



Interim Report, January-June 2002

Stockholm, August 29, 2002

Highlights, first half of 2002

- Clearer strategy and a focus on three core areas - non-life insurance, life insurance and bank operations - all under the same brand name.
- Weaker results due to ongoing negative trends in the financial markets.
- Focus on strategic allocation of investment assets. ABN AMRO now conducts asset management on commission from Länsförsäkringar.

Non-life insurance

- Increased market share.
- Improvement of the technical result.
- Ongoing strong solvency margin, 148 %.

Life and unit-linked insurance

- Increased market share.
- Collective consolidation ratio (Market Value of Assets divided by sum of Guaranteed Allocated Liabilities) 90 %. High solvency ratio, 128 %, indicates strong capacity to fulfill guaranteed commitments even if the stock market continues to decline.
- An extensive program of change was started, with the aim of creating more efficiency and increased competitiveness.
- Personnel reductions resulted in lower operating costs.

Bank operations

- Ongoing focus on providing complete banking services for private individuals.
- Cash handling and more customer contact points through cooperation with the Sweden Post/Svensk Kassaservice (cashier service).
- Internet-based share trading to be launched during the autumn.
- Strong growth in the housing mortgage market.



Unless otherwise stated, all comparison figures pertain to the first half of 2001.

Key figures, June 30, 2001

SEK M	Life and unitlinked insurance	Non-life insurance	Bank operations	Fund operations
Premium volume	4,128	5,626	246*	2 525**
Solvency margin, %	90	148	-	-
Total assets	110,716	65,025	17,060	28,397***

* Net interest

** Direct savings in mutual funds

*** Pertains to managed fund volume

Comment from Tommy Persson, CEO, Länsförsäkringar AB

"The image of Länsförsäkringar as a banking and insurance player that offers customers advantages by coordinating their non-life insurance, life insurance and banking commitments, has been strengthened. This development is rooted in a favorable starting-point involving a large number of customer relationships, a strong brand name, and the most satisfied bank and insurance customers on the market. From this foundation, Länsförsäkringar intends to develop its customer relationships and increase its customer orientation. During the autumn, Länsförsäkringar plans to launch a new comprehensive concept to homeowners.

The ongoing negative trend in the financial markets has had a major impact on results. In spite of this, Länsförsäkringar stands, both as an Alliance and as individual insurance companies, financially strong, with a high degree of solvency margin in non-life insurance and a solid solvency ratio in life insurance. This means that there is sufficient financial strength to fulfill commitments undertaken in Länsförsäkringar's three core areas - non-life insurance, life insurance and bank operations.

Development and globalization of the financial markets increase requirements of expertise, quality and efficiency. During the spring, Länsförsäkringar took a proactive approach to this challenge by outsourcing the ongoing management of investment assets. This should bring increased access to global expertise and enhanced efficiency through economies of size. At the same time, our own expertise was strengthened primarily through strategic allocation.

At the end of 2002, the development from a niche bank to a bank offering essentially all banking services for private individuals will be complete. Länsförsäkringar's focus on bank operations has contributed to an increase in competition, which benefits the consumers.

Efforts are under way within non-life insurance operations to achieve a total cost ratio of 100% within a few years. This involves a combination of premium increases, damage-prevention measures and market growth. An improvement is already apparent in that the technical result is close to zero.

During the first half of the year, key changes were made to strengthen the market position, reduce costs, enhance efficiency and improve the technical result. These changes have had favorable effects, and will therefore be intensified."

Asset management

The decision made during the spring to outsource asset management operations to ABN AMRO creates the conditions for high, secure yield, through access to a global network of highly competent equity and fixed-income managers. At the same time Länsförsäkringar's own financial management is strengthened through a clear focus on strategic allocation. During the spring, all equity and fixed-income portfolios were adapted to ABN AMRO's model portfolios.

Outsourcing was also undertaken in Alternative Investments (Private Equity and Hedge funds) to secure long-term access to high-level expertise. During the autumn, changes will be made in real-estate investment to enhance both yield and efficiency. The role of the Finance Committee was developed and new external members Professors Carl B. Hamilton and Anne-Marie Pålsson were added.

Non-life insurance¹

Länsförsäkringar's stable growth in the Swedish non-life insurance market is ongoing and the market share is 28.8 % (27.6). The technical result from insurance operations was improved and is now close to zero. Costs, relative to premium income, are declining. Market share increased in all retail areas. In the commercial market, measures to improve profitability are under way, and as a result the market share has remained essentially unchanged. Premium income rose 16% and amounted to SEK 5,626 M (4,864).

The non-life insurance operations produced an improved technical result, amounting to a loss of SEK 36 M (loss: 163). The claims ratio was improved and amounted to 88 % (90), and the combined ratio to 110 % (115).

Länsförsäkringar's uniquely strong solvency margin in the non-life insurance segment, which amounted to 148 % (199), enables the Alliance to weather the sharp stock-market decline better than most of its competitors.

The operating result, which includes changes in the market value of investment assets,



was negative, due to the decline in the financial market, in the amount of SEK 1,938 M (loss: 2,572). The improvement is primarily attributable to the nonrecurring income of approximately SEK 1.1 bn that resulted from the cooperation with ABN AMRO.

SEK M	June 30, 2002	June 30, 2001
Premium earned	5,626	4,864
Technical result, insurance operations	-36	-163
Loss before appropriations & taxes	-1,938	-2,572
Net asset value	16,749	19,354
Solvency margin, %	148	199
Total yield on investments, %	-8	-6
Operating expense margin, %	22	24
Claims ratio, %	88	90
Combined ratio, %	110	115

¹ The results comprise the total earnings of the 24 regional mutual companies and Länsförsäkringar AB, which together comprise the Länsförsäkringar Insurance Alliance

Life insurance

Länsförsäkringar's share of the total market for new sales of life and unit-linked insurance was 8.4 %. The corresponding figure for the full year in 2001 was 7.6 %.

Länsförsäkringar advanced its positions, which is in accordance with plans, primarily in the employment pension market. Premium income, net, for the Alliance's life and unit-linked insurance operations amounted to SEK 4,128 M (4,770).

The negative trend experienced in financial markets affected life insurance operations adversely. The yield on total investments was negative, and earnings were therefore lower compared with the same period in the preceding year. The loss after taxes amounted to SEK 7,561 M (loss: 4,980).

During the spring it was decided to carry out a wide-ranging program of changes. The program will be based on Länsförsäkringar's extensive customer base, strong brand and satisfied customers. The efficiency-enhancement measures will be carried out to shorten lead times and simplify the product offering. The focus of the change program will be to develop successful customer meetings while simultaneously reducing operating costs. Reducing operating costs will also result in personnel reductions.

Traditional life insurance

Total yield on investment assets in the life insurance company amounted to minus 5.9 %

(minus 3.1), outperforming the industry average of minus 6.8 %. The collective consolidation ratio at June 30, 2002, was 90.3 %.

The solvency ratio, which shows the ability of the life insurance company to meet its guaranteed commitments to customers, amounted to 128 %. The lowest permissible level is approximately 105 %. The average bonus interest rate during the first half of the year was 3 %. During the most recent five-year period (1997-2001), the average bonus has been 11.5 %.

SEK M	June 30, 2002	June 30, 2001
Net premium income	2,374	2,752
Investment assets	88,130	98,963
Total yield, %	-5.9	-3.1
Total assets	95,166	104,865
Solvency level, %	90.3	101.3
Management cost ratio, %	1.0	0.9
Loss after taxes	-7,940	-5,275

Unit-linked insurance

The unit-linked insurance operations also continue to be affected by the negative trend in the financial markets. The value erosion of the investment assets in which the insurance customers bear the risk amounted to SEK 3,704 M (loss: 1,479) and the result for the period was a loss of SEK 132 M (loss: 71).

SEK M	June 30, 2002	June 30, 2001
Net premium income	1,754	2,018
Management cost ratio, %	3.4	2.3
Total assets	16,492	18,602
Result after taxes	-132	-71

Bank operations

The drive to become the main bank, particularly for Länsförsäkringar's approximately two million retail and farming customers, was intensified. By year-end 2002, Länsförsäkringar will be able to offer these customers essentially all banking services available on the market. During the first half of the year, Länsförsäkringar introduced housing mortgages under its own administration and cash handling in cooperation with



Sweden Post. During the autumn of 2002, Internet-based share trading will be introduced. The strategy focuses on developing bank operations cost-effectively. Operations are based on the infrastructure of the insurance business, targeting primarily current life and non-life insurance customers, and on cost-effective IT structures involving the Internet, telephone and ATMs. This has resulted in low fees and interest on lending, and high interest on deposits, which has precipitated a rapid breakthrough in the market and growth in both customers and market share.

At year-end the number of customers amounted to 370,000, of which 19,000 are housing loan customers. Since year-end the number of customers has increased by 6 %. Lending increased by 50 % and amounted to SEK 15,988 M (10,670). Länsförsäkringar's lending for housing mortgages increased by SEK 2.5 bn (corresponding to 108 %) since year-end, amounting to SEK 4.9 bn. To finance growth in the mortgage market, the bank issued commercial paper with - currently - a maximum value of SEK 4 bn. Deposits from householders amounted to SEK 13,399 M (11,073), amounting to an increase of 20 %.

Operating profit amounted to SEK 2 M (loss: 34). The bank remains in an expansive development phase and earnings were charged with considerable development and management costs.

Standard & Poor's assigned Länsförsäkringar's bank operations the credit rating of K1 for short-term deposits and the rating of BBB+ for long-term deposits, which strengthens long-term competitiveness.

SEK M	June 30, 2002	June 30, 2001
Profit/loss before taxes	2	-34
Net interest income	246	189
Total assets	17,060	13,402
Capital adequacy, %	8.4	8.2
Investment margin, %	3.01	2.91
Deposits	13,399	11,073
Lending	15,988	10,670

Fund operations

Länsförsäkringar's fund operations include direct investment funds and unit-linked insurance funds.

Länsförsäkringar increased its share of the total fund market by 0.2 percentage points, to 3.7 % (3.5), making it the sixth-largest fund manager in Sweden. Länsförsäkringar's share of new sales amounted to 5.9 % (7.0).



Through the cooperation with ABN AMRO, Länsförsäkringar's customers gain access to more international funds, for both direct investment and unit-linked investment. The range of products available to unit-linked fund customers grew during the first half of the year through the addition of ten ABN AMRO funds. Over the next few years, funds of other major external players will be added, increasing Länsförsäkringar's product offering. On June 1, the responsibility for managing Länsförsäkringar's funds was transferred to ABN AMRO following restructuring of the funds' holdings.

	June 30, 2002	June 30, 2001
Total number of funds	36	33
- of which, equity funds	30	27
Managed volume, SEK M	28,397	32,336

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Länsförsäkringar, with 24 independent regional insurance companies and the jointly owned Länsförsäkringar AB, is Sweden's only customer-owned locally established banking and insurance group. Länsförsäkringar offers a broad range of policies and financial services for companies and private individuals. Länsförsäkringar is a leader in the Swedish market for non-life insurance. Its share of the market amounts to slightly more than 28 per cent. Its share of the market for life insurance and pension insurance amounts to approximately 8 per cent, with a 2.5 per cent of the bank market. Länsförsäkringar includes Agria Djurförsäkring (Animal Insurance). The Alliance manages assets totalling SEK 170 billion. Premium income in 2001 amounted to slightly more than SEK 19 billion.