

Press release

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If P&C Insurance
106 80 Stockholm
Sweden

www.if-insurance.com

IF P&C INSURANCE YEAR-END REPORT 2000¹

- Combined ratio 2000 110%² (120%), Q4:00 111% (129%)
- Significant premium increases realised
- Expense ratio down by 1 percentage point²
- Operating result based on normalised investment result SEK 1.5 bn higher than 1999
- Total investment result MSEK 1 402. Total investment return 3.6%, statutory result MSEK 1 079
- Statutory operating result MSEK –989, Q4 –632.

In addition to the statutory results, starting from this year-end report, If will show an operating result based on a normalised investment result instead of 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 2000, a total return of 6% 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%.

Group result highlights (MSEK)	2000	1999 ³	Q4 2000	Q4 1999 ³
Premiums earned	17 545	15 674	4 569	3 853
Claims incurred ⁴	-15 220	-14 988	-3 973	-4 181
Operating expenses ²	-4 115	-3 835	-1 105	-803
Underwriting result before Q2:00 launching expense	-1 790	-3 149	-509	-1 131
Normalised investment result	2 145	1 948	538	466
Operating result including normalised investment result	247	-1 293	-5	-688
One-time launching expenses Q2 2000	-170	-	-	-
Statutory investment result adjustment	-1 066	736	-627	1 290
Statutory operating result	-989	-557	-632	602
Claims ratio	86.8%	95.6%	86.9%	108.5%
Expense ratio	23.4% ²	24.4%	24.2%	20.8%
Combined ratio	110.2% ²	120.0%	111.1%	129.3%

¹ All SEK figures are expressed in millions.

² Excluding Q2 2000 one-time launching expenses of MSEK 170. Including such expenses the expense ratio for Jan-Dec 2000 was 24.4% and the combined ratio 111.2%.

³ Pro forma numbers Jan-Dec 1999. For accounting purposes, If started operations from March 1, 1999. There is no comparable statutory investment result for full-year 1999. For Q4, the underwriting result is not pro forma.

⁴ Including allocated interest in relation to annuity reserves, as described in the appendix.

Comments from Bo Ingemarson, CEO of If

“The year 2000 was If’s first full year of operations. Following significant premium increases implemented in late 1999 and during 2000, we have increased premiums earned substantially. The claims ratio has improved in all business areas and the overall combined ratio has improved strongly by approximately ten percentage points. Higher premiums and increasingly individualised pricing have improved the risk profile of our portfolio. Premium increases will continue in 2001 and we will also continue to see more effects of last year’s increases on premiums earned.

In 1999, the frequency of large claims was unusually high. During 2000 the frequency for If as a whole was at a normal level, or slightly below. The small claims frequency continued on the same high level as 1999. In the fourth quarter, both Sweden and Norway suffered from severe floods, which affected the combined ratio adversely. This was partly offset by mild weather in November and December. As a result, the claims ratio for Q4 was higher than for Q3 in line with the usual pattern.

The expense ratio for 2000 was lower than for 1999, mainly due to higher premium levels, but Q4 showed an adverse development compared to Q3. This was mainly due to costs in connection with the establishment of If in Finland, costs related to the development of a common Nordic base system for Commercial as well as a common general ledger system and costs related to extensive sales campaigns in all countries. In keeping with our transformation of distribution channels, we have experienced increased telephone traffic at our Private call centres requiring an increase in manning.

In Finland, we now have 40 employees and an operational call centre. Policies in Private and Industrial were sold in 2000. The campaign launching the If brand in Finland started on January 22, 2001.

As a result of increased efficiency and reengineering of work processes, it has been possible to reduce manning in Commercial and Industrial during 2000, and reductions will continue in 2001. Within Marine & Energy, it was possible to reduce manning before the transfer of management and operations to Gard Services. The outsourcing of IT-operations to IBM has been accomplished according to plan. Going forward, outsourcing and insourcing will be applied, as appropriate, based on overall profitability.

The equity markets were characterised by weak performance during most of the year, and particularly in Q4. Even though our asset managers have outperformed, If was negatively affected, as can be seen in the Q4 investment result. In total, however, we benefited from our internationally diversified equity strategy.

During the fourth quarter, the Board of Directors decided on a new investment policy for 2001, as well as a new reinsurance policy. The new reinsurance policy entails higher self-retention but with only a minor increase in overall risk, as measured by our ALM (Asset-Liability Management) studies. In keeping with our overall investment strategy, the investment policy has been refined towards an even higher degree of duration matching and greater diversification of equity investments.

I am confident that during 2001 the ambitious merger program and the effects of premium increases will continue to improve underwriting result. Assuming the equity markets and our investment result return to a more long-term level of returns, the outlook for 2001 is favourable. I believe we are moving strongly towards achieving our goals.”

Group results⁵

Premiums earned for year 2000 were MSEK 17 545 (MSEK 15 674). Claims incurred were MSEK –15 220 (MSEK – 14 988) and expenses were MSEK – 4 285 (MSEK –3 835). The statutory operating result before tax was MSEK – 989.

The claims ratio was 86.8 per cent (95.6) and the expense ratio including launching expenses was 24.4 per cent (24.4). The combined ratio was 111.2 per cent (120.0). Excluding Q2 2000 one-time launching expenses of MSEK 170, the expense ratio was 23.4 per cent and the combined ratio 110.2 per cent.

For the fourth quarter 2000 premiums earned were MSEK 4 569 (MSEK 3 853). Claims incurred were MSEK –3 973 (MSEK – 4 181) and expenses were MSEK – 1 105 (MSEK – 803). The statutory operating result before tax was MSEK – 632.

Cyclicalities

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 comments⁶

Private had net earned premiums in 2000 of MSEK 8 580 (MSEK 7 837). The combined ratio was 111.2 per cent (115.7), with an expense ratio of 23.5 per cent (23.0).

In Q4 Private had net earned premiums of MSEK 2 328 (MSEK 2 047). The combined ratio was 114.9 per cent (121.7), with an expense ratio of 22.1 per cent (17.4).

The combined ratio improved compared to last year. This was driven by the premium increases implemented and by the proportionally lower cost of claims. The premium increases were accepted by the market and on average premiums increased by 10 to 15 per cent during 2000. The full effect of this will be seen in 2001. Despite the increases in premiums, Private extended its customer relationships, by selling more policies on average to the same customers. The turnover of customers also increased as a result of increased premiums market-wide. Due to new underwriting criteria and dynamic effects from the premium increases, the risk profile of the portfolio has improved.

The cost of claims increased proportionately less than premiums. However, in Q4 the flood in Norway caused net claims of over 100 million SEK, which affected the combined ratio by 5 per cent in Q4 and 1.4 per cent for the full year. Also, the frequency of claims in Sweden was high in Q4. In Norway, the claims frequency in Motor declined as did the average cost of claims.

⁵ Numbers in parenthesis are comparative 1999 pro forma numbers.

⁶ Launching expenses of MSEK 170 in Q2 2000 are excluded in Business area results.

The ongoing transformation of distribution and higher turnover of customers in the market lead to increased activity in the call centres. Increased commissions to the Motor Affinity Channel and start-up costs for Outbound Call Centres and Sales and Service units in Denmark also triggered higher costs. As a result, expenses increased in 2000, especially in Q4.

From the fourth quarter, Private customers in Sweden, Norway and Denmark could report their claims on the Internet. Sales on the Internet are at a modest level. Outbound and Inbound call centres are now operational in all countries and show good sales development in both Norway and Sweden.

In Finland, a call-centre was established in Åbo/Turku during Q4. The brand launching campaign started on January 22, 2001.

New underwriting guidelines implying more individual pricing have been implemented in 2000 and have resulted in an improved risk profile of the portfolio and an ameliorated pricing of these risks. The Purchasing project, which seeks not only to negotiate favourable purchase agreements with selected suppliers, but also to develop suppliers, has developed according to plan. The project will continue in 2001 in all countries. Lessons learned from other merger projects targeting reduced claims leakage, such as the Fraud Project and Closed File Reviews, have improved the claims handling processes. These projects have contributed to the improvement in the combined ratio during 2000 and will continue to do so in 2001.

Commercial had net premiums earned of MSEK 6 187 for 2000 (MSEK 5 404). The combined ratio was 109.3 per cent (122.2), with an expense ratio of 23.0 per cent (25.2).

In Q4 Commercial had net earned premiums of MSEK 1 652 (MSEK 1 227). The combined ratio was 106.5 per cent (140.4), with an expense ratio of 24.6 per cent (23.9).

Commercial had a very strong results development compared to last year. The improved combined ratio was due to increased premiums, fewer large claims and a significant reduction in the expense ratio. Premiums were increased by 10 per cent on average, but with differentiation of premium increases among individual customers. As expected, this resulted in a decrease in the number of customers, except for Motor in Sweden where both the number of customers and premiums increased. Analyses show that, overall, lost customers had a history of higher claims ratios than the average customer within Commercial. Both Worker's Compensation and Motor improved profitability during 2000. Property retained fewer customers but sold more policies to the remaining customers.

Motor and Property claims developed favourably in 2000. Property had a lower cost of large claims than normal. This was partly offset by the flood in Norway in Q4.

The expense ratio improved due to a continuous focus on cost reduction. The five claims centres and call centres for the small customer segment have improved efficiency, which in turn has allowed manning reductions to be carved out according to plan.

Common Nordic underwriting guidelines were fully implemented in Q4. The Red Flag project, an underwriting project aiming at pruning out bad risks, reduced the claims ratio. This project together with the common Nordic underwriting guidelines and new pricing projects had a net impact of MSEK 40 during 2000. The Purchasing project run together with Private developed according to plan in all countries. These projects will continue in 2001.

Claims can be reported on the Internet in all countries. So far, the majority of all claims is handled in the claims centres and 10 per cent of those claims is settled within 48 hours. The goal is to handle 25 per cent of the claims within 48 hours, which would increase both customer satisfaction and operating efficiency.

During 2000, the development of a new, common Nordic base system for Commercial was initiated. The new web-enabled system will gradually replace most current systems and will improve support for all the core processes. The continuation of this process is one of the most important tasks for Commercial in 2001. It is expected that the first new policies will be entered into the system at year-end 2001.

Industrial Risk Solutions, IRS, had net premiums earned of MSEK 1 857 for the year 2000 (MSEK 1 375). The combined ratio was 114.6 per cent (124.1), with an expense ratio of 25.0 per cent (28.7).

In Q4 IRS had net earned premiums of MSEK 515 (MSEK 341). The combined ratio was 127.8 per cent (113.2), with an expense ratio of 31.7 per cent (23.8).

The improved combined ratio for 2000 compared to 1999 was driven by significant premium increases in Workers Compensation, Personal Accident and Motor and by fewer claims. The turnover of customers was not higher than usual, since most market players increased premiums similarly.

On average, premiums were raised by 5 per cent in a highly competitive market. This was partly offset by a decrease in the volume of captive business, where the focus on profitability was strengthened. The premium increases will continue in 2001.

The reinsurance programme for 2000 increased the net retention compared to 1999.

The number of large claims was somewhat higher than normal. The claims level nevertheless improved compared to last year. This claims pattern clearly demonstrates the volatility of the IRS business.

IRS showed an improved expense ratio throughout the year, driven by a reduction in employee headcount without redundancy expenses. Thus, productivity in IRS increased in 2000. The launch of IRS in Finland affected expenses throughout the last six months.

A global network is essential for IRS' business. During 2000, a new network cooperation agreement was signed with Winterthur. The cooperation with Liberty Mutual in US and Canada continues unchanged.

The Client Team Model, with one dedicated team per customer, was implemented in 2000 together with the Competence Centre Model, which pulls together in-house competence within specific industries such as Forestry, Power and Freight Forwarding.

Common Nordic underwriting guidelines were implemented in 2000 together with new captive guidelines. Other underwriting projects have also contributed to an improved portfolio. The trend within distribution is that the share of brokered business is increasing. In 2000, approximately 35 per cent of the business written was brokered.

During 2001, IRS will focus on further premium increases, Activity Based Cost time follow-up in order to strengthen client profitability assessment and the development of a Nordic base system together with Commercial.

Marine & Energy had net earned premiums of MSEK 905 in 2000 (MSEK 721). The combined ratio was 115.0 per cent (139.9), with an expense ratio of 23.8 per cent (30.5).

In Q4 Marine & Energy had net earned premiums of MSEK 118 (MSEK 155). The combined ratio was 116.9 per cent (169.0), with an expense ratio of 22.1 per cent (36.5).

Marine & Energy's result improved in 2000. This was driven by a focused and determined pruning of perceived bad risks from the portfolios and, to a lesser degree, by premium increases. This has affected the combined ratio by 20 per cent. The Marine & Energy businesses have for several years suffered from a very weak market with fierce competition and negative premium development. This has recently led to the exit of several large players from the market. Premiums remained relatively flat during 2000 but the outlook for 2001 is favourable.

The expense ratio has improved due to employee headcount reduction made possible through the establishment of the joint venture management company Gard Services together with Assuranceforeningen Gard P&I (mutual).

The most important task for M&E in 2001 is to improve profitability, mainly through implementation of premium increases together with a continued focus on profitable underwriting and elimination of undesirable risks.

Structural changes

During Q4 2000, the business within Group Accident in Commercial was sold to Skandia for MSEK 100. In 2000, the business sold contributed MSEK 155 to premiums, MSEK 134 to claims, MSEK 20.5 to expenses and MSEK 16 to the investment result.

Investments

Fixed-income performance was strong in 2000, but the equity markets globally were characterised by weak performance, particularly in the fourth quarter. This had an adverse effect on If's investment result for the year 2000. Excluding MSEK 100 from the sale of Group Accident, the result at year-end was MSEK 979, corresponding to 2.7 per cent return. The total return, including changes in unrealised gains/losses on fixed-income investments carried at amortised cost, but excluding the Group Accident gain, was 1 302, corresponding to a 3.6 per cent return. The total portfolio split excluding assets in the run-off operations as of year-end 2000 was 79 per cent fixed-income and 21 per cent equities, reflecting the well diversified and low-risk investment policy.

For 2001, a modified investment policy has been established. In keeping with the overall investment strategy, this modified policy includes tighter duration and currency matching and a highly diversified equity portfolio, with an overall target share of equity investments of 23 percent, excluding Run-off. The Run-off investment portfolio is 100 per cent allocated to fixed income investments.

Dividend to shareholders and Capital contribution

The Board of Directors will propose to the Annual General Meeting that no dividend will be paid in relation to 2000.

On February 8, 2001, Skandia and Storebrand contributed in total MSEK 500 of new equity capital to If P&C Holding AB (publ).

Changes in Net Asset Value

The Net Asset Value decreased from MSEK 12 414 to MSEK 8 237, mainly due to equity transfers of MSEK 3 304 to the owners. The deferred tax liability decreased during 2000 mainly due to lower unrealised gains. Details of shareholders' equity are shown in the appendix.

Year-end result for If P&C Holding AB

If P&C Holding AB is a pure holding company with no business activities. The year-end result before tax for the holding company amounted to MSEK 35 excluding dividend from group companies.

Development after year-end

- Agreement to acquire Volvia Motor portfolio (see separate press release)
- Marketing campaign in Finland launched January 22
- Positive equity markets performance year-to-date

This year-end report has been compiled using the same accounting principles as in the Annual Report for 1999, except in relation to annuities, as described in the appendix.

Solna, Sweden, 8 February 2001
Bo Ingemarson

President and CEO

For questions please call:
Bo Ingemarson, CEO tel: +46 8 788 45 77
Tom Rathke, CFO tel: +46 8 788 32 25

Investor relations:
Nils Henriksson tel: +46 8 788 12 82, e-mail: nils.henriksson@if.se
Susanna Halse: tel: +46 8 788 24 28, e-mail: susanna.halse@if.se

Press contacts:
Helena Dyrssen tel: +46 8 788 23 35, mobile: +46 705 29 23 35

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Reports 2001

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H1 report	July 30, 2001
Q3 report	October 30, 2001

Appendices