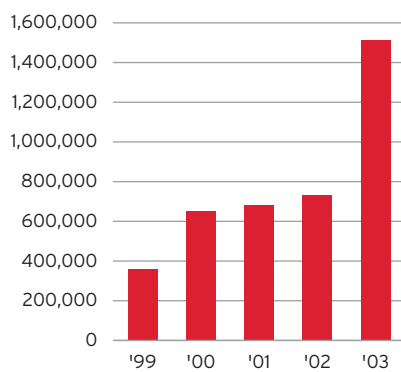




Annual report 2003

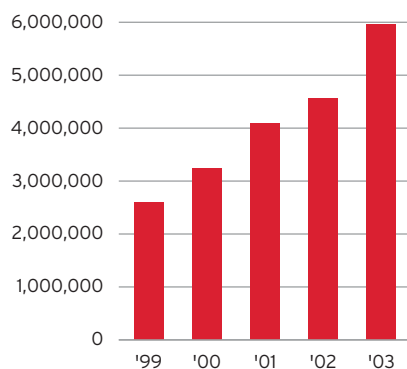


Profit



³Profit after taxation. (Amounts in ISK 000).

Capital and reserves



(Amounts in ISK 000).

2003 best year ever

The year 2003 proved the best on record at VÍS (Iceland Insurance Company), with post-tax profits reaching ISK 1,515 million. Profit from general insurance services totalled ISK 1,430 million, and profit from life insurance ISK 62 million, giving a total profit from insurance services of ISK 1,492 million. Profit from financial services was ISK 545 million. VÍS assets totalled ISK 28,906 million as of December 31st, 2003, and equity ISK 5,957 million.

VÍS pre-tax profit totalled ISK 1,923 million in 2003 and post-tax profit ISK 1,515 million, which is the best performance recorded by the company since its formation in 1989. The principal reasons for this success lie in favourable developments in claims and a significant rise in investment earnings deriving mainly from the sale of shares in the company.

- Written premiums rose 6.2% from their 2002 level to reach ISK 7,953 million, while net premiums rose 2.5% to ISK 6,560 million.
- Investment earnings from general insurance operations totalled ISK 1,659 million, compared with ISK 1,165 million in 2002. It should be noted that these figures reflect real earnings rather than estimates as was the practice in the company's past annual reports. The year 2003 saw significant profits from both the sale of assets and an increase in the value of shares held in companies outside Iceland.
- Net claims fell by about 6.1% from their 2002 level to ISK 5,188 million. All main branches of VÍS operations posted a profit in 2003.
- Operating costs in 2003 totalled ISK 1,608 million, an increase of 14.1% from the previous year. The year also saw the recording in the company's financial statements of agreements with employees on the right to purchase shares in the company, which are in force until 2005.
- Profit from general insurance services was ISK 1,430 million, compared to ISK 635 million in 2002.
- Earnings from investments in 2003 totalled ISK 2,523 million. The performance of the company's international investment portfolio was satisfactory. Profit from the sale of shares and other assets totalled ISK 778 million. This was offset slightly by a deduction of ISK 149 million made due to a re-adjustment of property values and losses incurred on investments, a significantly lower figure than in 2002.
- Income from financial services totalled ISK 545 million, after the transfer of ISK 1,683 million to earnings from general insurance services as prescribed by Icelandic law.
- To offset operational risks, VÍS deposited ISK 151 million into a depreciation account for claims and bonds payable, although this does not necessarily mean that this cash has been written off. This is similar to the sum deposited last year, and the company's total depreciation account currently stands at ISK 508 million.
- Balance sheet
As of December 31st, 2003, the total assets of the VÍS Group stood at ISK 28,906 million, of which claims outstanding accounted for ISK 19,334 million. Equity at the end of the year was ISK 5,957 million, compared to ISK 4,569 million at its beginning. Equity ratio on December 31st was 20.6%, compared to 19.1% in 2002. In this respect it should be noted that the company paid a total shareholder dividend of ISK 310 million in April 2003 for the year 2002.

Cash on December 31st, 2003, totalled ISK 1,931 million.

- **Lífis**

The performance of life insurance subsidiary Lífis was good. Written premiums totalled ISK 580 million and post-tax profit ISK 125 million. Sales of critical illness insurance increased significantly during 2003, as did those of life insurance. Sales of unit-linked policies, however, declined. VÍS owns a 75% stake in Lífis, and Andvaka investment company the remaining 25%.

- **Strategy**

The year 2003 saw VÍS formulate a new strategy for the next 10 years, by which the company aims to become Iceland's leading provider of insurance, security and financial security services. The document also lays out ambitious targets for the company's future growth, along with ways of achieving them.

- **Shareholders' dividend**

The board of directors of VÍS proposes that a dividend of ISK 550 million be paid as a result of operations in 2003, which amounts to 36.3% of the company's post-tax profit. This is in line with VÍS policy of paying a dividend of between 30-45% of post-tax profit, taking into account its equity and solvency status.

- **Employee education fund**

The board of directors has also agreed to establish an employee education fund designed to offer each of the company's workers the opportunity to improve their personal and career prospects by widening their skills and knowledge. The fund will be launched this spring with an ISK 10 million deposit from the company, followed by an annual contribution of 0.15% of total wages.

VÍS acquires majority in Lífis

In June 2003 VÍS acquired a share in the life insurance company Líftryggingafélag Íslands (Lífis) previously held by the National Bank of Iceland, raising the VÍS stake in the company to 75%. VÍS manages Lífis operations, resulting in significant economies of scale.

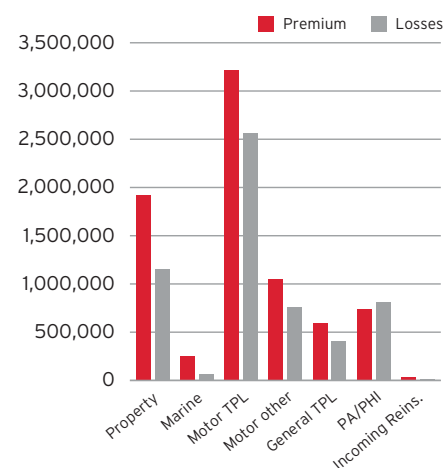
New products in 2004

Among the new VÍS products to enter the market in 2004 is a range of veterinary insurance services. Its initial focus will be on life, health and liability cover for horses, dogs and cats. At the same time, the company recently began offering insurance for laptop computers, and plans are also in place for the provision of comprehensive cover for caravans and camping trailers.

Increased market share

During the course of 2003, VÍS has increased its market share, particularly in the commercial sector, where new clients include Iceland Telecoms, one of the country's largest companies, and the City of Reykjavík. As before, the group's position in the general consumer market remains strong, with 40% of all Icelandic households now insured by the company.

Premium and losses 2003



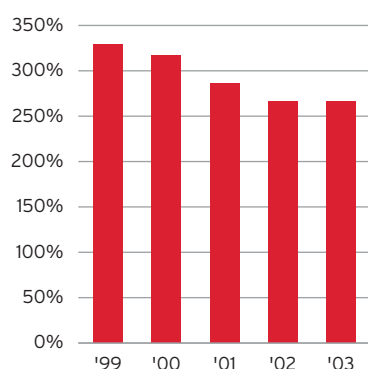
Gross Earned Premium and Incurred Losses.
(Amounts in ISK 000).

Technical results	Profit 2003	%/ of GEP
Property	108.0	5.61%
Marine	55.5	21.74%
Motor TPL	1,011.9	31.46%
Motor other	94.6	9.03%
General TPL	62.7	10.47%
PA/PHI	93.4	12.62%
Incoming reins.	20.4	61.07%
Total	1,446.4	18.50%

GEP = Gross Earned Premium.
(Amounts in ISK million).



Net Technical Provision/Net Premium



Outlook 2004

The improved performance of the insurance sector in general during 2003 provided scope for a reduction in premium rates to customers, the effects of which will, of course, be reflected in performance figures during 2004.

As in the past, however, VÍS will work to ensure that all the main branches of the company's core insurance operations continue to generate profits.

Apart from this, prospects for the company in 2004 are good, although performance will depend to a large extent on trends and fluctuations in claims, which can vary widely from one period to another as experience has vividly demonstrated.

As before, competition in the insurance sector is intense and is becoming even harder due, among other things, to the entry of new companies into the marketplace. Despite this, however, VÍS has all the qualities required to face this competition, and meet it successfully.

VÍS strategy

Last year saw a comprehensive re-appraisal of VÍS corporate strategy, and the drafting of a series of quantifiable targets for the next 10 years. It is envisaged that by the year 2013, VÍS will have become Iceland's leading provider of insurance, security and financial security services, and turnover will be doubled through the provision of new insurance services and increased growth in other sectors. At the same time, VÍS will have firmly established itself as a profitable company and attractive investment opportunity, paying its shareholders an annual dividend totalling 30-45% of profits.

VÍS Goals



- VÍS aims to become a market leader in its field and an attractive opportunity for investors.
- VÍS will continue to strive to ensure that customers enjoy doing business with the company.
- VÍS will build on its reputation as a good employer and a desirable company for which to work.
- VÍS operations will be fast, efficient, goal orientated and cost-effective.

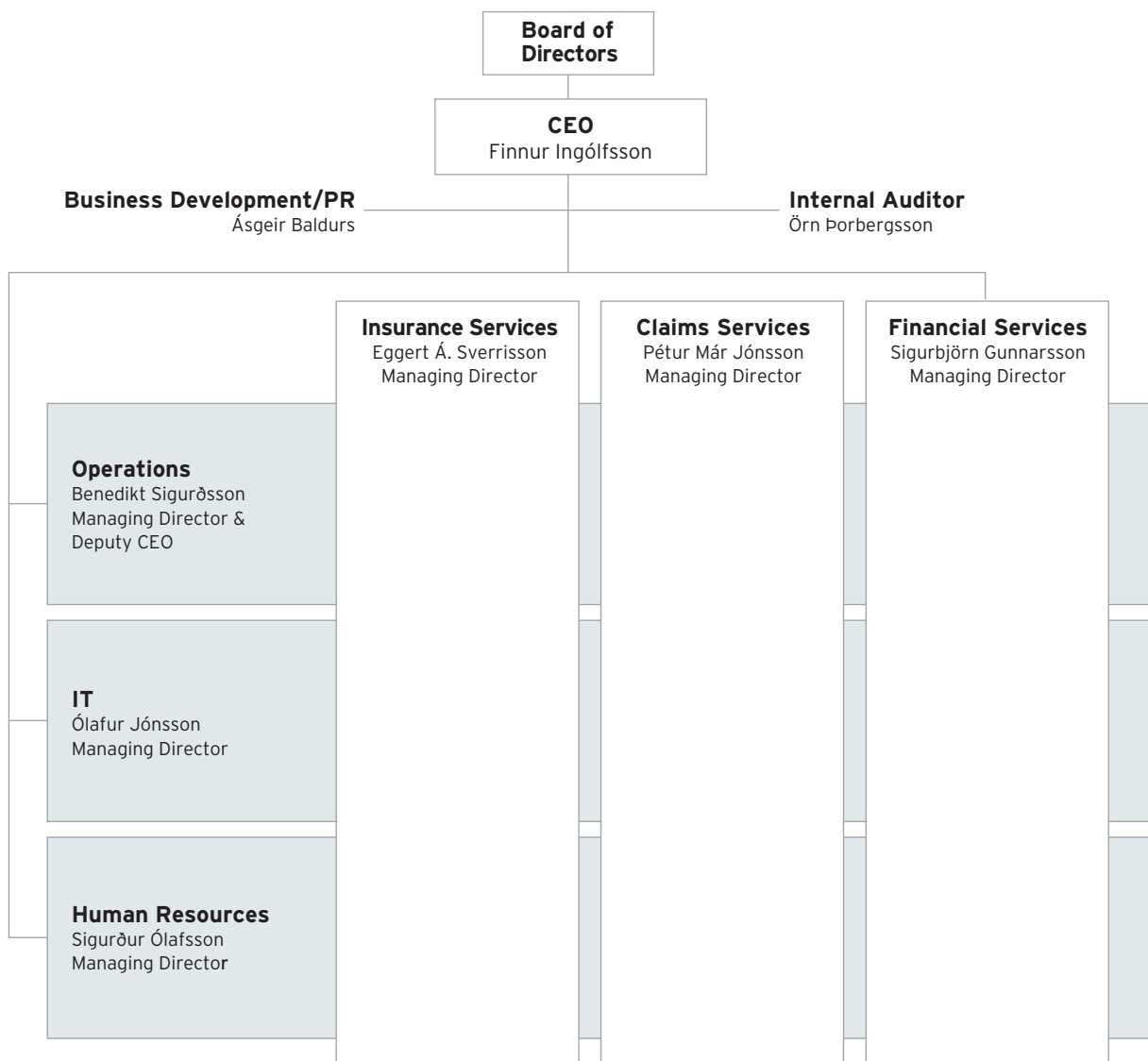
VÍS Values

- Initiative - Care - Reliability



New organisational structure

In June 2003, VÍS announced a restructuring of the company aimed at increasing operational efficiency. Increased emphasis was placed on financial services, internal auditing and supervision, risk management and business development, the aim being to meet competition by creating a fresh range of value-added services for the company's customers rather than by direct price competition.



Reykjavík, 27. February, 2004.

The Board of Directors:

Chairman

Pórolfur Gíslason

Eiríkur Tómasson	Helgi Jóhannesson
Ingólfur Ásgrímsson	Margeir Daníelsson
Óskar H. Gunnarsson	Sigurður Markússon

Managing Director/CEO

Finnur Ingólfsson

Insurance operations:	Group		Parent	
Non-Life insurance:	2003		2003	
Premiums:			2002	
Gross premiums written	7,952,678	7,985,219	7,487,362	
Outward reinsurance premiums	(1,291,928)	(1,291,928)	(1,052,349)	
Change in the gross provision for unearned premiums	(168,600)	(167,800)	(81,400)	
Change in the provision for unearned premiums, reinsurers' share ..	67,700	67,700	44,300	
Earned premiums, net of reinsurance	<u>6,559,850</u>	<u>6,593,191</u>	<u>6,397,913</u>	
Allocated investment return transferred from				
investment operations	1,659,355	1,659,355	1,164,650	
Claims:				
Claims paid	(5,291,160)	(5,310,538)	(5,581,173)	
Claims paid, reinsurers' share	506,449	506,449	710,679	
Change in the provision for claims	(480,648)	(467,972)	(573,407)	
Change in the provision for claims, reinsurers' share	84,125	84,125	(74,700)	
Claims incurred, net of reinsurance	<u>(5,181,234)</u>	<u>(5,187,936)</u>	<u>(5,518,601)</u>	
Net operating expenses:				
Sales expenses	(662,399)	(672,465)	(563,190)	
Administrative expenses	(1,128,088)	(1,128,087)	(1,006,929)	
Reinsurance commissions and profit participation	182,303	182,303	161,458	
Net operating expenses	<u>(1,608,184)</u>	<u>(1,618,249)</u>	<u>(1,408,661)</u>	
Profit from non-life insurance operations	<u>1,429,787</u>	<u>1,446,361</u>	<u>635,301</u>	
Profit from life-insurance operations	<u>61,852</u>	<u>0</u>	<u>0</u>	
Profit from insurance operations	<u>1,491,639</u>	<u>1,446,361</u>	<u>635,301</u>	
Investment income:				
Investment income:				
Profit share from subsidiaries and associated companies	26,318	36,557	55,235	
Income from shares in other companies	125,329	113,216	70,296	
Loss on property and land	(113,926)	(113,926)	(28,255)	
Interest earned and rate of exchange	1,706,553	1,576,596	1,154,230	
Profit on sale of assets	778,256	759,473	654,460	
Investment income	<u>2,522,530</u>	<u>2,371,916</u>	<u>1,905,966</u>	
Investment expenses:				
Interest expenses	(128,768)	(118,250)	(104,165)	
Administrative expenses	(17,526)	(6,698)	(2,147)	
Write-down of investments	(148,841)	(78,366)	(280,898)	
Investment expenses	<u>(295,135)</u>	<u>(203,314)</u>	<u>(387,210)</u>	
Allocated investment return transferred to insurance operations ...	<u>(1,682,768)</u>	<u>(1,659,355)</u>	<u>(1,164,650)</u>	
Profit from investment operations	<u>544,627</u>	<u>509,247</u>	<u>354,106</u>	
Other income and expenses of operations:				
Other income	38,015	38,015	36,940	
Other expenses	(151,228)	(151,228)	(147,990)	
Other expenses of operations	<u>(113,213)</u>	<u>(113,213)</u>	<u>(111,050)</u>	
Profit before income tax and net worth tax	<u>1,923,053</u>	<u>1,842,395</u>	<u>878,357</u>	
Income tax and net worth tax	<u>(356,270)</u>	<u>(327,115)</u>	<u>(144,817)</u>	
Minority interest	<u>(51,503)</u>	<u>0</u>	<u>0</u>	
Profit for the year	<u>1,515,280</u>	<u>1,515,280</u>	<u>733,540</u>	

Assets	Group 2003	2003	Parent 2002
Intangible assets:			
Goodwill	722,816	0	0
Investments:			
Land and buildings	527,019	527,019	561,273
Affiliated undertakings and participating interests:			
Shares in affiliated undertakings	0	1,372,050	18,569
Loans to affiliated undertakings	0	5,589	7,871
Participating interests	1,043,472	1,043,472	635,329
	<u>1,043,472</u>	<u>2,421,111</u>	<u>661,769</u>
Other financial investments:			
Variable yield securities	10,817,166	10,027,677	6,757,603
Bonds and fixed income securities	4,847,963	4,279,062	5,601,218
Loans guaranteed by mortgages	3,732,093	3,718,593	3,750,562
Other loans	110,097	110,096	124,881
	<u>19,507,319</u>	<u>18,135,428</u>	<u>16,234,264</u>
Investments	<u>21,077,810</u>	<u>21,083,558</u>	<u>17,457,306</u>
Investments for the benefit of life-assurance policyholders who bear the investment risk	<u>816,580</u>	<u>0</u>	<u>0</u>
Reinsurers' share in insurance fund:			
Premiums reserve	389,488	357,000	289,300
Claims reserve	708,789	687,425	603,300
Reinsurers' share in insurance fund	<u>1,098,277</u>	<u>1,044,425</u>	<u>892,600</u>
Debtors:			
Amounts owed by affiliated undertakings	127,090	110,219	304,235
Debtors arising out of insurance operations	2,497,292	2,462,653	2,251,243
Debtors arising out of reinsurance operations	392,800	387,472	432,399
Other debtors	36,035	25,177	13,998
Debtors	<u>3,053,217</u>	<u>2,985,521</u>	<u>3,001,875</u>
Reinsurers' share in insurance fund:			
Premiums reserve	107,040	107,040	119,512
Claims reserve	1,931,172	1,423,405	2,401,534
Reinsurers' share in insurance fund	<u>2,038,212</u>	<u>1,530,445</u>	<u>2,521,046</u>
Other assets:			
Tangible assets	33,767	33,767	47,135
Cash at bank and in hand	64,837	64,836	48,085
Other assets	<u>98,604</u>	<u>98,603</u>	<u>95,220</u>
Assets total	<u>28,905,516</u>	<u>26,742,552</u>	<u>23,968,047</u>

Capital and liabilities

	Group 2003	Parent 2003	Parent 2002
Capital and reserves:			
Share capital	543,814	543,814	538,783
Reserve fund	569,366	569,366	420,489
Accrued exchange rate difference on stock options	44,434	44,434	15,015
Profit brought forward	4,799,844	4,799,844	3,594,564
Capital and reserves	5,957,458	5,957,458	4,568,851
Minority interest	211,198	0	0
Technical provision:			
Provision for unearned premiums	4,012,141	3,563,000	3,395,200
Claims outstanding	14,538,885	14,318,223	13,850,251
Equalization provision	684,000	684,000	684,000
Provision for bonuses	99,268	6,500	13,500
Technical provision	19,334,294	18,571,723	17,942,951
Technical provision for life-assurance policies where the investment risk is borne by the policyholders	816,580	0	0
Other Provision:			
Deferred income tax liability	542,761	513,176	341,533
Pension plan obligations	67,431	55,321	53,613
Other Provision	610,192	568,497	395,146
Creditors:			
Creditors arising out of direct insurance operations	378,152	378,152	174,728
Creditors arising out of reinsurance operations	363,727	356,189	347,769
Amounts owed to credit institutions	11,398	1,674	4,814
Other creditors	583,492	456,295	115,958
Creditors	1,336,769	1,192,310	643,269
Accrued expenses and unearned revenue	639,025	452,564	417,830

Capital and liabilities 28,905,516 26,742,552 23,968,047

Parent**Summary of amounts in the Financial statements:**

	2003	2002	2001	2000	1999
1. Net premiums	6,593,191	6,397,913	5,730,152	4,546,462	3,948,072
2. Net claims	5,187,936	5,518,601	5,944,429	5,093,922	4,492,117
3. Net operating expense	1,618,249	1,406,328	1,233,231	1,132,268	1,123,569
4. Investment income	1,659,355	1,164,650	1,611,363	1,367,057	1,278,176
5. Change in the equalization provision	0	0	81,000	150,000	100,000
6. Profit (loss) from insurance operations	1,446,361	635,301	229,030	(163,441)	(291,838)
7. Profit from investment income	509,247	354,107	365,258	1,182,841	683,221
8. Profit before taxes	1,842,395	878,357	557,564	901,589	446,658
9. Income tax and net worth tax	327,115	144,817	(126,930)	252,067	87,794
10. Profit for the year	1,515,280	733,540	684,494	649,522	358,864
11. Net technical provision	17,527,298	17,050,351	16,373,981	14,416,426	13,005,835
12. Capital and reserves	5,957,459	4,568,851	4,090,284	3,244,748	2,600,214
13. Assets total	26,742,552	23,968,047	22,513,583	19,909,159	17,599,814

Summary of ratios:

	%	%	%	%	%
1. Claims ratio	78.7	86.3	103.7	112.0	113.8
2. Cost ratio	24.5	22.0	21.5	24.9	28.5
3. Ratio of investment income	25.2	18.2	28.1	30.0	32.4
4. Ratio 1 + 2 - 3	78.1	90.0	97.1	106.9	109.9
5. Capital / net premiums	90.4	71.4	71.4	71.3	65.9
6. Net technical provision / net premiums	265.8	266.5	285.8	317.1	329.4
7. Ratios 5 + 6	356.2	337.9	357.2	388.4	395.3
8. Solvency ratio	326.0	339.0	359.0	303.0	276.0
Index annual averages	226.8	222.3	210.8	198.5	188.7
Index at year end	230.0	223.9	219.5	202.1	194.0

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.

Subsidiary

Summary of amounts in the Financial statements:

	2003	2002	2001	2000	1999
1. Net premiums	497,569	479,345	449,988	378,373	241,334
2. Net claims	119,555	101,301	83,138	73,800	47,243
3. Net operating expense	139,321	127,402	106,161	120,945	74,749
4. Investment income	149,591	125,088	1,156,292	92,717	94,850
5. Profit from insurance operations ..	45,278	95,214	569,848	59,947	64,791
6. Profit before taxes	154,444	118,776	1,149,177	81,232	98,225
7. Income tax and net worth tax	29,156	23,725	239,200	23,606	31,887
8. Profit for the year	125,288	95,051	909,977	57,626	66,338
9. Net technical provision	708,719	639,593	580,077	509,113	482,162
10. Capital and reserves	847,472	772,184	1,447,133	517,964	459,991
11. Assets total	2,692,702	2,700,209	2,808,645	1,347,431	1,178,048

Summary of ratios:

	%	%	%	%	%
1. Capital / net premiums	170.3	161.1	321.6	136.9	190.6
2. Net technical provision / net premiums	142.4	133.4	128.9	134.5	199.8
3. Ratios 1 + 2	312.7	294.5	450.5	271.4	390.4
4. Solvency ratio	263.0	268.0	275.0	227.0	266.0
Index annual averages	226.8	222.3	210.8	198.5	188.7
Index at year end	230.0	223.9	219.5	202.1	194

Amounts relate to the year of occurrence

Specifications:

1. Capital / net premiums Capital as a percentage of net premiums.
2. Net technical provision /
net premiums Net technical provision as a percentage of net premiums.
3. Ratios 5 + 6 Percentage total of section 5 and 6.
4. Solvency ratio Calculated capital as a percentage of minimum capital according to laws.