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Q2 report 2003

August 12, 2003

- MSEK 1 137 operating profit YTD (-1 573)
- Combined ratio YTD 103.0% (107.8%)
- Cost ratio YTD 27.1% (29.9%)
- Investment result statutory YTD MSEK 2 101, current value MSEK 2 023
- Investment return 2.8% YTD (5.6% annualised)
- Net cash flow from underwriting YTD MSEK 5 101

Results If Group MSEK	**Q2 2003**	**Q2 2002**	**6M 2003**	**6M 2002**	**FY 2002**
Gross written premiums	8 569	8 891	24 447	23 493	38 136
Operating result	853	-1 114	1 137	-1 573	-2 080
Technical result[1)]	421	189	580	-129	321
Combined ratio	101.0%	104.4%	103.0%	107.8%	106.1%

1) Underwriting result plus allocated risk-free interest on net technical provisions.

Comments from Torbjörn Magnusson, CEO:

"Six months now remain of the 24-month turn-around programme launched in 2002. The programme implementation and results follow our plans and the combined ratio for the first six months of 2003 is 103.0% (107.8%). Bottom line results are also satisfactory as equity markets have been recovering and the operating result for the first six months is MSEK 1 137 (-1 573). The operating profit contributes to good net asset value growth and a strengthened balance sheet.

In the insurance operations, it is gratifying to see the results improving consistently in Private, Commercial as well as Industrial business. The technical profit has gradually improved over the last 5 quarters to MSEK 421 (189) in Q2. All fundamental plan parameters - e.g. nominal costs, average premiums, average claims and frequency of claims - develop well and follow the expected seasonal pattern. A number of the activities in the turn-around programme, including pricing adjustments, cost reductions and service improvements, will continue to deliver results also going forward.

Large claims are marginally better than plan after the first six months, with relatively few major losses and weather events in the second quarter. However, simultaneously some reserve strengthening has been necessary following increased settlements for prior years, in particular for Motor TPL.

If P&C Insurance is the leading property & casualty insurance company in the Nordic area, with an annual turnover in 2002 of SEK 38 billion and 7 500 employees.

In our Marine & Energy book, we now expect to have commuted all material asbestos exposure. The commutation means a final settlement of all material asbestos exposure in the live business.

The cost awareness culture and enhanced cost control are proving to be efficient and continue to impact costs positively. Nominal costs have been further reduced in all business areas during Q2, as especially IT expenses and consultant fees have been lowered, in many cases using Nordic synergies. Manning reductions have also contributed to reducing the cost ratio to 26.8% (29.0%) in Q2.

Within investments, we have implemented a low-risk strategy that has produced a satisfactory return of 2.8%. The allocation to equities was particularly low in the first quarter but it was gradually increased towards the benchmark allocation during Q2, as market volatility decreased. Bond yields have declined and consequently our fixed-income portfolios performed well. Following the summer upturn in market yields, we have extended our durations somewhat. We have also finalised procuring Scandinavian asset management services, achieving savings and more specialisation, and new asset managers will start managing their mandates during the autumn.

In the autumn, we will follow the development of the financial and reinsurance markets, which are important parameters for the Nordic primary insurance markets. This development is, as yet, uncertain and I am pleased that our Q2 results provide a strong platform for our continued efforts.

If will continue to show determination and market leadership in the setting of appropriate terms and conditions, reflecting also long-term financial expectations. Simultaneously, we are advancing our service and product concepts with the competitive advantage of our scale, supporting the Nordic societies as the leading safety and security supplier in the region."

Group results

Premiums earned for Q2 2003 were MSEK 8 673 (MSEK 8 264). The technical result was MSEK 421 (MSEK 189). Claims incurred were MSEK –7 076 (MSEK –6 912) and operating expenses MSEK –1 688 (MSEK -1 717). The statutory operating result before tax was MSEK 853 (MSEK -1 114).

In Q2, the risk ratio was 74.2 per cent (75.4%) and the cost ratio was 26.8 per cent (29.0%). The combined ratio was 101.0 per cent (104.4%).

For the first six months the premiums earned were MSEK 17 345 (MSEK 16 017). The technical result was MSEK 580 (MSEK -129). Claims incurred were MSEK –14 420 (MSEK –13 749) and operating expenses were MSEK –3 446 (MSEK -3 511). The statutory operating result before tax was MSEK 1 137 (MSEK -1 573).

For the first six months, the risk ratio was 75.9 per cent (77.9%) and the cost ratio was 27.1 per cent (29.9%). The combined ratio was 103.0 per cent (107.8%).

Group result highlights MSEK	Q2 2003	Q2 2002	6M 2003	6M 2002	FY 2002
Premiums earned, net	8 673	8 264	17 345	16 017	32 789
Claims incurred, net	-7 076	-6 912	-14 420	-13 749	-27 985
Operating expenses	-1 688	-1 717	-3 446	-3 511	-6 815
Technical result	421	189	580	-129	321
Investment result	1 164	-589	2 101	35	690
Operating result	853	-1 114	1 137	-1 573	-2 080
Normalised investment result[1)]	785	885	1 570	1 818	3 477
Operating result incl. norm. investments	474	360	606	210	707
Risk ratio[2)]	74.2%	75.4%	75.9%	77.9%	77.8%
Cost ratio[3)]	26.8%	29.0%	27.1%	29.9%	28.3%
Combined ratio	101.0%	104.4%	103.0%	107.8%	106.1%
Insurance margin	4.9%	2.3%	3.3%	-0.8%	1.0%
Claims ratio	81.6%	83.6%	83.1%	85.9%	85.3%
Expense ratio	19.4%	20.8%	19.9%	21.9%	20.8%

1) 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. The normalised investment result for Q2/2003, was calculated based on If's applicable investment mix, assuming a 4.2 per cent investment return on fixed income, 7.5 per cent on equities and 6.4 per cent on other investments.
2) Claims incurred, excluding claims handling costs in relation to premiums earned, net.
3) Operating expenses and claims handling costs in relation to premiums earned, net.

Business area comments

Private had net premiums earned in Q2 2003 of MSEK 4 192 (MSEK 3 856). The technical result was MSEK 271 (MSEK 114). The combined ratio was 99.1 per cent (103.2%), with a cost ratio of 27.3 per cent (31.9%). For the first six months, the combined ratio was 101.7 per cent (108.1%).

Overall, positive development during Q2 has led to current year combined ratios below 100% in all markets for the first six months. In particular, the Motor and Householder/Homeowner products in Norway have benefited from improved average claims development, which is partly explained by favourable agreements with suppliers that are based on a Nordic purchasing concept.

Average premiums increased in all markets and the GWP growth was 8 per cent compared to H1 last year. Further pricing actions are generally only taken to meet claims inflation and the expectation of reduced long-term financial returns. However, specific increases are necessary in Swedish Motor and for some Personal Accident products. Overall, the rather stable claims inflation has reduced the need for further premium actions.

Increases in average claims costs were limited and the general claims development was favourable, with claims frequency and the number of large claims slightly below last year's levels. However, the claims result for prior years was somewhat negatively affected by the claims development within Swedish Motor TPL and Personal Accident lines.

The thunderstorms and heavy rain in some of the countries at the beginning of the summer did not cause any major loss events. Overall, seasonal variations have contributed to the positive claims result in Q2.

Reallocation of resources from branch offices to customer and claims centres in Finland continues as planned. This will give more streamlined and customer focused work processes based on Nordic best practice. The number of offices has been reduced by 12 during 2003.

Commercial had net premiums earned in Q2 2003 of MSEK 2 587 (MSEK 2 610). The technical result was MSEK 191 (MSEK 54). The combined ratio was 98.7 per cent (103.9%), with a cost ratio of 28.1 per cent (28.4%). For the first six months, the combined ratio was 102.0 per cent (104.5%).

The combined ratio improved by 5.2 percentage points compared to Q2 2002, as a result of the adjusted premium levels and improved risk selection. In addition, the cost base remains stable in nominal terms and the large claims level was below normal in Q2.

The GWP growth was 7% compared to H1 last year. The volume has increased the most in Sweden and Denmark following premium adjustments in unprofitable lines of business. The volume of brokered business continues to increase, and the share of brokered business in the portfolio is now 20%. The effort to steer resources to improve customer service has continued and in Sweden If's broker service was awarded the Swedish Association of Insurance Brokers' award for service, reliability and product design for the fourth year in a row. The Nordic Internet solution continues to attract users and in Norway more than 35 000 customers use this service, giving If a growing competitive advantage.

By the end of the second quarter, the large claims level was MSEK 60 below normalised levels, mainly due to the large claims improvement within Property lines in Sweden and Norway since Q1.

Some increases in claims reserves were necessary because of increased pay out rates on prior years' claims, altogether affecting the result by MSEK 113 in Q2.

Industrial had net premiums earned in Q2 2003 of MSEK 1 370 (MSEK 1 234). The technical result was MSEK 62 (MSEK -21). The combined ratio was 101.2 per cent (108.8%), with a cost ratio of 21.0 per cent (25.9%). For the first six months, the combined ratio was 103.0 per cent (113.1%).

Last year's premium adjustments and favourable large claims development contributed to the significant result improvement. In particular Property, which represents 44 per cent of the Industrial portfolio, has improved, following premium adjustments and a better than normal claims development.

The comprehensive profitability programme, which implied substantial premium adjustments and active portfolio pruning, has decreased GWP by 1 per cent the first six months. As risk exposures have been revised, non-Nordic risks have been further reduced.

The current year claims result has been better than normal and the total claims cost is lower than last year. Some increases in claims reserves were necessary because of increased pay out rates on prior years' claims, altogether affecting the result by MSEK 132 in Q2.

An improved underwriting process to secure long-term competitive strength is currently the main priority. For example, underwriting guidelines and mandates are being revised and a new pricing tool has been implemented to improve risk selection, transparent reporting and follow-up.

Marine & Energy had net premiums earned in Q2 2003 of MSEK 370 (MSEK 466). The technical result was MSEK -122 (MSEK -6). The combined ratio was 139.4 per cent (109.4%), with a cost ratio of 23.4 per cent (19.3%). For the first six months, the combined ratio was 116.6 per cent (105.6%).

The overall development has been stable and the quality of the portfolio is good. In H1 the claims frequency has developed as planned. For the first six months, the number of large claims was above normal. In Q2, one major claim with a net effect of MSEK 70 impacted the results.

In Q2, a final settlement agreement, which eliminates the asbestos exposure in the portfolio, was reached. The commutation had a negative impact on Q2 results of MSEK 148 and the combined ratio, excluding the reserve for the claims settlement, was 99.4 per cent in Q2.

Other business
Altogether, the Baltic States and Poland had net earned premiums in Q2 2003 of MSEK 142 (MSEK 116). The technical result was MSEK -2 (MSEK 2). The combined ratio was 104.3 per cent (98.1%), with a cost ratio of 41.1 per cent (41.2%). For the first six months, the combined ratio was 101.3 per cent (96.3%).

The Baltic markets are developing as expected and gross premium volumes have increased by 15 per cent compared to last year. In line with general market expectations, risk ratios have increased successively towards international levels. Hence, efforts are being made to reduce costs. In Estonia, for example, investments in IT development are contributing to gradually making working processes more efficient. During the last 12 months, manning has been significantly reduced in Estonia. In Latvia and Lithuania If continues to grow and manning has been increased somewhat.

The gross technical provisions of the Run-off business were SEK 2.3 billion and the net provisions SEK 1.9 billion. Gross provisions have been reduced by SEK 0.2 billion since Q1 2003. The portfolio will be reduced further by applying the continued strategy of active commutations and sales of business. In UK, three solvent schemes of arrangement relating to the business managed by Marlon Insurance Company Ltd have been approved in July. An estimated MSEK 300 will be settled during the next six months.

Investments

The statutory investment result for the first six months was MSEK 2 101 and the current value result MSEK 2 023, corresponding to a return of 2.8%. In Q2, the statutory result was MSEK 1 164 and the current value result MSEK 1 335. The total return across the six months was driven by falling interest rates and strong equity returns in Q2.

The first quarter was characterised by weak equity markets and strong fixed-income markets. The equity markets recovered in the second quarter while the fixed-income markets continued to perform well. Across the six months, most equity markets improved, and volatility decreased significantly. During the whole period, investment risk-taking has been cautious, with equity allocation below the target weight and the overall fixed-income duration shorter than the benchmark.

The equity allocation was increased gradually during Q2. At the end of the period, the allocation to equities in live business, including overlay derivatives, was close to the benchmark 7%. The average fixed-income duration was 2.1 years (benchmark 2.5 years). Holdings in Finnish equities have been reduced further.

The procurement of Scandinavian asset management has been finalised, achieving savings, and new asset managers will start managing parts of the assets during the autumn.

Results per country

In Norway, results are satisfactory following implemented actions. Seasonal effects are also the most pronounced in this market. Particularly Motor and Householder/Homeowner product lines are performing well. The gross premium volume increased by 4 per cent compared to the first six months last year. The large claims cost was below normal in Q2.

Swedish improvements were substantial as premium corrections were transformed into earned results and the GWP growth was 16 per cent compared to H1 last year. The claims result has benefited from the positive large claims development in Q2.

The Finnish insurance business is performing well and shows stability in both the result and claims development. However, reduced discount rates on long-dated annuities have impacted the Q2 result significantly. Excluding the annuity adjustment, the combined ratio is in line with the FY 2002 result.

The Danish business results are also benefiting from premium adjustments and the volume has increased by 16 per cent compared to H1 last year. The cost of large claims was at normalised levels in Q2.

The underwriting results per country, excluding Industrial business, which is best seen on a Nordic level, are shown in the appendix. The results per country are influenced by internal cost allocations.

Cyclical variations

Property and casualty insurance is subject to cyclical variations, where spring and summer usually have a lower claims frequency than late autumn and winter. Hence, If is subject to the seasonal cycles in the countries in which it operates.

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.

Exchange Rate Effects

From 2003 transactions in the Profit and Loss account have been revaluated using each month's average rate. Prior to 2003, recalculations of all transactions on a year to date average rate were used.

The exchange rate effects make operating expenses and claims incurred insignificantly higher than in 2002. Net premiums earned are marginally lower compared to 2002.

Changes in Net Asset Value

The Net Asset Value increased during Q2 from MSEK 17 865 to MSEK 18 547 which was attributable to the operating profit, a decrease in unrealised gains and losses on fixed-income investments and deferred tax. The shareholders' equity increased in Q2.

Result for If P&C Holding Ltd

If P&C Holding Ltd conducts no business activities. The pre-tax result for the first six months was MSEK 186.

Other than the change in exchange rate principles, this report has been compiled using the same accounting principles as those used in the Annual Report for 2002.

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A combined web and teleconference will be held on August 12 at 16:30 CET. To register, please use the link below and follow the instructions.
http://213.86.178.134/inv/reg.html?Acc=4137072500&Conf=133196

Further details and the Q2 presentation are published under Financial Information on If's Internet site www.if-insurance.com

Appendices