



If P&C Insurance Half Year Report 2001

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Profit for If in Q2

During the second quarter If made an operating profit of MSEK 126. Investment returns recovered and If's core business operations continued to improve. The combined ratio improved both on a rolling 12 months basis and compared to the same period last year.

The individualised premium increases during the last year have contributed to the profitability improvement in the core business, together with the cost synergy programme. This has been offset to some degree by increased claims frequency and average claims costs in some lines of business.

The first quarter was characterised by lower large claims cost than normal. This changed during the second quarter and resulted in a higher level of large claims than normal for the first six months.

Following the highly volatile equity markets in the first quarter, equity returns in the second quarter were firmly positive. Returns in the fixed-income markets were stable. As a result, If's investment income improved compared to the first quarter.

| Group result highlights | Q2 2001 | Q2 2000 | H1 2001 | H1 2000 |
|--------------------------|---------|---------|---------|---------|
| Gross written premiums | 6 251 | 4 431 | 14 202 | 11 141 |
| Operating result | 126 | -537 | -644 | -379 |
| Oper. res incl norm.inv. | 6 | -140 | 40 | -168 |
| Combined ratio | 109.0% | 111.2%* | 109.9% | 111.9%* |

*Excluding one-time launching cost of MSEK 170.

Merger with Sampo P&C

On May 21, If and Sampo announced their intention to merge If's and Sampo P&C's operations. The merger is subject to regulatory approvals and completion of Sampo's offer for Storebrand. On July 27, the EU Commission gave their approval to the acquisition of Sampo's offer for Storebrand and the merger of If's and Sampo's P&C operations.

If P&C Insurance is the leading property & casualty insurance company in the Nordic area with an annual turnover in 2000 of 20.5 billion SEK and 4500 employees. If's vision is to attract and retain the most knowledgeable and demanding customers in the Nordic P&C market.

Comments from Bo Ingemarson, CEO of If

“The second quarter has been centred around the announced merger with Sampo’s property & casualty operations. After completion, the merger will give If an even stronger position for further progress and profitability. We were pleased to receive the European Commission’s approval for Sampo to acquire Storebrand and thus the approval for If to merge with Sampo’s P&C operations. The Commission concluded that ”the proposed transaction will not lead to competition concerns in any of the markets where the parties are active.” We have confidence in the outcome of the deal and look forward to taking further advantage of best practices potential through the larger pan-Nordic If.

In the second quarter, as a result of the recovery of the global equity markets and continued stable fixed income return, we have also seen our investment asset performance develop favourably compared to previous months. Together with improved insurance performance this has resulted in an operating profit for the second quarter. The combined ratio continued to improve compared to previous periods, as a result of the realisation of cost synergies and increased revenues.

It is positive to see that the global equity markets developed positively in the second quarter, however with the volatility in the investment result, we must with even greater focus continue to realise synergies and cost reductions and further develop our core business in order to continue the stable improvement of the insurance result going forward.”

Group results¹

Premiums earned for the first six months 2001 were MSEK 10 485 (MSEK 8 477). Claims incurred were MSEK –9 172 (MSEK –7 406) and expenses were MSEK – 2 350 (MSEK –2 205). The statutory operating result before tax was MSEK – 644.

The claims ratio was 87.5 per cent (87.9) and the expense ratio was 22.4 per cent (26.0). The combined ratio was 109.9 per cent (113.9).

Premiums earned for second quarter 2001 were MSEK 5 545 (MSEK 4 262). Claims incurred were MSEK –4 837 (MSEK –3 703) and expenses were MSEK – 1 209 (MSEK –1 039²). The statutory operating result before tax was MSEK 126.

The claims ratio was 87.2 per cent (86.9) and the expense ratio was 21.8 per cent (24.3²). The combined ratio was 109.0 per cent (111.2²).

¹ All SEK figures are expressed in millions. The Volvia portfolio is included as from 2001. Comparative numbers for the same period previous year in parenthesis.

² Excluding Q2 2000 one-time launching expenses of MSEK 170.

| Group result highlights (MSEK) | Q2 2001 | Q2 2000 | H1 2001 | 2000 |
|---|---------|---------------------|---------|---------------------|
| Premiums earned | 5 545 | 4 262 | 10 485 | 17 545 |
| Claims incurred | -4 837 | -3 703 | -9 172 | -15 220 |
| Operating expenses ² | -1 209 | -1 039 | -2 350 | -4 115 |
| Underwriting result | -501 | -650 | -1037 | -1 790 |
| Normalised investment result ³ | 611 | 530 | 1 215 | 2 145 |
| Operating result including normalised investment result | 6 | -140 | 40 | 247 |
| | | | | |
| One-time launching expenses Q2 2000 | - | -170 | - | -170 |
| Statutory investment result adjustment | 120 | -397 | -676 | -1 066 |
| Statutory operating result | 126 | -537 | -644 | -989 |
| | | | | |
| Claims ratio | 87.2% | 86.9% | 87.5% | 86.8% |
| Expense ratio | 21.8% | 24.3% ² | 22.4% | 23.4% ² |
| Combined ratio | 109.0% | 111.2% ² | 109.9% | 110.2% ² |

Cyclicality

Property and casualty insurance is subject to cyclical variations. When the economy is at its peak one often sees an increased frequency of claims and higher average cost of claims. It is thus subject to the business cycle in the countries in which it operates. In addition, spring and summer usually have a lower claims frequency than winter.

Furthermore, because equity investments are fully marked to market in the profit and loss account, short-term fluctuations in equity market returns affect the statutory operating result. Equity investments have historically outperformed fixed-income investments.

Business area comments

Private had net earned premiums in the second quarter 2001 of MSEK 2 795 (MSEK 2 042). The combined ratio was 107.0 per cent (109.7), with an expense ratio of 19.7 per cent (23.8).

The retention rates have improved, which together with strong new sales in Sweden and Denmark has led to a net gain of customers. The implementation of individualised premium increases has continued successfully. Private will continue with further revenue enhancing and portfolio improvement projects in 2001.

³ In addition to the statutory results, If shows an operating result based on a normalised investment result as well as the statutory investment result. This approach is taken because as equity investments are fully marked to market in the profit and loss account, short-term fluctuations in equity market returns affect the statutory operating result, making comparisons between years less meaningful. In calculating the normalised investment result for H1 2001, a total return of 5.9% was used, based on If's applicable investment mix, and assuming a bond yield of 5.2% and an equity risk premium of 3.5%.

The claims ratio increased slightly compared to the second quarter last year due to Home insurance in Norway where the frequency of flooding claims increased. There is evidence of structural claims changes in the market implying a higher number of Home insurance water claims, which are generally more expensive than other Home claims. The frequency of claims also increased for Motor in Sweden together with higher costs for car repairs.

The expense ratio improved significantly, due to premium increases and the acquisition and integration of Volvia insurance. Further, the transformation of distribution channels contributed to the improvement in the expense ratio. In Norway, the transformation from personal sales to high service call centres is proceeding very well.

During the second quarter emphasis was placed on customer satisfaction actions. Sales through the Internet continued to increase.

The focus for 2001 is mainly on revenue enhancing projects such as selection and retention through the Sales & Service channel as well as stringent underwriting guidelines for new sales.

Commercial had net premiums earned of MSEK 1 767 for the second quarter 2001 (MSEK 1 576). The combined ratio was 109.1 per cent (108.1), with an expense ratio of 23.7 per cent (24.3).

Premium increases have been successfully implemented and the expense ratio has improved despite the development of the new common Nordic base system. The large claims cost for the first six months and the second quarter was above normal in Norway in particular, as for the market in general. This was partly offset by a decrease in the small claims frequency.

Following successful pruning of the portfolio the client base stabilised.

As from the second quarter, Commercial has five fully operational Claims Centres which now handle 65 per cent of Commercial's claims, out of which 25 per cent are handled within 48 hours. The outbound call centres activities were integrated into the service centres.

Going forward in 2001, Commercial will put further emphasis on individualised pricing based on risk and degree of personal sales. The claims centre concept will be developed further as will claims handling and service on the Internet.

Industrial Risk Solutions, IRS, had net premiums earned of MSEK 616 for the second quarter 2001 (MSEK 337). The combined ratio was 113.1 per cent (155.7), with an expense ratio of 24.0 per cent (29.1).

IRS' combined ratio improved significantly compared to the same period last year due to both fewer large claims and increased premium volume. The latter is an effect of both new business and increased premium levels as well as higher retention. There is clear evidence of market hardening in the industrial business.

The focus going forward is to further refine the customer profitability including captive profitability enhancement actions.

Marine & Energy had net earned premiums in the second quarter 2001 of MSEK 363 (MSEK 245). The combined ratio was 102.6 per cent (109.3), with an expense ratio of 20.7 per cent (26.1).

Results in the Marine business improved, due to favourable claims development and market acceptance of premium increases. Renewal rates were high, as were incremental sales to existing customers.

The result of the Energy business was very weak, following large claims costs significantly above normal, including the Petrobras P36 oil rig incident in Brazil. However, renewals have been made at a significantly higher premium level than last year.

Structural changes

On May 21, If and Sampo announced their intention to merge If P&C and Sampo's P&C operations, subject to completion of Sampo's offer to Storebrand's shareholders and regulatory approvals. The merger implies that Sampo/Storebrand will own 67.5 per cent of If and Skandia the remaining 32.5 per cent. The enlarged If will have a Nordic market share of 24 per cent.

Investments

The second quarter was characterised by stable fixed-income returns and positive equity markets performance. The investment result for the first six months was MSEK 531, corresponding to a return of 1.3 per cent. The total return, including changes in unrealised gains/losses on fixed-income investments carried at amortised cost, was MSEK 314, corresponding to a return of 0.8 per cent. The total portfolio split excluding assets in the run-off operations as of the second quarter was 83 per cent fixed-income and 17 per cent equities. The Run-off investment portfolio is 100 per cent allocated to fixed income investments.

Exchange Rate Effects

Translation of income and expenses in foreign currencies such as NOK and USD into SEK was performed at higher average exchange rates than for the first six months of the year 2000. The effect was approximately 4 per cent.

Changes in Net Asset Value

The Net Asset Value increased from MSEK 8 237 to MSEK 8 477. During the first six months, If's shareholders have in total made capital contributions of MSEK 1 100.

Interim result for If P&C Holding AB

If P&C Holding AB is a pure holding company with no business activities. The pre-tax result for the first six months 2001 was MSEK -72, mainly from currency hedging of equity capital in foreign group companies.

This interim report has been compiled using the same accounting principles as in the Annual Report for 2000, except in relation to IT expenditures and deferred tax assets, as described in the appendix.

Solna, Sweden, August 3, 2001

Bo Ingemarson
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A teleconference will be held on Monday August 6, 10.00 Stockholm Time. The invitation is published under Press Service on If's IR website.

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Appendices