

2004

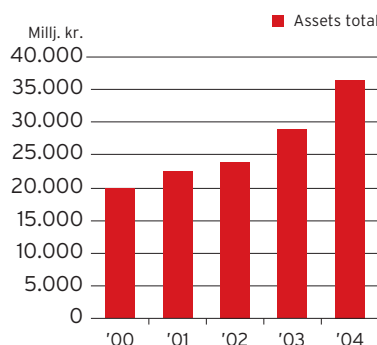
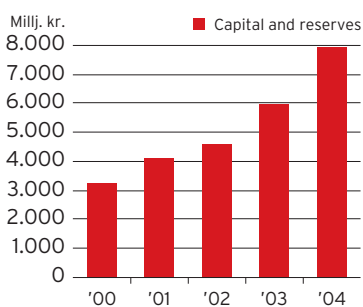
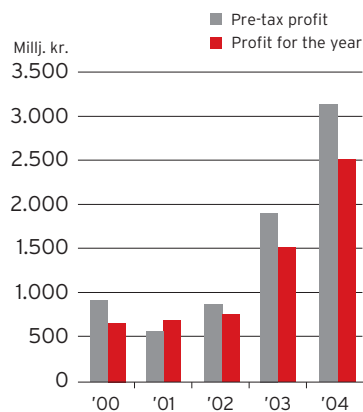
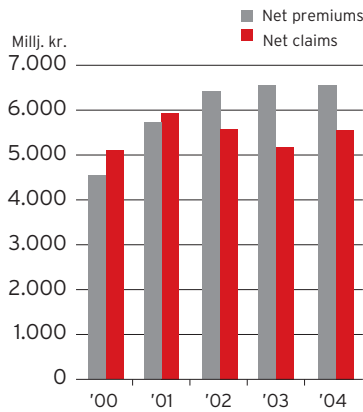
ÁRSSKÝRSLA / ANNUAL REPORT



Vátryggingafélag Íslands hf.



Annual report 2004



In 2004 VÍS yielded a profit of ISK 2,524 million after tax, which is the best result in the history of company. Profit from insurance operations amounted to ISK 1,077 million, while profit from financial services was ISK 2,092 million, mainly due to profit from sold stocks. The insurance side of the business performed less well than the previous year, but the financial side of VÍS improved considerably, leading to a record profit.

VÍS assets totalled ISK 36,382 million as of 31 December 2004, and equity ISK 7,940 million.

Written premiums amounted to ISK 7,740 million, down 9% from 2003. Net premiums were ISK 6,561, which is a 2% drop from 2003. The main reason for the decrease in premiums is the reduction in rates premium in 2003 and 2004, which is now coming into effect. Another significant factor is the restructured discount system for VÍS customers, which offers favourable prices to VÍS's best customers, and is a major factor in retaining good customers and winning their loyalty. The insurance market in Iceland in 2004 was very competitive which resulted in reduced rates for insurance in general.

Claims paid were ISK 5,889 million, up 9% from 2003. Claims incurred, net of reinsurance, amounted to ISK 5,567, which was 5% more than the previous year. In a historical perspective the year was relatively favourable in term of accidents and claims. The claim ratio of the VÍS group at the end of 2004 was 84.9%, as against 79% in 2003. This negative trend in claim ratio is mainly attributable to lower premiums, as stated above, and increase in claim cost, especially in property and car insurance. Claim frequency increased, especially in property and motor insurance.

Operating costs increased by ISK 151 million in 2004 over the previous year, which is a 9% rise. VÍS's cost ratio rose from 26.1% in 2003 to 29.1% in 2004. A major factor in higher costs is improvements carried out at VÍS headquarters, which were charged in 2004. The headquarters have been refurbished to provide a pleasant environment both for customers and employees.

Profit from insurance operations amounted to ISK 1,077 million, compared to ISK 1,491 million in 2003. This is a direct result of price reductions on premiums, which are effective in 2004. Earnings from investment totalled ISK 4,234 million, which is an increase of 67% from the previous year. The main reason for this excellent result is favourable stock markets, and sales of shares and other assets at a good profit. Income from financial services totalled ISK 2,092 million, compared to ISK 544 million in 2003.

Total assets of the VÍS group were ISK 36,382 million as of 31 December 2004, as against ISK 28,906 million in 2003.

Equity at the end of the year totalled ISK 7,940 million, which is 33% up from the previous year. Equity ratio was 21.8% and return on equity was 42.9%. VÍS paid a dividend of ISK 560 million to shareholders in 2003. Cash on 31 December 2004 totalled ISK 934 million.

Lífis

Lífis, VÍS's life insurance subsidiary, yielded good results in 2004. Written premiums were ISK 592 million, and profit after tax was ISK 330 million, compared to a profit of ISK 125 million in 2003. The improved results are mainly due to profit from sale of shares, and financial income amounted to ISK 407 million, as against ISK 150 million in 2003.

Total assets of Lífis at the end of the year 2004 amounted to ISK 3,085 million, and equity was ISK 1,128 million.

Competition Council findings published

In May 2004 the Icelandic Competition Council published the results of its enquiry into alleged restrictive practices in the country's insurance sector. The investigation had been in progress for almost seven years.

As agreement on the issue was reached, all parties involved, including VÍS (The Iceland Insurance Company Ltd), concurred that no further action is required, other than to remind the industry of the need to ensure that competition be maintained in all spheres of its activities.

Strategic alliance with KB Bank

VÍS and KB Bank formed a strategic alliance in sales and marketing of insurance and financial services. The goal is to increase the market share of both companies by joining forces, and create a strong mutual product offering and customer loyalty scheme for customers of VÍS and KB Bank. The cooperation is beginning to yield results, and it will be extended in other areas soon.

New child car seats

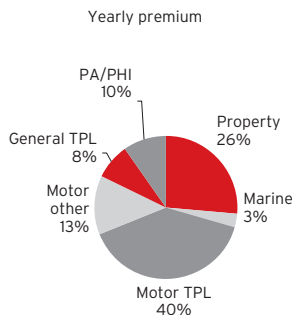
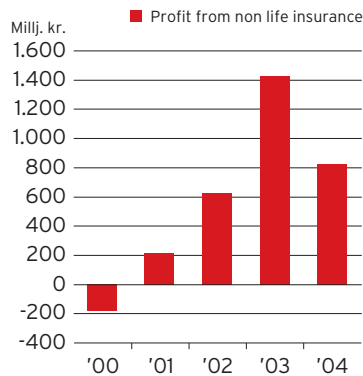
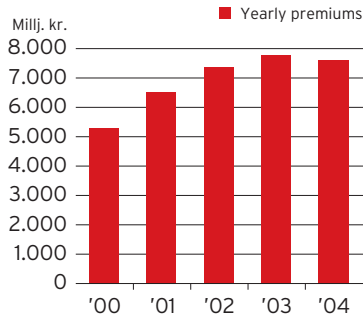
VÍS introduced new car safety seats for children. VÍS has for the last 10 years been the leader in offering car seats for children. The new seats are developed in cooperation with the insurance company IF, and are some of the safest car seats available for children. VÍS is proud to offer such a safe seat to its customer at an extremely favourable price. This is part of VÍS's effective preventive programme.

VÍS delisted from ICEX

In October 2004 the largest shareholders in VÍS announced their intention to buy out smaller shareholders in VÍS, and delist the company from the Icelandic Stock Exchange. The main shareholders of VÍS are KB Bank, Hesteyri Holding, Samvinnutryggingar Holding and Andvaka Holding. After the delisting these shareholders own about 99% of shares in VÍS. The aim of these shareholders is to strengthen the company and ensure continuing growth.

VÍS buys Vörður insurance company

In December VÍS bought the Vörður insurance company from Hringur, which is a part of Baugur Group. Vörður is small insurance company that has traditionally specialized in marine insurance, but also offers other insurance. The objective of VÍS is to use Vörður in a different approach to the market and gain a larger market share. Vörður will emphasize simple and affordable



insurance, while VÍS is a full-service company with wide range of products. At the beginning of 2005 it was agreed to merge Vörður with another small insurance company, in order to create a stronger and more competitive company.

VÍS service

VÍS has a extensive service network with branch offices in 56 locations around the country. VÍS has divided the country into seven regions, each with a regional manager. Thus VÍS has been able to provide improved services around the country, and also maintained a strong market position.

Insurance services

The insurance market in Iceland in 2004 was affected by price reductions and fierce and active competition. This affected VÍS's insurance operations. Profit from insurance operations is down from ISK 1,446 million in 2003 to ISK 849 million in 2004.

Mandatory motor insurance, personal accident and injury insurance and reinsurance showed positive results; on the other hand results were negative for property insurance, marine insurance, other motor insurance and third-party liability insurance.

Customer loyalty scheme

VÍS's discount structure and loyalty scheme were restructured in 2004, to increase customer loyalty and compensate good customers. Two new discounts were introduced: 5% quantity discount and 10% no-claims discount. VÍS's customers have been systematically contacted by VÍS, to inform them about the changes and increase customer loyalty.

Property insurance

Yearly premium were ISK 1,999 million, and results loss ISK 79 million, compared to a profit of ISK 108 million in 2003.

Marine

Yearly premiums were ISK 248 million, and results loss was ISK 24 million, compared with ISK 55 million profit in 2003.

Mandatory motor insurance

Yearly premiums were ISK 2,995 million, and results profit ISK 761, compared to an excellent profit of ISK 1,012 million in 2003. The positive result is attributable to favourable weather conditions during the winter and fewer serious accidents. Due to good results in 2003, VÍS lowered premiums, and this affects the outcome in 2004, and will continue to do so in 2005.

Surcharges for young drivers were abolished in 2004, and young drivers were eligible for the first time for the best prices at VÍS and maximum no-claims bonus. VÍS places great emphasis on preventive measures for young drivers, and has succeeded in lowering the claim ratio of young drivers. This success allows VÍS to place confidence in young drivers and price their insurance accordingly.

Other motor insurance

Yearly premiums were ISK 1,011 million, and results loss ISK 9 million, compared to ISK 95 million profit in 2003.

General liability

Yearly premiums were ISK 605 million, and results loss ISK 28 million, compared to ISK 63 million profit in 2003.

Personal accident and private health

Yearly premiums were ISK 740 million, and results profit ISK 201 million, compared to ISK 93 million profit in 2003.

Reinsurance

Yearly premiums were ISK 30 million, and results profit ISK 28 million, compared to ISK 20 million profit in 2003.

Family insurance

F-plus comprehensive family insurance was, as before, the most popular family insurance in Iceland. In an annual survey conducted by Gallup, 48% of those questioned said that VÍS F-plus was the family insurance that they considered to have the best cover. VÍS offers also three other family insurance options: home insurance, Kjarni and Festa. In 2004 VÍS introduced a new insurance, an addition to conventional family insurance to cover certain incidents that are not covered by family insurances. This addition has been a success and welcomed by many VÍS customers.

VÍS Agría

In 2004 VÍS started to market VÍS Agría animal insurance. Great emphasis was placed on marketing of the concept. There is a considerable market for such insurances in Iceland, but they have never been available before. VÍS has promoted the insurance as a necessary part of keeping animals and caring for them.

Corporate insurance

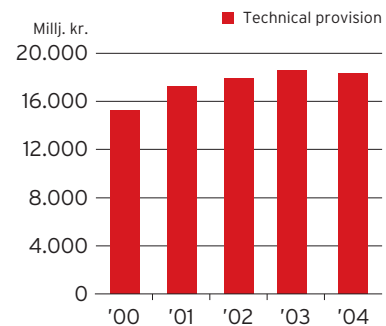
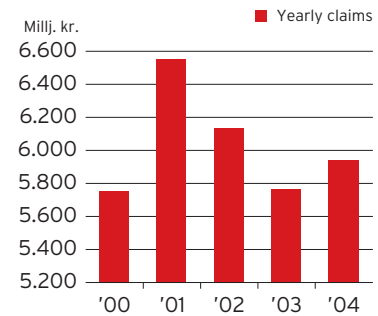
VÍS gained a larger market share in the corporate market in 2004. Competition in the corporate market is active and fierce, and that has led to lower premiums in this sector despite increasing value of risk in many companies.

Claim service

Net claims amounted to ISK 5,432 million, up 5% from the previous year or by ISK 167 million. The claim ratio in non-life insurance was 84.8 % compared to 78.7 % in 2003. The higher claim ratio is due to lower premiums and increased frequency of claims, as stated before.

Technical provision

Technical provision increased by 3% from previous year, and was ISK 19,846 million at the end of 2004.



Preventive measures

VÍS continued its preventive activities as energetically as before. About 3,500 young drivers attended traffic educational meetings during the year.

VÍS purchased a preventive tool, a seat-belt cart developed by the Formula 1 FIA foundation. The cart simulates a car crash at 20 k.p.h. and the person sitting in the cart experiences the feeling of being in a car crash. VÍS has toured Iceland with the cart to promote road safety and seat-belt use.

For the fourth time, VÍS promoted an annual national campaign against traffic accidents. This time the spotlight was on the family and friends of those who are killed or seriously injured in traffic accidents. The campaign was visible in newspapers and other media, and was effective. The number of car accidents decreased compared to the same time the previous year.

Financial services

Profit from financial activities was excellent in 2004. Financial income was ISK 4,234 million, which is a considerable increase from 2003, when financial income was ISK 2,522 million. The majority of financial income is due to sales of investments, mainly stocks. The stock markets were favourable, and return on VÍS investments was good. The market value of registered stocks owned by VÍS was ISK 17,072 million on 31 December, while the book value of those stocks is ISK 10,449 million. The market value of VÍS's registered stock increased by ISK 5,245 million in 2004.

Car loans

The year 2004 was a record year for car loans, since VÍS started offering such loans in 1994. The number of loans, and the amount loaned, were the highest ever. This is mainly because VÍS introduced higher loans and started to offer loans of up to 100% of the value of a particular car. The year 2004 was a record year in car sales in Iceland, and 2005 is also expected to be favourable in that aspect.

Computer loans

VÍS started to offer computer loans in 2004, in cooperation with computer retailers. The demand for computer loans is considerable, especially since many educational institutions require their students to have laptop computers. Financing and VÍS laptop insurance have made it safer and easier to own a computer.

Operations

Operating costs of VÍS group were ISK 1,909 million, up 9% from the previous year. Cost ratio in non-life insurance operations was 27.8%, as against 24.5% in 2003. The main factor in higher operating costs is refurbishment of the VÍS headquarters in Reykavík, which commenced in 2002 and was mostly completed in 2004. The offices of VÍS are now first-class, and customers can enjoy doing business with VÍS employees in a pleasant environment. In accordance with VÍS's strategy, increased emphasis was placed marketing and human resources, and this is reflected in costs.

Security strategy

In 2004 VÍS implemented a security strategy to ensure safe handling of personal information within VÍS. The rules are in accordance with new security strategy, that states that all employees of VÍS must protect material and information from unauthorized access. VÍS has appointed a security committee that is responsible for security matters within VÍS. The committee is responsible for training, risk assessment, and supervision related to security within VÍS.

Human resources

VÍS employed 231 persons in 209 full-time positions at the end of 2004. This is an increase of four over the previous year. Five employees are allocated to the operation of Líffís, VÍS's life insurance subsidiary.

The average age of VÍS employees is 46 years, and 120 men and 111 women work for the company.

It is VÍS's strategy to employ well-qualified staff with good knowledge of insurance matters. VÍS staff are experienced, and the average career of VÍS employees is 12 years. 25% of VÍS staff hold a university degree.

VÍS has, in cooperation with Reykjavík University, been training VÍS staff in the values and goals of VÍS. Staff have been actively involved in discussion of the operation of VÍS with faculty of Reykjavík University and the top management of VÍS. The outcome is many good ideas and projects that have already been or will be implemented.

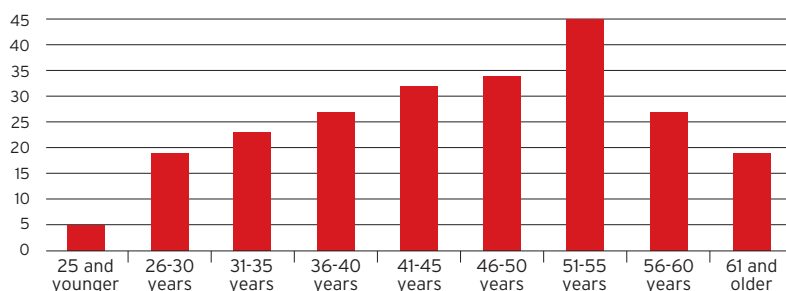
Information technology

In 2004 VÍS signed a contract with the Danish IT company Edlund A/S for a new information system for insurance, claims and customer service activity. This is the biggest project that VÍS has undertaken in this field; it is a development project that will give VÍS a state-of-the-art system, while Edlund A/S benefits from the experience and knowledge of VÍS to develop IT systems for the insurance market.

VÍS's website was redesigned and remodelled in 2004.

In December 2004 VÍS introduced a new on-line service to customers: an insurance bank where VÍS customers can access information about their insurance on-line. This has been well received by VÍS customers, and makes communication between VÍS and customers easier and more effective. The insurance bank can also be accessed through KB Bank's on-line bank.

Age of Employees



Reykjavík, March 8, 2005.

The Board of Directors:

Chairman

Pórolfur Gíslason

Eiríkur Tómasson	Ingólfur Ásgrímsson
Jón Eðvald Friðriksson	Margeir Daníelsson
Óskar H. Gunnarsson	Sigurður Markússon

Managing Director
Finnur Ingólfsson

Insurance operations:

	Group		Parent	
	2004	2003	2004	2003
Premiums:				
Gross premiums written	7,739,576	8,532,191	7,177,570	7,985,219
Outward reinsurance premiums	(1,257,794)	(1,341,332)	(1,195,429)	(1,291,928)
Change in the gross provision for unearned premiums	428,147	(194,982)	451,500	(167,800)
Change in other technical provision of life assurance policyholders who bear the investment risk	(323,883)	(347,669)	0	0
Change in the provision for unearned premiums, reinsurers' share	(25,298)	68,293	(27,800)	67,700
Earned premiums, net of reinsurance	6,560,748	6,716,501	6,405,841	6,593,191
Allocated investment return transferred from investment operations	1,843,281	1,682,624	1,653,787	1,659,355
Unrealized gains on investments of life-assurance policyholders who bear the investment risk	149,521	157,431	0	0
Claims:				
Claims paid	(5,889,385)	(5,410,912)	(5,725,732)	(5,310,538)
Claims paid, reinsurers' share	615,539	529,816	555,813	506,449
Change in the provision for claims	(255,989)	(513,122)	(219,390)	(467,972)
Change in the provision for claims, reinsurers' share	(37,644)	86,728	(43,015)	84,125
Claims incurred, net of reinsurance	(5,567,479)	(5,307,490)	(5,432,324)	(5,187,936)
Net operating expenses:				
Sales expenses	(781,753)	(753,184)	(706,560)	(672,465)
Administrative expenses	(1,309,985)	(1,188,965)	(1,249,069)	(1,128,087)
Reinsurance commissions and profit participation	182,765	184,579	177,986	182,303
Net operating expenses	(1,908,973)	(1,757,570)	(1,777,643)	(1,618,249)
Profit from insurance operations	1,077,098	1,491,496	849,661	1,446,361
Investment income:				
Investment income:				
Profit share from subsidiaries and associated companies	134,938	26,318	373,412	36,557
Income from shares in other companies	201,789	125,329	135,876	113,216
(Loss) profit on property and land	(178,371)	(113,926)	(178,371)	(113,926)
Interest earned and rate of exchange	1,751,507	1,706,553	1,563,598	1,576,596
Profit on sale of assets	2,324,483	778,256	2,058,695	759,473
Investment income	4,234,346	2,522,530	3,953,210	2,371,916
Investment expenses:				
Administrative expenses	(139,706)	(128,768)	(129,200)	(118,250)
Interest expenses	(46,208)	(17,669)	(21,234)	(6,698)
Write-down of investments	(113,376)	(148,841)	(14,512)	(78,366)
Investment expenses	(299,290)	(295,278)	(164,946)	(203,314)
Allocated investment return transferred to insurance operations	(1,843,281)	(1,682,624)	(1,653,787)	(1,659,355)
Profit from investment operations	2,091,775	544,628	2,134,477	509,247
Other income and expenses of operations:				
Other income	22,787	38,015	22,787	38,015
Other expenses	(44,847)	(151,228)	(44,847)	(151,228)
Other expenses of operations	(22,060)	(113,213)	(22,060)	(113,213)
Profit before income tax and net worth tax	3,146,813	1,922,911	2,962,078	1,842,395
Income tax and net worth tax	(539,400)	(356,128)	(437,245)	(327,115)
Minority interest	(82,580)	(51,503)	0	0
Profit for the year	2,524,833	1,515,280	2,524,833	1,515,280

Assets

	Group		Parent	
	2004	2003	2004	2003
Intangible assets:				
Goodwill	1,438,440	722,816	0	0
Investments:				
Land and buildings	581,911	527,019	511,185	527,019
Affiliated undertakings and participating interests:				
Shares in affiliated undertakings	0	0	2,860,646	1,372,050
Loans to affiliated undertakings	0	0	2,803	5,589
Participating interests	1,342,825	1,043,472	956,242	1,043,472
	1,342,825	1,043,472	3,819,691	2,421,111
Other financial investments:				
Variable yield securities	15,725,878	10,817,166	11,854,470	10,027,677
Bonds and fixed income securities	6,014,267	4,847,963	5,069,258	4,279,062
Loans guaranteed by mortgages	4,910,442	3,732,093	4,728,623	3,718,593
Other loans	131,976	110,097	129,288	110,096
	26,782,563	19,507,319	21,781,639	18,135,428
Investments	28,707,299	21,077,810	26,112,515	21,083,558
Investments for the benefit of life-assurance policyholders who bear the investment risk	975,055	816,580	0	0
Reinsurers' share in insurance fund:				
Premiums reserve	423,484	389,488	329,200	357,000
Claims reserve	969,196	708,789	644,410	687,425
Reinsurers' share in insurance fund	1,392,680	1,098,277	973,610	1,044,425
Debtors:				
Amounts owed by affiliated undertakings	21,331	127,090	122,289	110,219
Debtors arising out of insurance operations	2,132,619	2,497,292	1,986,297	2,462,653
Debtors arising out of reinsurance operations	525,243	392,800	504,556	387,472
Other debtors	24,536	36,035	6,408	25,177
Debtors	2,703,729	3,053,217	2,619,550	2,985,521
Other assets:				
Tangible assets	131,306	107,040	118,135	107,040
Cash at bank and in hand	934,445	1,931,172	756,567	1,423,405
Other assets	1,065,751	2,038,212	874,702	1,530,445
Prepayments and accrued income:				
Accrued interest	29,848	33,767	29,848	33,767
Other prepayments	69,433	64,837	69,433	64,836
Prepayments and accrued income	99,281	98,604	99,281	98,603
Assets total	36,382,235	28,905,516	30,679,658	26,742,552

Capital and liabilities

	Group		Parent	
	2004	2003	2004	2003
Capital and reserves:				
Share capital	545,287	543,814	545,287	543,814
Reserve fund	618,145	569,366	618,145	569,366
Accrued exchange rate difference on stock options ..	0	44,434	0	44,434
Profit brought forward	6,777,023	4,799,844	6,777,023	4,799,844
Capital and reserves	7,940,455	5,957,458	7,940,455	5,957,458
Minority interest	281,949	211,198	0	0
Technical provision:				
Provision for unearned premiums	3,735,318	4,012,141	3,111,500	3,563,000
Claims outstanding	15,314,129	14,538,885	14,537,613	14,318,223
Equalization provision	691,738	684,000	684,000	684,000
Provision for bonuses	104,862	99,268	12,100	6,500
Technical provision	19,846,047	19,334,294	18,345,213	18,571,723
Technical provision for life-assurance policies where the investment risk is borne by the policyholders	975,055	816,580	0	0
Other Provision:				
Deferred income tax liability	923,649	542,761	888,621	513,176
Pension plan obligations	60,918	67,431	49,011	55,321
Other Provision	984,567	610,192	937,632	568,497
Creditors:				
Creditors arising from subsidiaries	0	0	944,032	0
Creditors arising out of direct insurance operations ..	217,041	378,152	167,739	378,152
Creditors arising out of reinsurance operations	438,038	363,727	438,038	356,189
Amounts owed to credit institutions	4,684,064	11,398	996,542	1,674
Other creditors	382,457	583,492	373,784	456,295
Creditors	5,721,600	1,336,769	2,920,135	1,192,310
Accrued expenses and unearned revenue	632,562	639,025	536,223	452,564
Capital and liabilities	36,382,235	28,905,516	30,679,658	26,742,552

Parent

Summary of amounts in the Financial statements:					
	2004	2003	2002	2001	2000
1. Net premiums	6,405,841	6,593,191	6,397,913	5,730,152	4,546,462
2. Net claims	5,432,324	5,187,936	5,518,601	5,944,429	5,093,922
3. Net operating expense	1,777,643	1,618,249	1,406,328	1,233,231	1,132,268
4. Investment income	1,653,787	1,659,355	1,164,650	1,611,363	1,367,057
5. Change in the equalization provision ...	0	0	0	81,000	150,000
6. Profit (loss) from insurance operations .	849,661	1,446,361	635,301	229,030	(163,441)
7. Profit from investment income	2,134,477	509,247	354,107	365,258	1,182,841
8. Profit before taxes	2,962,078	1,842,395	878,357	557,564	901,589
9. Income tax and net worth tax	437,245	327,115	144,817	(126,930)	252,067
10. Profit for the year	2,524,833	1,515,280	733,540	684,494	649,522
11. Net technical provision	17,371,603	17,527,298	17,050,351	16,373,981	14,416,426
12. Capital and reserves	7,940,455	5,957,459	4,568,851	4,090,284	3,244,748
13. Assets total	30,679,658	26,742,552	23,968,047	22,513,583	19,909,159

Summary of ratios:					
	%	%	%	%	%
1. Claims ratio	84.8	78.7	86.3	103.7	112.0
2. Cost ratio	27.8	24.5	22.0	21.5	24.9
3. Ratio of investment income	25.9	25.2	18.2	28.1	30.0
4. Ratio 1 + 2 - 3	86.7	78.1	90.0	97.1	106.9
5. Capital / net premiums	124.0	90.4	71.4	71.4	71.3
6. Net technical provision / net premiums .	271.2	265.8	266.5	285.8	317.1
7. Ratios 5 + 6	395.1	356.2	337.9	357.2	388.4
8. Solvency ratio	529.0	326.0	339.0	359.0	303.0

Subsidiary

Summary of amounts in the Financial statements:					
	2004	2003	2002	2001	2000
1. Net premiums	499,642	497,569	479,345	449,988	378,373
2. Net claims	135,155	119,555	101,301	83,138	73,800
3. Net operating expense	131,330	139,321	127,402	106,161	120,945
4. Investment income	407,001	149,591	125,088	1,156,292	92,717
5. Profit from insurance operations	227,437	45,278	95,214	569,848	59,947
6. Profit before taxes	432,475	154,444	118,776	1,149,177	81,232
7. Income tax and net worth tax	102,156	29,156	23,725	239,200	23,606
8. Profit for the year	330,318	125,288	95,051	909,977	57,626
9. Net technical provision	760,792	708,719	639,593	580,077	509,113
10. Capital and reserves	1,127,790	847,472	772,184	1,447,133	517,964
11. Assets total	3,085,822	2,692,702	2,700,209	2,808,645	1,347,431

Summary of ratios:					
	%	%	%	%	%
1. Capital / net premiums	225.7	170.3	161.1	321.6	136.9
2. Net technical provision / net premiums .	152.3	142.4	133.4	128.9	134.5
3. Ratios 1 + 2	378.0	312.7	294.5	450.5	271.4
4. Solvency ratio	371.0	263.0	268.0	275.0	227.0

Index annual averages	233.9	226.8	222.3	210.8	198.5
Index at year end	239.0	230.0	223.9	219.5	202.1

Amounts relate to the year of occurrence

Specifications:

1. Claims ratio Net claims as a percentage of net premiums.
2. Cost ratio Net operating expenses as a percentage of net premiums.
3. Ratio of investment income Investment income and other insurance income as a percentage of net premiums.
4. Ratios total Percentage total of section 1 and 2 less section 3.
5. Capital / net premiums Capital as a percentage of net premiums.
6. Net technical provision / net premiums Net technical provision as a percentage of net premiums.
7. Ratios 5 + 6 Percentage total of section 5 and 6.
8. Solvency ratio Calculated capital as a percentage of minimum capital according to laws.



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