

## First Quarter Report 2008



# Report for the first quarter 2008

Vital Forsikring ASA, which together with DnB NOR Kapitalforvaltning, forms the business area Life and Asset Management in DnB NOR, is Norway's largest life and pensions company. Vital insures more than one million people through group and individual pension schemes and has 25 000 corporate customers.

The turbulence in world financial markets led to Vital recording a negative financial return in the first quarter of 2008. After using additional allocations, Vital's result for the first quarter was minus NOK 361 million. Distributions to policyholders in sub-portfolios with a positive return result are estimated at NOK 84 million. Customers have been allocated a guaranteed return of approximately 0.9 per cent in the first quarter that amounts to NOK 1.6 billion.

It is not permitted to use additional allocations in the interim accounts of Norwegian life insurance companies so that Vital's result in the company accounts after excluding additional allocations of NOK 1 344 million was minus NOK 1 705 million.

The final division of the result between policyholders, equity and tax will be determined in connection with the completion of the annual accounts for 2008.

The accounts have been presented in conformity with the annual accounts regulations for life insurance companies that have been adapted to the new business rules. The Norwegian Financial Supervisory Authority has decided that comparative figures for 2007 should not be shown in the income statement and balance sheet for 2008.

The total assets of Vital as at 31 March 2008 amounted to NOK 227 billion, a decrease of 1.3 per cent since the year end.

The accounts for the first quarter show:

- Growth in premium income in group pensions
- An inflow of premium reserves
- A reduction in premium income for individual pensions as a result of uncertainty as to the regulatory parameters
- A negative return on the equities portfolio
- A good return on interest-bearing securities

Figures for the accounts for the first quarter of 2007 are shown below in parenthesis.

## Premium income

Premium income was NOK 9.3 billion (8.9), an increase of 4.6 per cent compared with the corresponding period last year.

Premium income for group pensions totalled NOK 7.6 billion (6.5), a rise of 18 per cent. Aggregate premium reserves for group pensions received from other companies amounted to NOK 2.5 billion (1.9). The growth in group pensions is mainly due to an inflow of reserves from public schemes of around NOK 1.5 billion in the first quarter of 2008.

Premium income in the individual market was NOK 1.5 billion (2.4), a decrease of 38 per cent compared with the corresponding period last year. Unit-linked insurance policies represented NOK 0.4 billion (0.7) of aggregate premium income. Uncertainty as to the parameters for individual pension saving, and the negative development in financial markets, have led to lower premium income for these products.

Vital had a net inflow of premium reserves in the first quarter of NOK 1.4 billion (0.2). The improvement is due to funds transferred from public schemes.

## Payments to policyholders

Payments to policyholders and compensation for disability and death amounted to NOK 6.8 billion (9.3). The decrease is mainly due to a fall in repurchases of guaranteed individual products. Repurchases of products with guaranteed returns amounted to NOK 1.9 billion (3.5). Repurchases of annuities amounted to NOK 1.1 billion (0.8) and mainly relate to unit-linked products.

## Financial return

The negative return from stock markets was the most important reason for the negative overall return. There was a positive return in the first quarter of 2008 from interest-bearing securities. The recorded return for the group portfolio was 0.1 per cent. The value-adjusted return, excluding value changes in the portfolio of securities to be held to maturity, was minus 1.8 per cent. Including changes in the portfolio of securities to be held to maturity the return was minus 1.6 per cent. The main reason for the low value-adjusted return in the first quarter of 2008 was the decline in stock markets.

The return on bonds held as current assets was 2.4 per cent (0.5) at the end of the quarter, divided between 2.5 per cent (0.4) on Norwegian bonds and 2.4 per cent (0.5) on foreign bonds. The aggregate return on shares was minus 13.1 per cent (2.8), divided between minus 15.7 per cent (6.8) on Norwegian shares and minus 12.4 per cent (1.8) on foreign shares (including hedge funds and private equity). Real estate gave a return of 1.4 per cent (2.7). Bonds to be held to maturity gave a return of 1.3 per cent (1.3).

The company portfolio achieved a value-adjusted return of 1.3 per cent. The company capital forms part of the buffer capital that protects policyholders' funds. Based on risk considerations the company capital has been invested in the money market during the first quarter

## Costs

Operating costs amounted to NOK 494 million (477) in the first quarter of 2008. The increase is due, among other things, to higher salary costs and costs associated with expansion initiatives in Sweden and the Baltic.

## Result

The result determined after use of additional allocations was minus NOK 361 million.

Vital's result was minus NOK 1 621 million (2 428). The decrease is mainly due to a lower recorded return. The result before tax was minus 1 705 million (366). The value-adjusted financial result for the combined portfolio was minus NOK 3.7 billion. The risk result was NOK 111 million (13). The administration result was minus NOK 17 million (minus 20).

The securities adjustment reserve stood at zero at the end of the first quarter of 2008 (NOK 5.6 billion), a reduction of NOK 3.3 billion since the year end.

## Capital adequacy

Capital adequacy is an expression of the company's primary capital as a proportion of risk-weighted assets. The capital ratio at 31 March 2008 was 9.7 per cent (8.9). The capital ratio at 31 December 2007 stood at 9.7 per cent. The minimum capital ratio requirement is 8 per cent.

## Solvency capital

Solvency capital, which protects the customers' premium reserve, may consist of the interim profit, the securities adjustment reserve, unrealised gains on securities to be held to maturity, additional allocations, equity and subordinated loans.

At 31 March 2008 solvency capital was NOK 17.2 billion (24.2), against NOK 21.8 billion at 31 December 2007. The change is mainly due to the result for the first quarter, a reduction in the securities adjustment reserve and changes in unrealised gains on the portfolio of securities to be held to maturity. At 31 March 2008 solvency capital amounted to 9.4 per cent (13.6) of insurance reserves (excluding additional allocations and the security reserve) against 12.6 per cent at the year end.

Buffer capital, i.e. equity above the statutory minimum requirement, additional allocations, the securities adjustment reserve and unallocated profit, amounted to NOK 8.7 billion at 31 March 2008, against 13.8 billion at the year end.

## Market

Vital is the market leader in life insurance and pensions in Norway and had a market share 33.6 per cent of total

customer funds at 31 December 2007 (source FNH). In the corporate market Vital had a market share of 44.0 per cent in private group defined benefit pensions and a share of 9.8 per cent in municipal group pensions based on insurance reserves. In the individual market Vital had a market share of 51.8 per cent based on insurance reserves. The market share for defined contribution pensions was 30.6 per cent at 31 December 2007.

Vital has established operations in the Baltic. The start-up in Latvia took place on 19 March 2007 with distribution via DnB NOR's office network. The start-up in Lithuania will occur in the second quarter of 2008.

## Miscellaneous

Vital's business has been subject to new rules since 1 January 2008. The new business rules establish clearer distinctions between policyholders' and the company's funds and a clearer division of risk between policyholders and the company. Product pricing has been made more transparent. The new rules will over time have positive effect on the company's earnings and make it easier to tailor products to customer requirements.

A number of measures to coordinate Vital's business with DnB NOR Kapitalforvaltning were approved in the first quarter of 2008. Functions to be coordinated include finance and accounting, sales, marketing and products for individual customers as well as the evaluation and selection of external managers in asset management. The coordination follows the establishment of the business area DnB NOR Life and Asset Management in 2007, which comprises Vital and DnB NOR Kapitalforvaltning.

## Prospects

Developments in financial markets have resulted in a loss for Vital in the first quarter. With a normalised return over the rest of the year the loss in the first quarter will be reversed. The development in stock markets from the end of the first quarter to the date of consideration of the accounts by the Board has been positive. This has meant that the company's loss of NOK 361 million after use of additional allocations has been reversed as at 23 April.

Vital expects continued growth in the market for pension saving in the coming years. Increased saving in mandatory occupational pension schemes, as well as new individual pension saving with tax deductions, which is expected to be approved by the Norwegian parliament later this year, will provide interesting market opportunities in the future.

Vital's goal is to achieve a competitive return over time and be in a position to assume necessary risks. Historically Vital has been able to deliver in accordance with this goal and has led its Norwegian competitors with regard to financial returns over several years. Negative results for the first quarter do not change the Board's view that Vital has adequate solvency capital and good capacity to take investment risks that can provide competitive returns to policyholders and the owner. The company's buffer capital is considered to be sufficient to tolerate fluctuations in the financial markets. The outlook for the financial markets is still considered to be volatile and uncertain and as a result the Board has decided to hedge parts of the equities portfolio against a fall in prices. In addition Vital is positioned with almost 50 per cent of the combined portfolio placed in sound interest-bearing securities to be held until maturity and in real estate. These investments will generate a good and secure return over time.

Vital's goal is to deliver good results for policyholders and its owner. Important elements in this are maintaining and developing a cost-effective and profitable organisation as well as strengthening customer service and relations with policyholders. By using the breadth of DnB NOR's distribution network Vital will be able to reach all customer groups.

23 April 2008

The Board of Vital Forsikring ASA

# Accounts

Vital Forsikring ASA

## Income statement

NOK million	31 March 2008
Premium income	9 429
Net income from investments in the combined portfolio	(3 606)
Net income from investments in the portfolio with investment choice	(1 860)
Other insurance related income	5
Payments to policyholders	(6 919)
Changes in insurance liabilities – contractual liabilities	(195)
Changes in insurance liabilities – separate investment choice portfolio	1 825
Funds allocated to insurance policies – contractual liabilities	(84)
Insurance related operating costs	(492)
Other insurance related costs	76
<b>Result from technical accounts</b>	<b>(1 821)</b>

## Non-technical accounts

Net income from investments in the company portfolio	118
Other income	0
Management costs and other costs related to the company portfolio	(2)
<b>Result from non-technical accounts</b>	<b>116</b>

**Result before tax** (1 705)

**Taxes** 0

**Result before other items** (1 705)

**Other items** 0

**Total result** (1 705)

## Notes:

**Use of additional allocations** 1 344

**Result** (361)

*It is not possible to use additional allocations in the interim accounts. Under the rules for annual accounts NOK 1,344 million could be covered from additional allocations which would give a result before tax of minus NOK 361 million.*

## Balance sheet

NOK million 31 March 2008

### Assets in the company portfolio

Intangible assets	186
Investments	11 429
Reinsured portion of insurance liabilities	0
Receivables	545
Other assets	1 358
Prepaid expenses and accrued income	68
<b>Total assets in the company portfolio</b>	<b>13 586</b>

### Assets in the policyholder portfolios

Investments in the combined portfolio	195 641
Investments in the investment choice portfolio	18 124
<b>Total assets in the policyholder portfolios</b>	<b>213 764</b>

**Total assets** 227 351

### Equity and liabilities

Paid-up equity	2 496
Retained earnings	4 376
Subordinated loan capital etc.	2 476
Insurance liabilities in life insurance – contractual liabilities	191 601
Insurance liabilities in life insurance – separate investment choice portfolio	18 124
Provisions for commitments	798
Premiums to reinsurance companies	0
Liabilities	5 909
Accrued expenses and prepaid income	1571
<b>Total equity and liabilities</b>	<b>227 351</b>

## Key figures

Return on capital in the combined portfolio	(0,1%)
Value-adjusted return from the combined portfolio	(1,8%)
Kapitaldekning	9,7%



# Notes to the accounts

## Note 1: Accounting principles

The interim accounts of Vital Forsikring ASA include subsidiaries and associated companies entered using the equity method. The interim accounts for the first quarter have been prepared under IAS 34 – Interim accounts, unless it is provided otherwise under the regulations on the annual accounts of insurance companies etc. (the Annual Accounts Regulations), amended on 4 April 2008 and effective from 1 January 2008. The interim accounts do not contain all the information that would be included in annual accounts prepared in accordance with all relevant IFRS standards.

The annual report of Vital Forsikring ASA for 2007 can be obtained on application to Vital Forsikring ASA, Folke Bernadottesvei 40, Fyllingsdalen, Bergen or at [www.vital.no](http://www.vital.no). A description of the accounting

principles used in the interim accounts can be found in the accounting principles note in the annual report for 2007.

In preparing the interim accounts estimates and assumptions have been used that have affected assets, liabilities, income, expense. The actual figures may differ from the estimates used.

## Note 2: New business rules from 1 January 2008

In connection with the transition to new business rules for life companies from 1 January 2008 the Annual Accounts Regulations' provisions on the contents of financial statements have been amended from 1 January 2008. In accordance with transitional rule § 7-3 of the Annual Accounts Regulations comparative figures have not been prepared for the income statement, balance sheet, statement of changes in equity and cash flow analysis.

### Changes in equity 01 January 2008 – 31 March 2008

NOK million	Paid-up equity	Other equity	Total equity	Paid up equity	Other equity	Total equity
<b>Equity at 31 December 2007</b>				<b>2 496</b>	<b>5 867</b>	<b>8 363</b>
Security reserve transferred to securities adjustment reserve (SAR)					214	214
Allocation for increased life expectancy at 31 December 2007 transferred to SAR					4 436	4 436
<b>Equity at 01 January 2008</b>				<b>2 496</b>	<b>10 517</b>	<b>13 013</b>
<b>Result items charged directly against equity</b>						
Allocation for increased life expectancy transferred premium reserve					(4 436)	(4 436)
Result for the period					(1 705)	(1 705)
<b>Equity at 31 March 2008</b>				<b>2 496</b>	<b>4 376</b>	<b>6 872</b>

### Cash flow statement

Cashflow analysis	01 January 2008 – 31 March 2008
<i>NOK million</i>	
<b>Cash flow from operational activities</b>	
Net premiums/premium funds received	8 232
Net payments on transfers	(299)
Net income from financial assets	(5 058)
Net income from life insurance with investment choice	(2 530)
Net other insurance-related income and expenses	146
Insurance settlements disbursed	(4 731)
<b>A = Net cash flow from operational activities</b>	<b>(4 240)</b>
<b>Cash flow from investment activities</b>	
Net invested in shares and mutual funds	(316)
Net invested in bonds and loans	1 041
Net invested in investment agreements	2 700
Net invested in other financial assets	(651)
Net invested in fixed and intangible assets	(32)
<b>B = Net cash flow from investment activities</b>	<b>2 742</b>
<b>Cash flow from financing activities</b>	
Changes in other financing	2 254
<b>C = Net cash flow from financing activities</b>	<b>2 254</b>
Net changes in liquidity (A+B+C)	757
Liquid resources at 01.01 (cash/bank)	11 802
<b>Liquid resources at 31 March 2008 (cash/bank)</b>	<b>12 559</b>

## Business address:

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