41,481	38,397	40,920
<b>Solvency capital</b>						<b>Solvency capital</b>					
Share capital	300	300	300	300	300	Share capital	300	300	300	300	300
Other equity	29,247	22,678	31,592	24,491	9,742	Other equity	29,165	22,708	31,580	24,531	9,739
<b>Total Solvency capital</b>	<b>29,547</b>	<b>22,678</b>	<b>31,892</b>	<b>24,791</b>	<b>10,042</b>	<b>Total solvency capital</b>	<b>29,465</b>	<b>23,009</b>	<b>31,880</b>	<b>24,831</b>	<b>10,039</b>
* 2008 is according to legally limited IFRS						Collective consolidation	1,563	1,017	643	484	869
						Collective consolidation, in per cent	102	101	101	101	102
						Capital base	29,465	23,009	31,880	24,836	10,044
						Required solvency margin	2,465	2,294	1,608	1,474	1,650
						Solvency factor	12.0	10.0	19.8	16.8	6.1
* 2008 is according to legally limited IFRS											
						<b>Key ratios</b>					
						Management expense ratio	0.3	0.3	0.3	0.4	0.5
						Yield, per cent *	2.7	3.0	2.5	3.2	3.3
						<b>Total return, per cent**</b>	<b>7.2</b>	<b>5.6</b>	<b>8.2</b>	<b>12.4</b>	<b>6.3</b>
* Presented key ratios pertaining to yield are presented for 2008 as per FFFS 2006:17 and for 2009 – 2012 as per FFFS 2008:26											
** Presented total return is presented in accordance with the Swedish Insurance Federation's recommendation for reporting of total return.											
Yield and total return relate to traditional life insurance											

# KPA Livförsäkring

Since 1 January 1963, KPA Livförsäkring AB insures employees in municipalities through a life insurance (TGL-KL), which is a group insurance based on a central collective agreement between the organisations for employers and employees within the municipality sector.

As a complement to the staff group life insurance, KPA also underwrites an insurance (TGL-FO) that can be subscribed to if employees resign their municipal employment without having access to other insurance. The insurance may be subscribed to by either the employee himself, or the employer, and is valid until the age of 67. For customers above the age of 67, a life-long group life and accident insurance is offered in collaboration with Folksam.

Municipalities and regional governments also have the possibility to subscribe to a group life insurance for elected representatives (GL-F) in KPA Livförsäkring AB. The insurance is optional and may be subscribed for those who are working at least 20 per cent of a full-time employment.

## Results

Profit before appropriations and taxes was SEK 1 million (316). This year's result was SEK 44 million (197).

In 2012, the premium income (net of premium tax deductions) was SEK 336 million (499), including reversals from the fund of bonuses allocated to insurance policies.

Claims incurred, including claims adjustment costs, amounted to a cost of SEK 344 million (359) for the year. The average disbursement per insurance case amounted to 3.8 price base amounts (3.7).

Life insurance provisions and the provision for unsettled damages decreased together during the year by SEK 78 million (588). This was mainly due to a lower number of sickness cases.

The operating expenses decreased by SEK 3 million to SEK 21 million (24).

## Return on assets

The total return on assets in 2012 was 6.4 per cent (4.8), corresponding to SEK 293 million (219). The main explanation for the return on assets is the company's strategic asset allocation, which is governed by the nature of the insurance liabilities and the company's risk tolerance. Return for the year is largely attributable to a very good equities development that provided a return of 14.5 per cent. Interest-bearing investments provided a return of 3.5 per cent, helped by falling housing bond interest rates. Equities exposure was approximately 24 per cent during the year. The duration of the interest-bearing portfolio approximately 3.5 year. Currency exposure decreased during the year from approximately 12 per cent to approximately 10 per cent.



## Five-year summary and key ratios, SEK million

PARENT COMPANY	2012	2011	2010	2009	2008
<b>Results</b>					
Premium income	336	499	482	462	518
Net return on assets in insurance operations	293	212	203	346	97
Change in technical provisions	-92	158	385	-396	-66
Claims incurred, net	-344	-359	-367	-403	-411
<b>Actuarial result from insurance operations</b>	<b>1</b>	<b>316</b>	<b>686</b>	<b>-12</b>	<b>110</b>
Profit for the year	44	197	416	—	-17
<b>Financial position</b>					
Investment assets at fair value	4,474	4,556	4,276	4,216	3,892
Technical provisions	2,202	2,110	2,268	2,653	2,258
Solvency capital	2606	2,612	2,358	1,766	1778
Deferred tax	44	47	39	-20	-8
Collective consolidation	2,562	2,565	2,320	1,785	1,785
Collective consolidation, in per cent	216	222	202	167	179
Capital base	2,562	2,565	2,320	1,786	1,786
Required solvency margin	386	374	375	391	376
Capital base for the insurance group*	31,232	25,229	33,856	26,278	11,486
Required solvency margin for the insurance group*	2,869	2,667	1,984	1,865	2,026
* KPA Livförsäkring AB and KPA Pensionsförsäkring AB are included here					
<b>Key ratios</b>					
Management expense ratio	0.5	0.5	0.4	0.5	1.0
Yield, per cent *	2.7	3.3	3.0	3.0	3.8
Total return, per cent ***	6.4	4.8	4.5	8.2	2.6
Solvency factor	6.6	6.9	6.2	4.6	4.8
* Reported key ratios relating to yield are reported for 2007-2008 in accordance with FFFS 2006:17 and for 2012-2011 in accordance with FFFS 2008:26.					
** Reported total return is reported in accordance with the Swedish Insurance Federation's recommendation for reporting total return.					



# Board of Directors - Folksam General

## Back row, from left

1. Leif Linde
2. Martin Linder
3. Göran Lindblå, Vice Chairman
4. Ulf Andersson
5. Hans-Olof Nilsson, deputy member

## Middle row, from left

1. Kerstin Kujala, employee representative
2. Ann-Louise Andersson, employee representative
3. Erika Andersson, employee representative
4. Sten-Åke Karlsson
5. Wanja Lundby-Wedin, Chairperson
6. Carina Malmer
7. Annika Strandhäll
8. Christer Pettersson, employee representative

## Front row, from left

1. Mona Hilbertson, employee representative
2. Karin Matsson Weijber
3. Björn Hartvigsson, deputy member
4. Ella Niia
5. Birgit Förell
6. Metta Fjelkner

## Not pictured

Annelie Nordström



# Board of Directors - Folksam Life

## Back row, from left

1. Roger Westin, employee representative
2. Dag Andersson, deputy member
3. Thomas Eriksson
4. Susanna Gideonsson
5. Sture Nordh, Vice Chairman
6. Kjell Ahlberg, deputy member
7. Johnny Capor

## Middle row, from left

1. Hans Tilly
2. Anita Modin
3. Nina Jarlback, Chairperson
4. Sune Dahlqvist
5. Doris Forsell Gustafsson, deputy member
6. Eva Quist

## Front row, from left

1. Anders L Johansson, employee representative
2. Maj-Britt Johansson-Lindfors
3. Lotta Andersson, employee representative
4. Jan Rudén, Vice Chairman
5. Susanna Järnek
6. Björn Enander, employee representative



# Board of Directors Folksam Life

## Back row, from left

1. Lars-Erik Klason
2. Kristian Sihlén, employee representative
3. Git Claesson-Pipping
4. Niclas Hjert

## Middle row, from left

1. Lars-Bonny Ramstedt
2. Anders Sundström, Chairman
3. Stefan Holm, Vice Chairman

## Front row, from left

1. Eva Lotta Nilsson
2. Pia Carlsson Thörnqvist

## Not pictured

Annette Carnhede



# Board of Directors KPA Pension

## Back row, from left

1. Ilmar Reepalu
2. Anders Knape, Vice Chairman
3. Niklas Gillhög, employee representative

## Middle row, from left

1. Pia Carlsson Thörnqvist
2. Anders Sundström, Chairman
3. Håkan Sörman
4. Henrik Persson, employee representative

## Front row, from left

1. Elisabeth Sasse
2. Catarina Ingelstam
3. Maria Adam, employee representative



# Group Management



**Anders Sundström**  
President and CEO

- born 1952,
- employed since 2004
- in current position since 2004.



**Stefan Holm**  
Head of Partner BA

- born 1963,
- employed since 1982,
- in current position since 2008.



**AnnKristine Wuopio-Mogestedt**  
Head of Claims

- born 1961,
- employed since 1988
- in current position since 2008.



**Gunnar Frödeberg**  
CIO

- born 1953
- employed since 2008
- in current position since 2008.



**Pia Carlsson Thörnqvist**  
Head of Communications

- born 1964
- employed since 1982
- in current position since 2008.



**Daniel Eriksson**  
Head of Product

- born 1969
- employed since 2005,
- in current position since 2008.



**Harriet Pontán**

Head of HR

- born 1953,
- employed since 2005
- in current position since 2005.



**Thorbjörn Eckerdal**

Head of Private BA

- born 1958
- employed since 1985
- in current position since 2008.



**Tomas Norderheim**

Deputy CEO/  
Head of CEO Staff

- born 1955
- employed since 1987
- in current position since 1998.



**Catrina Ingelstam**  
CFO

- born 1961
- employed since 2009
- in current position since 2009.



**Elisabeth Sasse**  
Head of Collectively  
Agreed Business BA

- born 1966
- employed since 2011
- in current position since 2011.

# Glossary

## **Rate of return**

Rate at which interest accumulates on the insured's investments. Distributes the actual rate of return on the assets directly to the customers' insurance policies after each quarter.

## **Operating expenses**

Comprises expenses for marketing, sales, management and administration.

## **Operating expense ratio**

Operating expenses as a proportion (%) of earned premiums. Shows what proportion of investors' premiums is used to cover the insurance company's expenses.

## **Management expense ratio**

Operating expenses as a proportion (%) of assets under management (investment assets). Shows what proportion of investment is used to cover the insurance company's expenses.

## **Capital base**

Equivalent to equity in the balance sheet in life insurance companies.

## **Consolidation**

Consolidation capital in relation to one year's premium income.

## **Collective consolidation**

The relationship between the asset values and the amount allocated to the customers. The allocation includes both guaranteed and non-guaranteed obligations.

## **Claims ratio, non-life insurance**

The ratio between claims incurred and earned premiums, expressed as a percentage.

## **Solvency ratio**

The ratio between asset values and the commitments guaranteed to the customers.

## **Solvency capital**

The capital required to undertake insurance activities under applicable rules.

## **Solvency factor**

The ratio between capital base and solvency margin.

## **Solvency margin**

The lowest level, calculated on the basis of the nature and scope of the operation, to which the capital base must amount under the Swedish Insurance Business Act.

## **Total return**

The sum of direct return (after deduction of management expenses) and realised and unrealised changes in the value of investment assets.

## **Bonus interest**

Insurance companies may distribute surpluses to their customers. The bonus interest is not guaranteed, and the insurance company can reclaim that part of the surplus that exceeds the guaranteed rate, if management is not going as well as expected.



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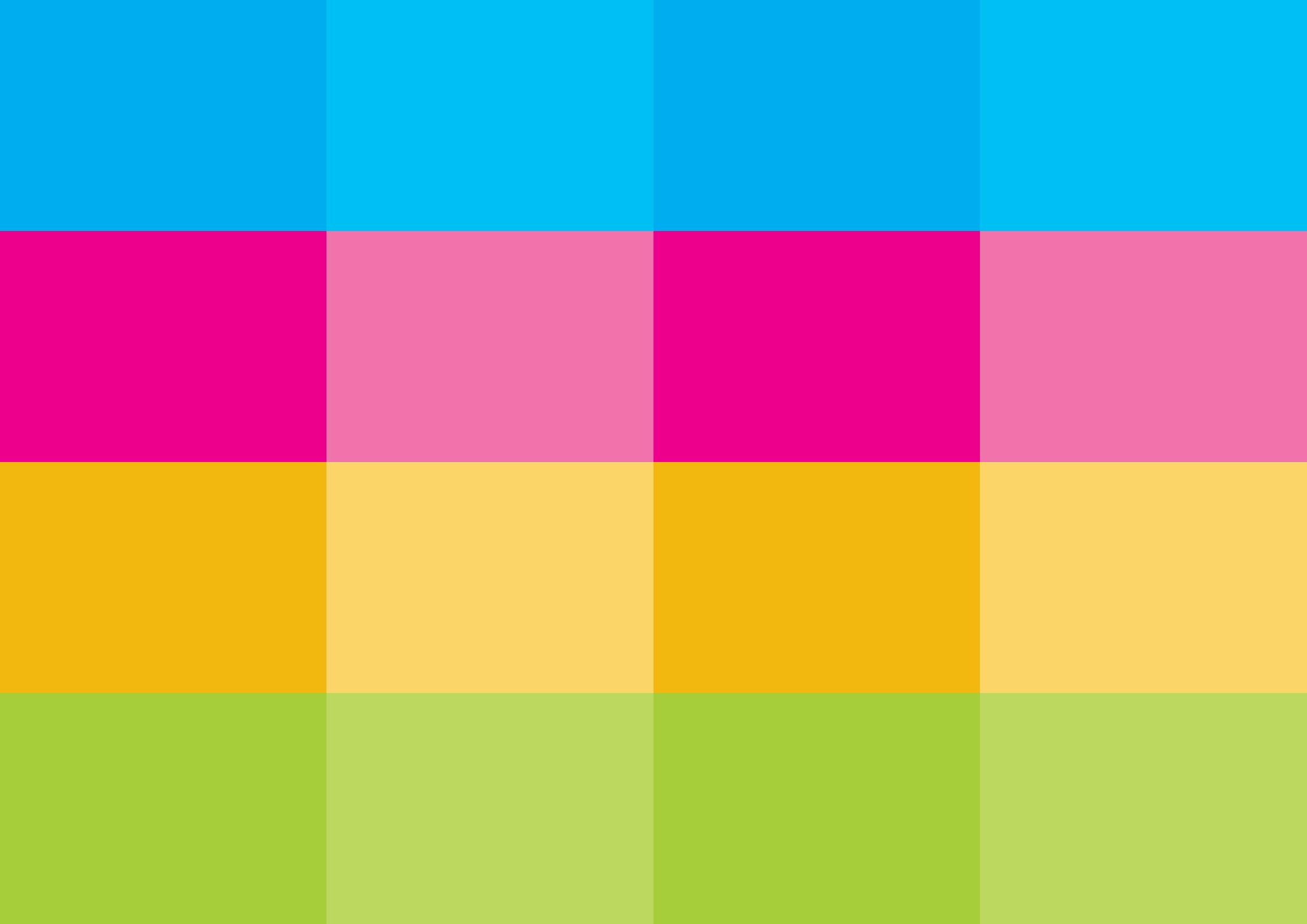
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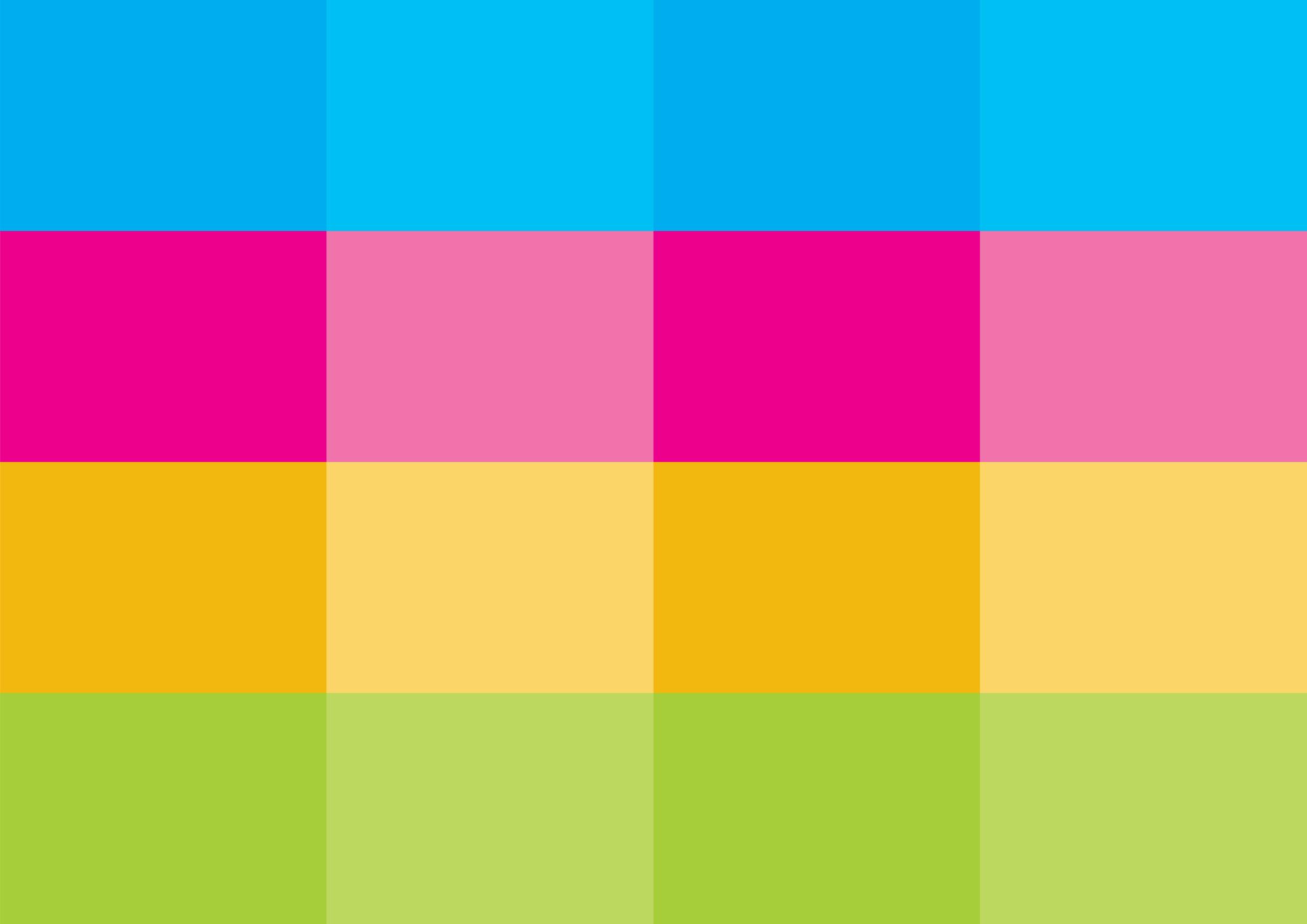
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# Folksam

Folksam is a customer-owned company. We offer insurance and pension savings. Nearly one out of two Swedes are insured by Folksam and we are one of Sweden's largest asset managers. Our vision is for people to feel secure in a sustainable world.

[folksam.se](http://folksam.se)