



## Interim Report, January - June 2001

### Highlights, first half of 2001

- Considerable flows of new customers to non-life insurance and bank segments resulting in higher market shares.
- The Group's combined premium volume amounted to SEK 13,120 M (9,865), of which slightly more than half was attributable to life insurance and savings operations.
- Trends in stock markets worldwide had a negative impact on the Group's operating profit.

### Non-life insurance

- Increased market share in all private segments, with more than 85,000 new policies signed, corresponding to a total increase of approximately 3%.
- The total market share, measured in terms of paid-in premiums, rose to 26.6% (25.8). Including Svenska Brand, which was acquired during the first half of the year, the market share was 27.6%.

### Life and unit-linked insurance

- The bonus rate during the first half of the year averaged 6.1%.
- Sales increased 27%, corresponding to a sales value of SEK 9,451 M.

### Bank operations

- Market share rose 20%, corresponding to 0.5 of a percentage point, to 2.4%.
- Change of strategy: new aim is to be the main bank for private individuals and farmers.'

Unless otherwise stated, all figures pertain to the first halves of 2001 and 2000.

#### Key figures, June 30, 2001

SEK M	Life and unit-linked insurance	Non-life insurance	Bank operations	Fund operations
Premium volume/sales	4,770	4,864	189*	3,297**



Net asset value	38,346	19,354	-	-
Solvency margin, %	101	199	-	-
Total assets	104,865	65,947	13,402	-
Managed assets	-	-	-	32,336

\* Net interest

\*\* Direct savings in mutual funds

### **Comment from Tommy Persson, Managing Director of Länsförsäkringar AB**

"Following five years of strong earnings - SEK 31 billion in life insurance and SEK 13 billion in non-life insurance operations - both of these businesses reported losses during the first half of the year. Insurance operations are long term by nature, as indicated by the uniquely strong balance sheets built up by the Group's 24 regional and independent companies. This means that during periods of lower capital yields, we can continue to provide a high degree of personal service and to offer competitive premiums, while intensifying our financial services initiatives, such as bank, life insurance and mutual funds.

The pursuit of Länsförsäkringar's business concept has resulted in the Group having the most satisfied insurance customers in Sweden. Our employees are among the most satisfied in the sector and we are now also ranked as one of Sweden's most attractive employers. This structural capital gives the LF Insurance Group a very solid foundation."

### **Non-life insurance<sup>1</sup>**

Länsförsäkringar continues to grow in the Swedish non-life insurance market. The Group's market share increased sharply in all segments. In the car and home insurance segments, Länsförsäkringar noted a strong increase in sales, with the number of policies rising by approximately 70,000 and 15,000, respectively. Despite lower increases in premiums compared with our competitors, Länsförsäkringar's market share also rose when measured in terms of paid-in premiums, by 0.7 of a percentage point to 26.8%. Including Svenska Brand's portfolio, which was acquired during the first half of the year and integrated in the LF Insurance Group during the autumn, the market share was 27.6%.

The Group's non-life operations reported a technical loss of SEK 163 M (profit: 212). The loss reported was attributable to claims costs, which rose by 12.7% to SEK 4,381 M (3,897).



The LF Insurance Group's uniquely strong solvency margin in the non-life insurance segment, which amounted to 199% (259), enables an investment orientation in asset management operations that reflects a relatively large exposure to equities.

Due to the negative trend in stock markets, the operating result, which includes changes in the market value of investment assets, amounted to a loss of SEK 2,572 M. The loss was directly attributable to the negative trend in stock markets worldwide, which included an approximately 13% drop in the Swedish stock market during the first half of the year. Due to the strong solvency margin of the LF Insurance Group's non-life operations, it has been possible to pay substantial bonuses during periods when the stock market has performed favorably. During the past five years, the profits accumulated by the customer-owned regional companies has slightly exceeded SEK 13 billion, which has enabled the Group to maintain its low premiums and a high degree of personal service.

SEK M	June 30, 2001	June 30, 2000
Premium earned	4,864	4,434
Operating result, insurance operations	-163	212
Profit/loss before appropriations & taxes	-2,572	1,104
Net asset value	19,354	23,535
Solvency margin, %	199	245
Total yield on investments, %	-5.8	4.0
Operating expense margin, %	24.6	23.9
Combined ratio, %	114.6	111.8

<sup>1</sup> Results and key data in the non-life segment comprise the total earnings in the 24 regional and independent LF Insurance companies and those of Länsförsäkringar AB.

### Life and unit-linked insurance

Sales, measured on the basis of sales value, rose by 27% compared with the year-earlier period. Registered sales of annual premiums during the period amounted to SEK 840 M (573) and lump-sum premiums to SEK 1,053 M (1,735). Premium income, net, for the Group's life and unit-linked insurance operations rose to SEK 4,770 M (4,513).

The negative trend experienced in financial markets affected life insurance operations during the first half of 2001. Since the yield on total investments was negative during the period, earnings and solvency declined compared with the year-earlier period.

Despite a growth rate of 34% in the occupational insurance segment, the Group was



outperformed by the market as a whole, which noted growth of 88%. As a result Länsförsäkringar's market share declined from 9.9 to 7.1%. This was the reason for the decrease in the Group's share of the total life insurance market to 8.1% (9.3).

Länsförsäkringar aims to assume a new, more prominent position in the increasingly important occupational insurance segment, which has resulted in a new strategic orientation within the Large Companies segment, which we expect to start generating favorable effects during the second half of 2002. Länsförsäkringar market share in the savings segment (endowment insurance) continued to rise.

The yield on investment assets in the life insurance company was minus 3.1% (plus 4.1). The negative yield was mainly attributable to the downturn in stock markets worldwide. The trend noted by the stock portfolios, which have largely assumed a growth-oriented investment focus, also had an adverse impact on the yield. The total yield on Swedish equities was minus 13.4% (plus 9.5), while that on foreign equities was minus 7.3% (plus 0.9). Fixed income and properties made a modestly positive contribution to the yield, while the yield on the AI (Alternative Investments) asset category was 6.6% (15.1). In continued efforts to broaden the portfolio, the size of the AI category has been increased during the second half of the year at the expense of publicly traded shares.

The life insurance company's ambition is to provide customers with security in their expectations for a high and uniform yield. To facilitate this aim, aggressive development efforts are under way to strengthen all aspects of the investment process.

Due to the current trends in financial markets, the bonus rate was reduced on two occasions during the first half of the year, in order to comply with the company's guidelines for solvency and bonuses. The average bonus rate during the first half of the year was 6.1%, while the current rate is 4.0%. Länsförsäkringar's principle of providing a uniform bonus shows that the company's yield exceeds that for other savings forms, even in times of weak economic development.

#### *Life insurance*

<b>SEK M</b>	<b>June 30, 2001</b>	<b>June 30, 2000</b>
Premium income, net	2,752	2,703
Investment assets	98,963	102,253
Total yield, %	-3.1	4.1
Total assets	104,865	111,242
Solvency margin, %	101.3	120.4
Operation expense margin, %	0.9	0.8
Profit after taxes	-5,275	-1572

*Unit-linked insurance*

SEK M	June 30, 2001	June 30, 2000
Premium income	2,018	1,810
Management expense margin, %	2.32	2.35
Total assets	18,602	18,570
Result before appropriations & taxes	-71	-56

**Bank operations**

The LF Insurance Group's bank operations experienced major successes during the first half of the year, with the number of customers rising by slightly more than 40,000.

Länsförsäkringar's market share rose sharply and amounted to 2.4% (1.9) at mid-year, which meant that the Group noted the second largest growth rate in the entire Swedish banking sector.

One of the main reasons for the successes is that an increasing number of customers want all aspects of their private economy concentrated in a single supplier who provides a comprehensive offering of bank and insurance services. Länsförsäkringar offers total-package customers discounts of up to 20% on insurance premiums. Another significant success factor is that bank customers receive services from the 24 regional companies' advice offices, which currently number 67, as well as by Internet, telephone and ATMs. The pricing of Länsförsäkringar's bank products is also regarded as being highly favorable, with low or no fees and favorable interest rates for deposits and lending. The strategy pursued is to be main bank for, primarily, the LF Insurance Group's approximately two million private and agricultural customers.

Deposits from the public amounted to SEK 11,073 M (8,488), corresponding to a year-on-year increase of 30%. Lending for own account rose by 20% to SEK 10,670 M (8,905).

An operating loss of SEK 34 M (profit: 49) was reported. The bank remains in an expansive development phase and earnings were charged with considerable development and management costs. The profit reported in the year-earlier period was attributable to nonrecurring income.

The bank noted major successes in the mortgage market. Housing loans brokered to SBAB rose by SEK 2,289 M or 51% compared with June 30, 2000. In order to increase lending for own account, Länsförsäkringar Hypotek, the bank's proprietary mortgage institute, has been developed. Test operations conducted during the spring were highly successful. The total volume at mid-year was SEK 1,569 M.

SEK M	June 30, 2001	June 30, 2000
Profit/loss before taxes	-34	49
Net interest income	189	160



Total assets	13,402	11,585
Capital adequacy, %	8.2	10.2
Investment margin, %	2.91	2.85
Deposits	11,073	8,488
Lending for own account *	10,670	8,905
Loans brokered to SBAB	6,800	4,500

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\* Including the subsidiaries Länsförsäkringar Hypotek and Wasa Kredit.

## Fund operations

Länsförsäkringar's share of the mutual funds market, measured in terms of rolling sales, remained high and totaled 7.0% (7.0), while the Group's share of the total market was 3.6% (3.3).

Länsförsäkringar continued to note successes in Sweden's premium pension market, managing slightly more than 6% of the pension assets resulting from active choices. The main age category that chose LF comprised young people. To satisfy the needs of this target group, a number of funds have been started up for people expecting to retire around the year 2045.

Länsförsäkringar's broad selection of funds has a track record of yielding a highly favorable yield on our customers' invested capital. However, the yield failed to match our expectations during the first half of 2001, since few of our funds managed to outperform their respective comparative indexes. Unfortunately, the real yield has been negative for most fund customers to date this year. It is particularly important this year to view fund savings in a longer perspective. This also relatively favorably tracks our customers' investment horizon, which is usually quite long. There were some positive exceptions, however. The management of fixed-income funds has shown excellent results this year and Sverigefonderna (Swedish Funds) and Fastighetsfonden (Property Fund) have also outperformed their respective comparative indexes.

It is now possible to purchase, exchange and sell fund units via Länsförsäkringar's Internet services. Using the Net, it is also possible to gain access to various types of information regarding the funds and financial markets, and for customers to analyze their own fund portfolios.

	June 30, 2001	June 30, 2000
Total no.of funds	33	32
- of which equity funds	27	26
Managed volume, SEK M	32,336	29,799

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The LF Insurance Group consists of 24 independent regional insurance companies and Länsförsäkringar AB. The Group is the dominant player in the non-life market, with a 28% share. Länsförsäkringar has an approximately 8% share of the life insurance and unit-linked segment. The Group also contains banking operations and mutual fund companies. LF Insurance Group managed assets totaling slightly more than SEK 19 billion in 2000. Länsförsäkringar AB is owned by 24 regional and independent companies.