VITAL

3rd quarter report 2008

Board report 3rd quarter 2008

Vital Forsikring ASA is the largest life insurance and pensions company in Norway. Vital insures more than a million people through group and individual pension schemes and has some 25 000 corporate customers. Vital Forsikring and DnB NOR Kapitalforvaltning together make up the business area Life and Capital Management in the DnB NOR group.

Vital's result was NOK 48 million for the nine months to 30 September, and minus NOK 45 million in the third quarter after utilising additional allocations.

Vital's customers that have a guaranteed return have so far this year been credited with a return of approximately 2.7 per cent (annualised 3.5 per cent) which amounted to approximately NOK 4.9 billion. In addition to the guaranteed return, customers within certain portfolios have been credited with a surplus of NOK 93 million.

Vital's total assets as at 30 September 2008 were NOK 221 billion, a reduction of 4 per cent since the start of the year.

Figures from the accounts at the end of the third quarter show:

- Growth in premium income in group pensions
- Positive transfers balance
- Reduction in premium income for individual pensions
- Negative return on equities portfolios and value adjustment on real estate
- Capital ratio of 10.8 per cent

The final division of the result between customers, equity and tax will be determined in connection with the finalisation 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 due to the introduction of new business rules from 1 January 2008.

The accounting rules for Norwegian life insurance companies do not allow the use of additional allocations in interim accounts. Vital's result of NOK 48 million is stated after utilising additional allocations of NOK 4 720 million.

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

Premium income

Premium income was NOK 17.1 billion (18.4), a decline of 7 per cent compared with the corresponding period last year.

Premium income for group pensions amounted to NOK 13.3 billion (11.6), an increase of 14 per cent compared with the corresponding period last year. The main element in the increase was funds transferred from public schemes totalling approximately NOK 1.5 billion.

Aggregate premium reserves for group pensions received from other companies amounted to NOK 2.9 billion (2.2).

Premium income in the individual market was NOK 3.6 billion (6.7), a decline of 46 per cent compared with the corresponding period last year. The reduction is mainly due to the termination of short-term saving products that have largely been debt-financed and to the turbulence in financial markets. Unit-linked insurance policies represented NOK 1.1 billion (2.1) of total premium income, a reduction of 48 per cent.

Vital had a transfers balance at the end of the third quarter of NOK 1.0 billion (minus 0.7). Reserves received amounted to NOK 3.7 billion (3.0). Reserves transferred to other companies were NOK 2.7 billion (3.7). 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 7.2 billion (6.6) in the first nine months of 2008. Repurchases of products with guaranteed returns amounted to NOK 6.5 billion (10.6), and repurchases of unit-linked products to NOK 1.6 billion (3.5).

Financial return

Table 1: Recorded return in the sub-portfolios

	Low risk	Moderate risk	High risk	Paid-up policies	Old PM	Total
30.09.08	1,5 %	0,3 %	-1,5 %	-0,3 %	0,0 %	-0,1 %

Table 2: Value-adjusted return in the sub-portfolios

	Low risk	Moderate risk	High risk	Paid-up policies	Old PM	Total
30.09.08	-0,1 %	-1,5 %	-3,4 %	-2,1 %	-1,7 %	-1,8%

The recorded return for a weighted average of the sub-portfolios in the combined portfolio was minus 0.1 per cent for the first nine months of 2008. The value-adjusted return was minus 1.8 per cent in the same period. For the third quarter viewed in isolation the recorded return was the same as the value-adjusted return at minus 0.1 per cent.

The return this year has been affected by the turbulence in financial markets. The world stock market index (MSCI) had fallen 22.8 per cent by the end of the third quarter, while the Oslo Stock Exchange was down 35.1 per cent in the same period. The fall in share prices contributed to reducing the return in the third quarter. In addition the widening of credit spreads and a write-down of NOK 0.3 billion on the real estate portfolio has had a negative impact on the return in the third quarter. Even though falling bond yields contributed in the opposite direction, this was insufficient to balance the negative effect of the other factors.

Equities exposure was reduced from 25 per cent at the start of the year to 12.5 per cent at the end of the second quarter, and further down to 6.0 per cent at 30 September 2008. Equities exposure is adjusted for financial derivatives and includes Vital's investments in both hedge funds and private equity. The aggregate return so far this year for equities, measured at the end of the third quarter, was minus 16.4 per cent (4.4) split between minus 28.8 per cent (17.0) on Norwegian shares and minus 13.3 per cent (7.3) on foreign shares, included hedge funds and private equity. In comparison the return on international shares, excluding Vital's put options on leading equity indices, was minus 18.4 per cent for the period to 30 September 2008.

Vital's bond portfolio is of high credit quality throughout. Vital has not invested in structured credits or high risk bonds. Bond yields have fallen during the third quarter while credit spreads have increased significantly. Vital's credit portfolio amounts to less than 1 per cent of the total portfolio and is placed in investment grade bonds. The widening in credit spreads has therefore only had a limited negative effect on the aggregate bond return in Vital.

The return on bonds held as current assets to the end of the third quarter of this year was 3.6 per cent (1.4). The return is split between 4.3 per cent (1.5) on Norwegian bonds and 2.1 per cent (1.8) on foreign bonds. Bonds held as fixed assets gave a return of 3.9 per cent (4.0).

Vital's real estate portfolio has been subject to a gross write-down in value so far this year of NOK 2 billion, of which NOK 0.3 billion was in the third quarter. The write-down in the third quarter relates to the development in the value of Vital's properties in Sweden.

The company portfolio achieved a value-adjusted return of 3.3 per cent. This must be viewed in the context that the most of the company capital was invested in the Norwegian money market. The company capital forms part of the buffer capital that protects customers' funds and contributes to the guaranteed return.

The aggregate recorded and value-adjusted returns for the common and company portfolios were respectively 0.0 per cent and minus 1.6 per cent. Including fixed assets the return was minus 2.2 per cent.

Vital's contribution-based pension profiles have a fixed asset allocation. The return so far this year in contribution-based pension profiles has been negative and has been affected by the negative development on stock markets in 2008. The returns for Vital's three standard profiles in contribution-based pensions, Vital 30,50 and 80, were respectively minus 6.6 per cent, minus 12.2 per cent and minus 20.4 per cent.

Costs
Operating costs amounted to NOK 1 475 million (1 455) for the first nine months of 2008. NOK 50 million was expensed in the third quarter in connection with the closure of the company in Sweden.

Result for the first nine months
Vital's result for the first nine months was NOK 48 million (2 045). The reduction is due to a lower financial return in 2008. Vital's result before utilising additional allocations was minus NOK 4 672 million (2 045).

The risk result was NOK 271 million (61). The change from last year is due to better disability results.

The administration result was minus NOK 109 million (minus 89), after expensing NOK 50 million of previously capitalised costs following the decision to close Vital's business in Sweden. The administration result is positive for guaranteed products, but negative for unit-linked products.

The securities adjustment reserve stood at zero at the end of the third quarter of 2008 (NOK 5.3 billion), a reduction of NOK 3.3 billion since the start of the year.

Capital adequacy
The capital ratio is an expression of the company's primary capital as a proportion of risk-weighted assets. The capital ratio at 30 September 2008 was 10.8 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. The reason for the increase in the capital ratio is mainly a reduced equities allocation and thus a lower risk in Vital's overall portfolio.

Solvency capital
Solvency capital, which protects the policyholders' 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. As at 30 September 2008 solvency capital amounted NOK 12.4 billion (30.9), while at 31 December 2007 it was NOK 21.8 billion. The change is due to the negative result so far this year, the reduction in the securities adjustment reserve and changes in unrealised gains on the portfolio of securities to be held to maturity. As at 30 September 2008 solvency capital amounted to 7.3 per cent (16.9) of insurance reserves (excluding additional allocations and the security reserve) against 12.6 per cent at the start of the year.

Buffer capital, i.e. equity above the statutory minimum requirement, additional allocations, the securities adjustment reserve and unallocated profit, amounted to NOK 6.1 billion at 30 September 2008, against 13.8 billion at the start of the year.

Market position
Vital is the market leader in life insurance and pensions in Norway and had a market share of 33.4 per cent of total customer funds at 30 June 2008 (source FNH). In the corporate market Vital had a market share of 43.0 per cent in private group defined-benefit pensions and a share of 10.8 per cent in funded municipal group pensions.

The market share for defined-contribution pensions was 29.2 per cent as at 30 June 2008. Some 17 000 companies with around 230 000 members have taken out defined-contribution pensions with Vital, and policyholders' funds totalled approximately NOK 4.6 billion (3.4). In the individual market Vital had a market share of 52.9 per cent based on insurance reserves. Vital established operations in Latvia in March 2007 and in Lithuania in April 2008, with distribution via DnB NORD's office network. The business is developing according to plan.

Miscellaneous
Four specific projects within operational quality and coordination were launched in September under the title "A more integrated Vital". The main goal of the projects is to strengthen customer service and provide a more cost-effective organisation.

Vital Forsikring ASA has decided to wind up its business in Sweden.

The financial crisis
The turbulence in financial markets escalated significantly in September. The bankruptcy of Lehman Brothers was the trigger for a further wave of credit losses, putting pressure on the entire financial system. In the first instance the American authorities were obliged to undertake rescue actions and provide support packages to secure the banking system. Subsequently the authorities in a number of European countries had to support a banking sector under pressure.

Vital's return in 2008 has been affected by the turbulence in financial markets. The negative effect on the return in the third quarter viewed in isolation has been limited however.

Vital's common portfolio is subject to dynamic risk management. At the outset this means that Vital makes gradual adjustments to the equity risk in the portfolio. During 2008 this has been expressed through a marked reduction in the equities allocation from 25 per cent at the start of the year to 6.0 per cent at the end of the third quarter. The equities portion has been reduced through sales and by hedging against a fall in value through the use of put options in the global equities portfolio. Funds released have been invested in Norwegian interest-bearing securities.

Secondly Vital has a conservative profile on its bond portfolio. This has contributed to reducing the impact of the increase in credit spreads. Vital has no high risk bonds, no credit derivatives and no exposure to emerging markets bonds.

During several years of good results Vital has built up additional allocations in order to withstand fluctuations of the type we are now seeing. In spite of the turbulence in the financial markets Vital has maintained a good solvency position with a capital ratio of 10.8 per cent as at 30 September 2008. Customers who have funds under management in Vital's combined portfolio are guaranteed an annual return of 3.5 per cent.

Prospects
The market for life insurance and pensions is growing steadily as a result of salary increase, extended employment and the need for private pension insurance. Vital's strong position is underlined by the fact that several major customers have chosen Vital in competition with other suppliers recently. A continued focus on delivery quality and cost-efficient operation is, however, essential if Vital's strong position is to be a maintained. Steadily closer integration with the DnB NOR group will continue to be important for Vital.

In 2008 the world economy has experienced dramatic changes and the previous weak growth is in the process of coming to an end. The downturn is also being felt now in Norway. It is expected that weaker growth prospects, risk premiums in the money market and lower base rates internationally will lead to the Norwegian base rate being reduced several times in the coming twelve months.

At the end of the third quarter the finance markets had virtually ceased to function. In such a situation an evaluation of future prospects must be based on fundamental macro-economic factors and viewed in the light of the fact that the Norwegian economy is stronger than most other countries'. The Norwegian state has the financial room to manoeuvre to implement the necessary measures to stabilise the situation in the Norwegian finance market, something that has been confirmed by the package of measures that has now been approved.

Macroeconomic forecasts indicate that the downturn affecting the world economy will probably last until the end of 2009 or the beginning of 2010 before a new upturn. Vital is well equipped to cope with such a recession, Vital has adjusted its asset allocation and will work to strengthen its buffer capital.

21 October 2008
The Board of Vital Forsikring ASA

Accounts

Vital Forsikring ASA

Income statement

NOK million	*30 Sept 2008*
Premium income	17 078
Net income from investments in the common portfolio	(3 500)
Net income from investments in the portfolio with investment choice	(3 133)
Other insurance related income	57
Payments to policyholders	(17 919)
Changes in insurance liabilities - contractual liabilities	1 662
Changes in insurance liabilities -separate investment choice portfolio	2 561
Funds allocated to insurance policies - contractual liabilities	(93)
Insurance related operating costs	(1 472)
Other insurance related costs	(171)
Result from technical accounts	**(4 931)**
Non-technical accounts	
Net income from investments in the company portfolio	261
Other income	0
Management costs and other costs related to the company portfolio	(3)
Result from non-technical accounts	**258**
Result before tax	**(4 672)**
Taxes	**0**
Result before other items	**(4 672)**
Other items	**0**
Total result	**(4 672)**
Notes:	
Use of additional allocations	**4 720**
Result	**48**

It is not possible to use additional allocations in the interim accounts. Under the rules for annual accounts NOK 4,720 million could be covered from additional allocations which would give a result before tax of NOK 48 million.

Balance sheet

NOK million	*30 Sept 2008*
Assets in the company portfolio	
Intangible assets	219
Investments	10 739
Reinsured portion of insurance liabilities	0
Receivables	3 545
Other assets	2 429
Prepaid expenses and accrued income	24
Total assets in the company portfolio	**16 957**
Assets in the policyholder portfolios	
Investments in the common portfolio	177 168
Investments in the investment choice portfolio	26 979
Total assets in the policyholder portfolios	**204 147**
Total assets	**221 104**
Equity and liabilities	
Paid-up equity	2 496
Retained earnings	1 354
Subordinated loan capital etc.	2 522
Insurance liabilities in life insurance - contractual liabilities	178 656
Insurance liabilities in life insurance - separate investment choice portfolio	26 979
Provisions for commitments	798
Premiums to reinsurance companies	0
Liabilities	7 779
Accrued expenses and prepaid income	520
Total equity and liabilities	**221 104**

Key figures

Return on capital in the common portfolio	(0.1 %)
Value-adjusted return from the common portfolio	(1.8 %)
Capital ratio	10.8 %

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 half year 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. 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 – 30 Sept 2008

NOK million	*Paid-up equity*	*Other equity*	*Total equity*
Equity at 31 December 2007	**2 496**	**5 867**	**8 363**
Security reserve transferred to securities adjustment reserve (SAR)		214	214
Adjustment of security reserve transferred to SAR		(54)	(54)
Allocation for increased life expectancy at 31 December 2007 transferred to SAR		4 436	4 436
Equity at 01 January 2008	**2 496**	**10 462**	**12 958**
Result items charged directly against equity			
Allocation for increased life expectancy transferred premium reserve		(4 436)	(4 436)
Result for the period		**(4 672)**	**(4 672)**
Equity at 30 Sept 2008	**2 496**	**1354**	**3 850**

Cash flow statement

Cashflow analysis	**01 January 2008 – 30 Sept 2008**
NOK million	
Cash flow from operational activities	
Net premiums/premium funds received	15 826
Net payments on transfers	(222)
Net income from financial assets	(5 183)
Net income from life insurance with investment choice	3 091
Net other insurance-related income and expenses	(1 659)
Insurance settlements disbursed	(14 724)
A = Net cash flow from operational activities	**(2 871)**
Cash flow from investment activities	
Net invested in shares and mutual funds	9 406
Net invested in bonds and loans	2 866
Net invested in investment agreements	(8 380)
Net invested in other financial assets	(1 342)
Net invested in fixed and intangible assets	16
B = Net cash flow from investment activities	**2 566**
Cash flow from financing activities	
Net transferred dividend/group contribution received	(1 221)
Changes in other financing	(2 476)
C = Net cash flow from financing activities	**(3 697)**
Net changes in liquidity (A+B+C)	(4 002)
Liquid resources at 01 January (cash/bank)	11 802
Liquid resources at 30 Sept 2008 (cash/bank)	**7 800**

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