

Broadly speaking, Sjóvá-Almennar largely met its operating and profitability forecasts in 2002. Profitability was marginally lower than had been forecasted. Insurance operations took a turn for the better during the year, but at the same time performance of financial activities deteriorated considerably compared with the previous year. Motor insurance appears to have reached the equilibrium that was aimed for when premiums were raised in 1999-2000. At the same time results in property have deteriorated. Many major losses took place in this category, especially in fire insurance on buildings. The main reasons for the decrease in investment income during the year were falling interest rates, lower inflation and the strengthening of the Icelandic króna. Inflationary accounting principles have been abandoned, resulting in lower profits compared with the year before.

Accounted premium income increased by 5% during the year and net premiums by 7%. Net claims went down by 11% compared with 2001. This reduction was most marked in motor and inward reinsurance segments. The improvement in motor is especially positive since motor insurance has proved a tough area in recent years. Extra provisions were made to strengthen the equalisation reserve, in accordance with the company's rules in this respect.

Overall number of policies in force increased by 2% in 2002. Proportionally the greatest premium growth was in marine, where the company has in the last few years focused on strengthening its position. Net operating cost as a ratio of premiums was 22%, unchanged from the previous year. Systematic monitoring of operating cost has resulted in a limited increase of 6% between 2001 and 2002.

Operating profit decreased somewhat between the years, largely on account of the contraction in investment income.

The direct loss ratio was 66%, marginally higher than the previous year's figure of 64%. Marine and accident insurance loss ratio increased, while the motor loss ratio went down between the years.

Performance of individual portfolios

In property premiums rose by 13% compared with the year before. Once again, this growth was led by home and house owner policies, but a considerable increase also took place in fire insurance. In property, the overall loss ratio was 68%.

Premium income in marine, aviation and cargo went down by 1%. The loss ratio was 70%, up from the previous year's figure of 52%.

In compulsory motor insurance, premium income rose by 5%. Average premiums increased by 4% from the previous year and the number of policyholders by 1%. Between 2001 and 2002, motor claims decreased by 3%. By comparison, claims in 2001 were 7% lower than in 2000. The loss ratio was 66% in compulsory motor insurance but 64% in other motor classes. Motor



premiums accounted for 55% of total premium income, compared with 57% the previous year. In general liability the loss ratio was 66%, as against 65% in 2001. Premium income rose by 18% but paid claims by 19%.

The loss ratio in accident and sickness was 56%, compared with 44% the year before. Premiums rose by 7% but paid claims by 35%.

Premiums in inward reinsurance decreased by 21% between the years and the loss ratio was 58%.

During the year a total of 20,809 claims were reported, compared with 20,956 in 2001 – a reduction of 1%. At the end of 2002 more than 235 thousand policies were in force.

The Icelandic economy was in better balance in 2002 than the year before. Inflation, which had been mounting, came down again after the government, industry and labour unions joined forces in limiting inflationary agents.

In recent years Sjóvá-Almennar has implemented various loss prevention measures. Loss prevention campaigning has been stepped up. The company now provides safety equipment and last year it sent 30 thousand policy holders batteries for smoke detectors. All this has been well received by the general public. Last spring it was decided to take an even firmer approach on preventive actions when the company acquired a majority stake in a leading security service provider on the domestic market. The services of such companies reduce the probability of losses and limit their scope when they occur.

In recent years fire losses have been on the increase and at the end of the year the company had to raise premiums in that segment once again.

Like other insurance companies, Sjóvá-Almennar spreads its risks by reinsurance agreements. Reinsurance is inherently international in character and terms in the reinsurance market are prone to

sharp changes. The terrorist attacks on New York on September 11, 2001 have had an enormous impact on the reinsurance market. Coupled with the worldwide slump in equity prices, this fact has led to a massive rise in reinsurance costs. Sjóvá-Almennar has as a response, and in an effort to limit premium increases restructured and renegotiated its reinsurance coverage.

In the spring, Sjóvá-Almennar acquired a majority stake in the life insurance company Sameinaða líftryggingarfélagið (Samlíf). The move marked an end to years of collaboration with Tryggingamiðstöðin on provision of life insurance products. Samlíf is now wholly owned by Sjóvá-Almennar and Íslandsbanki.

Although Sjóvá-Almennar's operations are relatively safe for the environment, the company is aiming to further limiting the potential ecological damage of its operations. Principles of environmental accounting were introduced at Sjóvá-Almennar in 2002. This enables the company to monitor environmental aspects of its activities. Sjóvá-Almennar's purpose in keeping environmental accounts is to minimise disruption to the environment and wastage, and to enhance employee awareness of environmental issues.



PROFIT AND LOSS ACCOUNT FOR THE YEAR 2002

<i>Insurance revenue account</i>	2002	2002	2001
<i>Non-life insurance operations</i>	Group	Parent	
<i>Premiums</i>			
Gross premiums	8.152.822	8.217.170	7.813.298
Reinsurance premiums ceded	(1.657.320)	(1.638.980)	(1.328.535)
Change in gross unearned premiums provisions	(99.600)	(100.550)	(452.622)
Change in gross unearned premiums provisions, reinsurers' share	23.618	29.549	77.260
Premiums, net of reinsurance	<u>6.419.520</u>	<u>6.507.189</u>	<u>6.109.401</u>
<i>Allocated investment income</i>	639.715	640.179	1.403.334
<i>Claims</i>			
Gross claims paid	(5.370.761)	(5.390.960)	(5.115.943)
Reinsurers' share received	988.498	980.000	851.901
Change in gross provisions for outstanding claims	(1.024.860)	(1.026.554)	(1.582.511)
Change in gross provisions for outstanding claims, reinsurers' share	318.243	316.122	78.476
Claims, net of reinsurance	<u>(5.088.880)</u>	<u>(5.121.392)</u>	<u>(5.768.077)</u>
<i>Bonuses and premium rebates</i>	(172.068)	(172.068)	(161.146)
<i>Operating expenses non-life insurance operations</i>			
Acquisition costs	(1.059.301)	(1.082.378)	(873.781)
Administrative expenses	(673.196)	(677.110)	(768.687)
Reinsurance commissions and profit participation	330.953	330.845	299.794
Net operating expenses non-life insurance operations	<u>(1.401.544)</u>	<u>(1.428.643)</u>	<u>(1.342.674)</u>
<i>Change in equalisation provision</i>	(22.565)	(22.565)	(180.000)
Result from non-life insurance operations	<u>374.178</u>	<u>402.700</u>	<u>60.838</u>
Result from life insurance operations	<u>(79.915)</u>	<u>0</u>	<u>0</u>
Result from insurance operations	<u>294.263</u>	<u>402.700</u>	<u>60.838</u>
<i>Investment operations</i>			
<i>Investment income</i>			
Income (expenses) from associated companies	22.845	(36.056)	15.794
Dividend of other shares	138.424	137.214	111.519
Expenses from real estate	(16.165)	(14.764)	(13.440)
Interest, rate of exchange	942.533	939.391	1.899.786
Profit on sale of assets	459.947	457.909	239.734
Investment income	<u>1.547.584</u>	<u>1.483.694</u>	<u>2.253.393</u>
<i>Investment expenses</i>			
Administrative expenses	(228.104)	(220.061)	(219.601)
Interest expenses	(205.520)	(180.636)	(205.501)
Provision for losses on investments	(219.075)	(212.064)	(295.862)
Investment expenses	<u>(652.699)</u>	<u>(612.761)</u>	<u>(720.964)</u>
<i>Calculated inflation adjustment</i>	0	0	355.421
<i>Allocated investment income transferred to insurance revenue account</i>	(644.705)	(640.179)	(1.403.334)
Result from investment operations	<u>250.180</u>	<u>230.754</u>	<u>484.516</u>
Other ordinary expenses	(31.757)	(31.757)	(35.684)
<i>Taxes</i>	(72.380)	(100.501)	80.525
<i>Minority interest</i>	60.890	0	0
Profit for the year	<u>501.196</u>	<u>501.196</u>	<u>590.195</u>

Thousand ISK

BALANCE SHEET AS AT

<i>Assets</i>	2002	2002	2001
	Group	Parent	
<i>Intangible assets</i>			
Goodwill	636.634	636.634	0
<i>Investments</i>			
Land and buildings	1.506.058	1.293.331	1.285.484
Shares in subsidiaries	0	178.562	106.661
Shares in associated companies	1.399.355	1.399.355	241.249
	1.399.355	1.577.917	347.910
Other financial investments			
Shares	8.778.502	8.146.548	6.723.574
Bonds	1.198.041	1.173.350	1.607.968
Loans secured by mortgages	5.805.431	5.805.431	5.517.134
Other loans	780.193	780.193	1.371.297
	16.562.167	15.905.522	15.219.973
Investments due to life insurance where the insured bears the investment risk	838.644	0	0
Reinsurance deposits	25.219	25.219	32.024
	20.331.443	18.801.989	16.885.391
<i>Technical provisions, reinsurers' share</i>			
Premiums reserve	619.035	511.498	481.949
Claims reserve for non life insurance operations ...	1.342.909	1.328.984	1.012.863
Claims reserve for life insurance operations	109.162	0	0
	2.071.106	1.840.482	1.494.812
<i>Debtors</i>			
Amounts due from associated companies	0	27.001	0
Amounts due from policyholders	2.102.000	2.006.901	2.018.912
Debtors arising out of insurance operations	24.137	17.181	273.513
Debtors arising out of direct reinsurance operation	115	115	62.344
Other debtors	70.673	63.158	329.544
	2.196.925	2.114.356	2.684.313
<i>Other assets</i>			
Equipment and other tangible assets	686.383	511.895	535.729
Liquid assets	1.398.475	1.359.850	870.920
Own shares	10.211	10.211	54.975
	2.095.069	1.881.956	1.461.624
Total assets	27.331.177	25.275.417	22.526.140

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<i>Liabilities</i>	2002	2002	2001
	Group	Parent	
<i>Shareholders' equity</i>			
Share capital	585.000	585.000	585.000
Additional paid-in capital	1.312.551	1.312.551	135.705
Statutory reserve	146.250	146.250	146.250
Revaluation reserve	0	0	294.973
Retained earnings	3.897.757	3.897.757	3.236.023
	<u>5.941.558</u>	<u>5.941.558</u>	<u>4.397.951</u>
Minority interest	119.041	0	0
<i>Technical provisions</i>			
Gross unearned premiums	3.882.280	3.526.935	3.426.385
Gr. outstanding claims in non-life insurance operations	13.079.808	13.066.183	12.039.628
Gross outstanding claims in life insurance operations	306.639	0	0
Equalisation provisions	564.341	554.815	532.250
Bonuses and premium provisions	345.478	163.537	151.852
	<u>18.178.546</u>	<u>17.311.470</u>	<u>16.150.115</u>
<i>Life insurance claims where the insured bears the investment risk</i>	838.644	0	0
<i>General provisions</i>			
Pension liabilities	135.143	135.143	125.012
Deferred tax liabilities	223.914	239.309	157.391
	<u>359.057</u>	<u>374.452</u>	<u>282.403</u>
<i>Deposits recived from reinsurers</i>	89.166	89.166	371.306
<i>Creditors</i>			
Amounts owed to associated companies	0	0	1.621
Creditors arising out of direct insurance operations	474.978	439.629	18.386
Creditors arising out of reinsurance operations	79.569	79.569	153.163
Bonds payable	819.658	633.386	811.784
Other creditors	324.781	323.713	271.230
	<u>1.698.986</u>	<u>1.476.297</u>	<u>1.256.184</u>
<i>Accrued expenses and deferred revenue</i>	106.179	82.474	68.181
Total liabilities	<u>27.331.177</u>	<u>25.275.417</u>	<u>22.526.140</u>

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STATEMENT OF CASH FLOWS 2002

	2002	2002	2001
	Group	Parent	
<i>Cash flows from operating activities:</i>			
Net earnings.....	501.196	501.196	590.195
Adjustments for cash flows from operating activities:			
Depreciation	216.087	171.031	138.874
Calculated inflation adjustment	0	0	(355.422)
Deferred income tax liability, (decrease) increase .	53.396	81.918	(109.265)
Technical provisions, increase.....	871.603	815.685	2.088.367
Exchange rate difference	43.156	27.704	(434.418)
Pension obligation, increase.....	10.131	10.131	36.434
Change in write-down on investments and debtors	(178.830)	(185.841)	228.663
Depreciation of goodwill	51.619	51.619	0
Earnings from associated companies.....	(22.845)	36.056	(15.794)
Capital gain on sale of assets.....	(457.753)	(455.715)	(237.872)
Minority interest	(60.890)	0	0
Working capital provided by operating activities	1.026.870	1.053.784	1.929.762
Changes in operational assets and liabilities:			
Owed from debtors, decrease, (increase)	801.043	768.274	(594.316)
Owed to creditors, increase	157.994	130.664	133.130
Cash provided by operating activities	1.985.907	1.952.722	1.468.576
<i>Cash flows from investing activities:</i>			
Real estate.....	(53.980)	(53.980)	(9.350)
Equipment and other tangible assets.....	(88.445)	(83.785)	(185.782)
Investment in associated companies.....	(1.983.071)	(1.983.071)	0
Investments in shares in other companies.....	(2.761.837)	(2.761.837)	(1.296.622)
Proceeds from sale of shares in other companies	1.818.819	1.787.321	681.245
Dividends from associated companies	26.442	27.471	28.500
Securities repayments received	4.921.851	4.773.981	4.762.878
Purchase of securities	(4.198.356)	(4.021.745)	(4.582.942)
	(2.318.577)	(2.315.645)	(602.073)
<i>Cash flows from financing activities:</i>			
Repayments of bonds payable	(663.142)	(630.761)	(616.200)
Proceeds from bonds payable.....	394.186	394.186	56.857
Trading with own shares	1.221.610	1.221.610	56.265
Dividend paid.....	(136.270)	(133.182)	(105.548)
	816.384	851.853	(608.626)
Increase in cash and cash equivalents	483.714	488.930	257.877
Cash and cash equivalents 1.1.2002	914.761	870.920	613.043
Cash and cash equivalents 31.12.2002	1.398.475	1.359.850	870.920