

Although last year was a turbulent one in many respects, both in Iceland and internationally, a better balance in insurance operations was once again achieved after several difficult years. In recent years poor performance in insurance operations has been offset by good financial returns. In 2001 the reverse applied. Insurance operations went better than before, while the financial markets became tougher.

Sjóvá-Almennar's operating forecasts for 2001 broadly speaking held good, despite some downturn in the economy. Despite substantial premium increases in compulsory motor liability in recent years, this class of business still shows adverse results. The positive side is that results have significantly improved and balance is hopefully on the way of being created. As pointed out in earlier annual reports, it takes more than a year before the full effect of an increase in premiums is seen. Thus it will not be possible to determine until 2002 whether this class is achieving the balance sought.

Prolonged negative results on a large scale in such an important branch as compulsory motor insurance are unacceptable. Premiums in other classes increased to some extent during the year.

Economic stability is in everyone's interest. The company is aware of its responsibility and will contribute as it can towards this stability in Iceland by matching, as always, its pricing policy against the risk inherent.

Accounted premium income increased by 20% and net premiums by 26%, while net claims rose by 10% from last year. A combination of factors turned the underwriting results around to produce a profit instead of the deficit of previous years. While this is certainly a positive development, the crucial factor is long-term profitability. The equalisation fund has been strengthened, but it is vital to boost it even further in the years to come. Growth was most marked in marine hull, where the company has strengthened its position by definite measures taken.

Successful systematic actions have held back operational costs. The rise between 2000 and 2001 was 14%, overwhelmingly due to higher wage costs. Operating cost as a ratio of premiums was 22%, somewhat lower than the previous year's 24%.

Operating profit increased somewhat, largely due to a sizeable improvement in insurance operations.

The overall loss ratio was 64%, down from 75% in 2000. Although some improvement has been noted, it is still poorest in motor at 71%.

Property premiums increased by 14%. As before, the portfolio grew mainly in the home and house owner classes, but premiums also rose considerably in fire insurance of buildings. The loss ratio was 67%.

The premium income in marine, aviation and cargo increased by 21%. This is mainly due to growth in marine hull. Cargo premiums increased by 6%. The loss ratio improved somewhat to 52%.

Motor premiums increased by 21% because of rate increases in 1999 and again in 2000. The



average premium increased by 22%, while the number of policies dropped by 1%. Between 2000 and 2001, motor claims decreased by 7%. This was mainly the result of a good first quarter in 2001 when they were down by 30%. Regrettably, the trend for the rest of the year was not as positive. The loss ratio was 71% in the compulsory class and 57% in the others. Motor premiums accounted for 57% of total premium income, the same proportion as the year before.

In general liability the loss ratio was 65% compared to 70% in 2000. Premium income rose by 20% but paid claims by 11%.

The loss ratio in accident and sickness was 44%, as against 68% the year before. Premiums increased by 38%, while paid claims decreased by 10%.

Premiums in domestic reinsurance rose by 39% and the loss ratio was 120%.

In 2001 a total of 20,956 claims were reported, compared with 21,692 in 2000 – a reduction of 3%. At the end of 2001, just over 234 thousand policies were in force, up by 1% and a record number.

The savage attack on the United States on September 11th took everyone by surprise. Besides all its other effects, this terrible event had a great impact on the insurance market worldwide. Iceland was not excluded although its insurance companies will not be directly involved in compensation for the destruction and loss of life that occurred. This was by far the most serious individual man-made insurance event in history. All told, insurance companies around the world can expect to pay as much as 70 billion USD in claims. The impact here has been that costs of buying the necessary reinsurance protection have increased considerably. At the same time it is clear that insurance companies can no longer offer coverage against terrorism in the same way as before. This will only be felt to a minimal degree in Iceland, however, because the restrictions imposed involve only the largest of risks written. One consequence of the terrorist attack on New

York was that the Icelandic state had to secure the operations of the national airlines by putting up guarantees for losses from terrorist and warlike acts. If the government had not done so, air services to and from Iceland would in all probability have stopped. It is gratifying to report that Sjóvá-Almennar's work on building up aviation insurance know-how in recent years enabled it to assist the government on this matter and the company acted as an intermediary in supplying the necessary liability covers for the entire Icelandic air fleet.

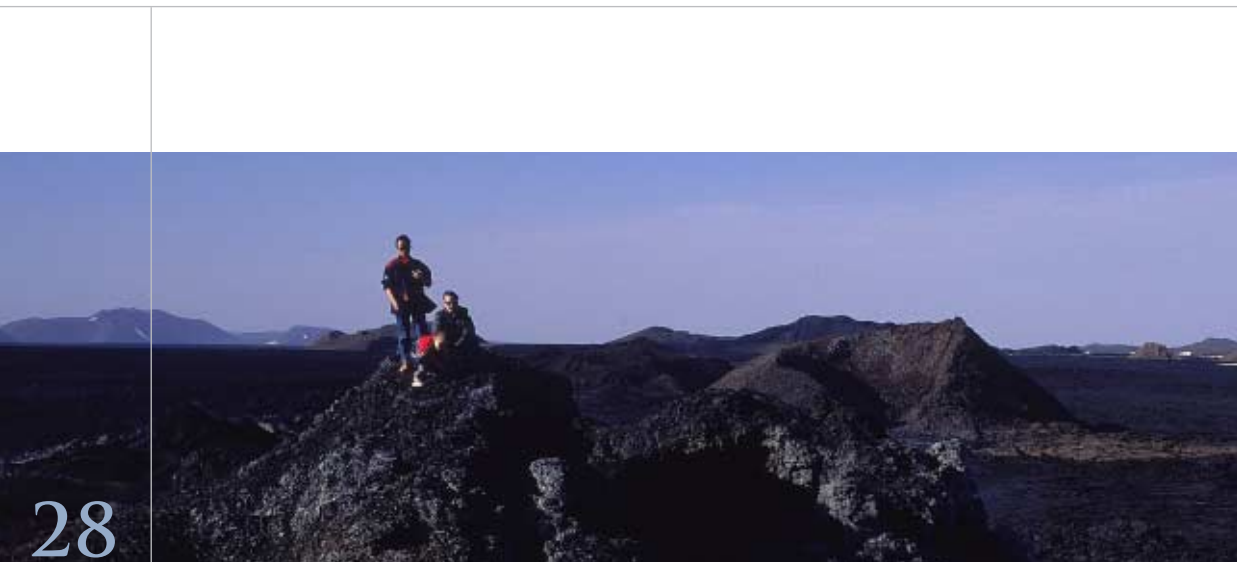
The company strengthened its position in marine hull with the acquisition of Samábyrgðin, which was later merged into Sjóvá-Almennar. Furthermore, the portfolios of two marine hull mutuals, were transferred to Sjóvá-Almennar during the year. The portfolio of Vélbátaábyrgðarfélag Ísfirðinga had earlier been transferred to it.

In recent years, Sjóvá-Almennar has been systematically upgrading its information systems. In 2001 a large number of employees worked with Icelandic and overseas experts on the ongoing development and installation of a new insurance system. Known as Alice, it forms part of standardized SAP solutions. Individual system modules have already been put into operation, but the system as a whole will be introduced in phases.

The company's objectives and focuses are under constant review. For example, greater focus has been given to safety issues, and environmental perspectives are increasingly taken into account. In the future, Sjóvá-Almennar may be expected to emphasize even further that its operations cause minimum disruption to the environment.

The annual report for 2000 discussed Sjóvá-Almennar's corporate vision, in which the company has defined itself as an insurance and finance company. Systematic work will be done in 2002 to strengthen Sjóvá-Almennar in various fields and increase its supply of new services.

On March 1st 2002, Ólafur B. Thors retired as Managing Director of Sjóvá-Almennar. In his 39 years in insurance he has held many key posts, first for Almennar Tryggingar and later for Sjóvá-Almennar, as well as for the Federation of Icelandic Insurance Companies. Ólafur B. Thors has been a true leader in the Icelandic insurance world. His knowledge and experience have played an important part in making Sjóvá-Almennar one of the most dynamic companies in the Icelandic business community. The Board of Sjóvá-Almennar expresses gratitude to Ólafur B. Thors for his fine work and wishes him all the very best for the future.



## PROFIT AND LOSS ACCOUNT FOR THE YEAR 2001

<i>Insurance revenue account</i>	2001	2000
<b>Premiums</b>		
Gross premiums .....	7.813.298	6.519.531
Reinsurance premiums ceded .....	(1.328.535)	(1.199.378)
Change in gross unearned premiums provisions ...	(452.622)	(481.018)
Change in gross unearned premiums provisions, reinsurers' share .....	77.260	7.271
<b>Premiums, net of reinsurance</b>	<u>6.109.401</u>	<u>4.846.406</u>
<i>Allocated investment income</i> .....	1.403.334	1.141.118
<b>Claims</b>		
Gross claims paid .....	(5.115.943)	(4.903.992)
Reinsurers' share received .....	851.901	802.967
Change in gross provisions for outstanding claims	(1.582.511)	(1.265.287)
Change in gross provisions for outstanding claims, reinsurers' share .....	78.476	107.078
<b>Claims, net of reinsurance</b>	<u>(5.768.077)</u>	<u>(5.259.234)</u>
<i>Bonuses and premium rebates</i> .....	(161.146)	(126.815)
<b>Operating expenses</b>		
Acquisition costs .....	(873.781)	(815.529)
Administrative expenses .....	(768.687)	(657.202)
Reinsurance commissions and profit participation .	299.794	290.921
<b>Net operating expenses</b>	<u>(1.342.674)</u>	<u>(1.181.810)</u>
<i>Change in equalisation provision</i> .....	(180.000)	120.000
<b>Result from insurance operations</b>	<u>60.838</u>	<u>(460.335)</u>
<b>Investment operations</b>		
<i>Investment income</i>		
Income from associated companies .....	15.794	68.046
Dividend of other shares .....	111.520	138.718
Expenses from real estate .....	(13.440)	(27.509)
Interest, rate of exchange .....	1.899.786	1.467.227
Profit on sale of assets .....	239.733	867.355
<b>Investment income</b>	<u>2.253.393</u>	<u>2.513.837</u>
<i>Investment expenses</i>		
Administrative expenses .....	(219.601)	(179.948)
Interest expenses .....	(205.501)	(201.802)
Provision for losses on investments	(295.862)	(99.023)
<b>Investment expenses</b>	<u>(720.964)</u>	<u>(480.773)</u>
<i>Calculated inflation adjustment</i> .....	355.422	137.086
<i>Allocated investment income transferred to insurance revenue account</i> .....	<u>(1.403.334)</u>	<u>(1.141.118)</u>
<b>Result from investment operations</b>	<u>484.517</u>	<u>1.029.032</u>
Other ordinary expenses .....	(35.685)	(34.835)
<i>Taxes</i> .....	80.525	(109.670)
<b>Profit for the year</b>	<u><u>590.195</u></u>	<u><u>424.192</u></u>

Thousand ISK

## BALANCE SHEET AS AT

<i>Assets</i>	2001	2000
<i>Investments</i>		
Land and buildings .....	1.285.484	1.211.542
Participating interests in associated companies .....	347.910	323.933
Other financial investments		
Shares .....	6.723.574	5.507.579
Bonds .....	1.607.968	881.333
Loans secured by mortgages .....	5.517.134	6.460.606
Other loans .....	1.371.297	757.559
	<u>15.219.973</u>	<u>13.607.077</u>
Reinsurance deposits .....	32.024	25.759
	<u>16.885.391</u>	<u>15.168.311</u>
<i>Technical provisions, reinsurers' share</i>		
Unearned premiums .....	481.949	402.963
Outstanding claims .....	1.012.863	885.772
	<u>1.494.812</u>	<u>1.288.735</u>
<i>Debtors</i>		
Amounts due from associated companies .....	2.018.912	1.868.792
Amounts due from policyholders .....	273.513	45.621
Debtors arising out of direct reinsurance operations	62.344	388
Other debtors .....	329.544	60.787
	<u>2.684.313</u>	<u>1.975.588</u>
<i>Other assets</i>		
Equipment and other tangible assets .....	535.729	399.805
Liquid assets .....	870.920	582.892
Own shares .....	54.975	56.919
	<u>1.461.624</u>	<u>1.039.616</u>
<b>Total assets</b>	<u><u>22.526.140</u></u>	<u><u>19.472.250</u></u>

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<i>Liabilities</i>	2001	2000
<i>Shareholders' equity</i>		
Share capital .....	585.000	585.000
Additional paid-in capital .....	135.705	81.384
Statutory reserve .....	146.250	146.250
Revaluation reserve .....	528.114	158.836
Retained earnings .....	3.002.882	2.568.132
	<u>4.397.951</u>	<u>3.539.602</u>
<i>Technical provisions</i>		
Gross unearned premiums .....	3.426.385	2.968.084
Gross outstanding claims .....	12.039.628	10.305.809
Equalisation provisions .....	532.250	305.000
Bonuses and premium provisions .....	151.852	122.882
	<u>16.150.115</u>	<u>13.701.775</u>
<i>General provisions</i>		
Pension liabilities .....	125.012	88.578
Deferred tax liabilities .....	157.391	266.656
	<u>282.403</u>	<u>355.234</u>
<i>Deposits recived from reinsurers</i> .....	<u>371.306</u>	<u>299.448</u>
<i>Creditors</i>		
Amounts owed to associated companies .....	1.621	2.145
Creditors arising out of direct insurance operations	18.386	13.633
Creditors arising out of reinsurance operations .....	153.163	73.174
Bonds payable .....	811.784	1.115.052
Other creditors .....	271.230	295.160
	<u>1.256.184</u>	<u>1.499.164</u>
Accrued expenses and deferred revenue .....	<u>68.181</u>	<u>77.027</u>
<b>Total liabilities</b>	<u><u>22.526.140</u></u>	<u><u>19.472.250</u></u>