

E N G L I S H S U M M A R Y

The year 2000 went mainly according to the Company's plan. However it should be noted that the net profit which showed an increase of 22% was based on capital gains rather than satisfactory performance of regular insurance operations. A fact which is unacceptable. Considerable premium increases were effected yet again in those areas of liability classes where indemnity for bodily injury is based upon Law of Tort.

The full effect of this increase will not be seen until second half of this year when a better balance between premiums and losses has been created. At the end of last year further measures were also taken to improve results in other classes. Therefore it is fully expected that the performance of the insurance operations will improve this year, a development that is expected to continue into the year 2002.

Accounted premium income increased by 18% and net premiums by 24%.

Net claims increased by 25%. The negative outcome of the insurance operations is predominantly due to adverse results in compulsory motor insurance and in general liability. The overall loss ratio was 75% which is lower than the year before when it was 79%. This ratio was highest in compulsory motor insurance being 85%.

Property premiums increased by 7%. The loss ratio was 71%. The portfolio grew especially in the home- and homeowners classes. Fire losses were more frequent than the year before.

The premium income in marine, aviation and cargo decreased by 9%. This decrease is due to lower income in aviation as the Company now writes this class on the account of the Nordic Aviation Group of which it is a member. The loss ratio was 57% which is comparable to 1999. No major losses occurred.

In motor the premium increased by 38% because of rate increases and organic growth. The average premium increased by 28%. The loss ratio in other classes than the compulsory was 68%. Motor premiums account for 57% of the total premium income which is a bit higher than the preceding year.

In general liability the loss ratio was 70% compared to 67% in 1999. Premium income rose by 13% but reported losses by 9%. Premium rates in this class have now been increased.

In accident and sickness the loss ratio was 68% which is an increase from 1999 when it was 59%. Premiums increased by 5% and reported claims by 10%.

In 2000 there were altogether 21.692 losses reported but 20.909 losses in 1999. At the end of 2000 233.084 policies were in force compared to 226.311 policies the year before. This number of policies has never been higher.

The Icelandic insurance market mostly follows international rules and foreign market trends. Competition prevails and premiums have decreased in many areas. The insurance market's share of the GNP will most likely not increase and therefore it is important to seek new areas for growth. The operational environment of insurance companies may change to some extent in the future due to changes in law and in customers demands, both retail and corporate.

Sjóvá-Almennar defines itself as being a financial services provider as well as an insurer. It is likely that integration of these two different but somewhat related operations will increase and therefore this definition is necessary. Customers will require as many comprehensive services as possible from one source.



The emphases will be on expanded and more professional services. A reasonable conclusion may thus be drawn that in some cases customers will value quality over price. To meet these demands, existing service levels must undergo constant improvements and new service solutions must be sought.

Consulting services are increasingly being asked for and the Company must meet these new requirements keeping in mind that as insurer it bears a certain responsibility for the financial security of its customers. They will also insist upon better and easier access to services via new channels of distribution round the clock every day of the year. Innovative specially tailored solutions must be offered especially for corporate customers and not only in the field of insurance but also by offering professional risk management solutions. In addition requirements for faster and more professional claims services will continue to increase. Innovation will gain momentum overall. With a new generation that has grown up next to a computer, the demand for electronic transactions will be strong. The insurance industry will not find itself exempt. Electronic transactions call for quicker response and efficiency. Internal processes will have to be redesigned to become easier.

The number of insurance companies worldwide is decreasing, both through mergers and acquisitions. Those that remain become larger and financially stronger and they seek opportunities for growth wherever it is to be found. This trend has applied to Iceland for over a decade and will continue to impact market development.

The importance of a positive image is ever increasing. The name of Sjóvá-Almennar tryggingar hf. has to be synonymous with service of the highest quality.

The Company's marketing efforts have resulted in an increased market share, which has in part counter balanced the general decrease in premiums. As mentioned earlier, the Company's operations will soon begin to show the effects of increased motor premiums, resulting in a better balance between premiums and losses. If estimates will hold there will be some increase in overall premium income. It is therefore likely that the loss ratio in 2001 will be comparable to or lower than that of previous years. Last years have shown steady growth in investment income. It is expected that this will continue in 2001. On the whole and when evaluating the factors which have the most significant influence on results the Company's plans indicate that the insurance operations will improve for 2001.

**P R O F I T A N D L O S S A C C O U N T
F O R T H E Y E A R 2 0 0 0**

| Insurance revenue account | 2000 | 1999 |
|---|------------------------------|-----------------------|
| Premiums | | |
| Gross premiums..... | 6.519.531 | 5.508.553 |
| Reinsurance premiums ceded | (1.199.378) | (1.148.089) |
| Change in gross unearned premiums provisions | (481.018) | (458.019) |
| Change in gross unearned premiums provisions, reinsurers' share | 7.271 | 8.502 |
| Premiums, net of reinsurance | <u>4.846.406</u> | <u>3.910.947</u> |
| Allocated investment income | <u>1.141.118</u> | <u>1.051.966</u> |
| Claims | | |
| Gross claims paid | (4.903.992) | (4.370.817) |
| Reinsurers' share received | 802.968 | 809.152 |
| Change in gross provisions for outstanding claims | (1.265.287) | (561.665) |
| Change in gross provisions for outstanding claims reinsurers' share | 107.078 | (70.197) |
| Claims, net of reinsurance | <u>(5.259.233)</u> | <u>(4.193.527)</u> |
| Bonuses and premium rebates | <u>(126.816)</u> | <u>(90.424)</u> |
| Operating expenses | | |
| Acquisition costs..... | (815.529) | (615.671) |
| Administrative expenses | (657.202) | (540.256) |
| Reinsurance commissions and profit participation | 290.921 | 275.822 |
| Net operating expenses | <u>(1.181.810)</u> | <u>(880.105)</u> |
| Change in equalisation provision | <u>120.000</u> | <u>335.000</u> |
| Result from insurance operations | <u>(460.335)</u> | <u>133.857</u> |
| Investment operations | | |
| Investment income | | |
| Income from associated companies | 68.046 | 60.570 |
| Dividend of other shares | 138.718 | 120.948 |
| Expenses from real estate | (27.509) | 1.312 |
| Interest, rate of exchange | 1.467.227 | 1.290.159 |
| Profit on sale of assets | 867.355 | 30.824 |
| Investment income | <u>2.513.837</u> | <u>1.503.813</u> |
| Investment expenses | | |
| Administrative expenses | (179.948) | (109.337) |
| Interest expenses | (201.802) | (152.261) |
| Provision for losses on investments | (99.023) | (50.301) |
| Investment expenses | <u>(480.773)</u> | <u>(311.899)</u> |
| Calculated inflation adjustment | <u>137.086</u> | <u>145.884</u> |
| Allocated investment income transferred to insurance revenue account | <u>(1.141.118)</u> | <u>(1.051.966)</u> |
| Result from investment operations | <u>1.029.032</u> | <u>285.832</u> |
| Other ordinary expenses | <u>(34.835)</u> | <u>(31.437)</u> |
| Taxes | <u>(109.670)</u> | <u>(41.802)</u> |
| Profit for the year | <u><u>424.192</u></u> | <u><u>346.450</u></u> |

B A L A N C E S H E E T A S A T

| Assets | 2000 | 1999 |
|---|--------------------------|--------------------------|
| Investments | | |
| Land and buildings | <u>1.211.542</u> | <u>1.060.726</u> |
| Participating interests in associated companies | <u>323.933</u> | <u>268.910</u> |
| Other financial investments | | |
| Shares | 5.507.579 | 4.259.391 |
| Bonds | 881.333 | 680.988 |
| Loans secured by mortgages | 6.460.606 | 6.642.956 |
| Other loans | <u>757.559</u> | <u>750.768</u> |
| | <u>13.607.077</u> | <u>12.334.103</u> |
| Reinsurance deposits | <u>25.759</u> | 19.710 |
| | <u>15.168.311</u> | <u>13.683.449</u> |
| Technical provisions, reinsurers' share | | |
| Unearned premiums | 402.963 | 395.692 |
| Outstanding claims | <u>885.773</u> | <u>778.695</u> |
| | <u>1.288.736</u> | <u>1.174.387</u> |
| Debtors | | |
| Amounts due from associated companies | 0 | 21.437 |
| Amounts due from policyholders | 1.868.792 | 1.537.083 |
| Debtors arising out of direct insurance operations .. | 45.621 | 72.585 |
| Debtors arising out of reinsurance operations | 388 | 2.168 |
| Other debtors | <u>60.787</u> | <u>203.710</u> |
| | <u>1.975.588</u> | <u>1.836.983</u> |
| Other assets | | |
| Equipment and other tangible assets | 399.804 | 249.597 |
| Liquid assets | 582.892 | 511.421 |
| Own shares | <u>56.919</u> | <u>57.297</u> |
| | <u>1.039.615</u> | <u>818.315</u> |
| Total assets | <u><u>19.472.250</u></u> | <u><u>17.513.134</u></u> |

D E C E M B E R 3 1 s t 2 0 0 0

| | | |
|---|--------------------------|-------------------|
| Liabilities | 2000 | 1999 |
| | | |
| Shareholders' equity | | |
| Share capital | 585.000 | 585.000 |
| Additional paid-in capital | 81.384 | 65.738 |
| Statutory reserve | 146.250 | 146.250 |
| Revaluation reserve | 253.440 | 124.935 |
| Retained earnings | 2.473.528 | 2.155.020 |
| | <u>3.539.602</u> | <u>3.076.943</u> |
| | | |
| Technical provisions | | |
| Gross unearned premiums | 2.968.084 | 2.487.066 |
| Gross outstanding claims | 10.305.809 | 9.040.522 |
| Equalisation provisions | 305.000 | 425.000 |
| Bonuses and premium provisions | 122.882 | 90.424 |
| | <u>13.701.775</u> | <u>12.043.012</u> |
| | | |
| General provisions | | |
| Pension liabilities | 88.578 | 61.204 |
| Deferred tax liabilities | 266.656 | 156.986 |
| | <u>355.234</u> | <u>218.190</u> |
| | | |
| Deposits received from reinsurers | <u>299.448</u> | <u>249.186</u> |
| | | |
| Creditors | | |
| Amounts owed to associated companies | 2.145 | 35.437 |
| Creditors arising out of direct insurance operations | 13.633 | 155.431 |
| Creditors arising out of reinsurance operations | 73.174 | 70.334 |
| Bonds payable | 1.115.052 | 1.313.083 |
| Other creditors | 295.160 | 244.417 |
| | <u>1.499.164</u> | <u>1.818.702</u> |
| | | |
| Accrued expenses and deferred revenue | <u>77.027</u> | <u>107.101</u> |
| | | |
| Total liabilities | <u>19.472.250</u> | <u>17.513.134</u> |