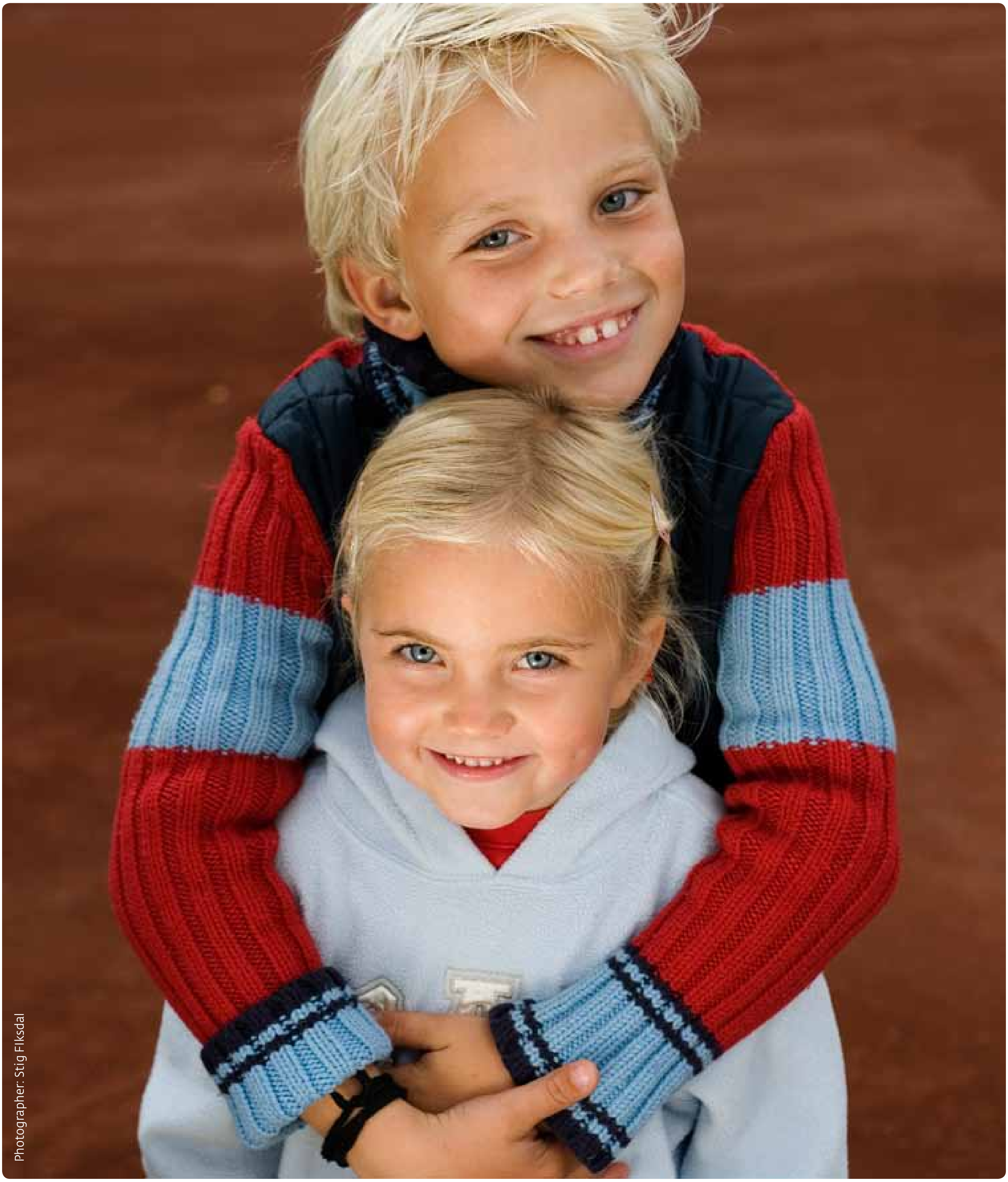
3rd quarter report 2009



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Report for the third quarter 2009

Vital Forsikring ASA is the largest life insurance and pensions company in Norway. Vital insures more than one million people through group and individual pension schemes and has around 26,000 corporate customers.

Vital recorded a profit of NOK 852 million before tax for the nine months ending 30 September 2009. This is an improvement of NOK 804 million in relation to the period ending 30 September 2008.

Vital achieved a recorded return for the common portfolio for the first nine months of 3.2 per cent and a value-adjusted return of 3.5 per cent. The return on the company portfolio for the same period was 4.0 per cent. The capital ratio stands at 10.7 per cent, well above the minimum requirement of 8 per cent.

Allocations to customers in the sub-portfolios for the first nine months are calculated at NOK 1 230 million. Vital's total assets at 30.September 2009 were NOK 229.1 billion, an increase of NOK 5.0 billion since the start of the year.

The accounts for the third quarter show:

- An operating result before tax of NOK 852 million
- An excess return on its investment management mandates in relation to the general market development of NOK 1.0 billion
- A capital ratio of 10.7 per cent
- Growth in total assets of 2.2 per cent since the start of the year
- A positive transfers balance and growth in the public sector
- A satisfactory solvency position with total solvency capital of NOK 20.0 billion and a solvency margin of 57 per cent
- A market value adjustment reserve of NOK 689 million
- A total market share of 32.4 per cent (as at the end of the first half-year)

The accounts have been prepared in accordance with the Norwegian regulations for life insurance companies that have been adjusted for new business rules. The figures for the first nine months of 2008 are shown in parenthesis below.

Premium income

Total premium income for the first nine months amounted to NOK 16.6 billion (17.1), a decline of 2.8 per cent compared with the corresponding period last year. Premium income for group pensions was NOK 13.0 billion (13.2), a reduction of 1.3 per cent. Aggregate premium reserves received from other companies for group pensions totalled NOK 2.6 billion (2.9). Premiums due for group pensions increased by NOK 0.2 billion, corresponding to 1.6 per cent.

The retail market continues to be affected by competition from alternative forms of saving. Premium income for the first nine months was NOK 3.1 billion (3.6), a decline of 13.9 per cent compared with the corresponding period last year. Unit-linked insurance policies represented NOK 0.7 billion (1.1) of aggregate premium income, a decrease of 39.3 per cent.

Vital had a transfers balance for the first nine months of NOK 0.1 billion (1.0). In the public market there was a positive transfers balance of NOK 714 million.

Payments to customers and claims

Payments to customers and disability and mortality claims amounted to NOK 7.2 billion for the first nine months (7.2). Surrenders of individual products were reduced by NOK 5 billion from the corresponding last year and amounted to NOK 1.5 billion. Surrenders of unit-linked products totalled NOK 0.9 billion (1.6).

Financial return

The recorded and value-adjusted returns for the common portfolio for the first nine months were respectively 3.2 and 3.5 per cent, excluding value changes in hold-to-maturity bonds.

Vital had a return on its investment mandates in excess of the general market development of NOK 1.0 billion, of which NOK 0.6 billion was achieved in the third quarter.

The return on bonds held as current assets was NOK 4.6 per cent for the first nine months. The return is split between 3.9 per cent for Norwegian bonds and 6.0 per cent for foreign bonds.

The return on foreign bonds this year has been driven by the low government bond yields. Yields on short-dated government bonds rose a little in the first half year but were slightly reduced during the third quarter. Long-dated US government bond yields have risen considerably so far this year and the yield curve is now quite steep. Credit spreads widened a little during the first quarter but have tightened considerably in the second and third quarters. The return on foreign bonds was 0.2 percentage points ahead of the benchmark.

Yields on long-dated Norwegian government bonds have risen slightly and short-term Norwegian government bond yields have fallen so far this year. This has led to a return on the Norwegian bond portfolio for the first nine months of 3.9 per cent, 2.0 per cent ahead of the benchmark.

Hold-to-maturity bonds gave a return of 3.5 per cent for the first nine months.

The aggregate return for shares for the first nine months was 37.6 per cent, which breaks down as to 45.1 per cent for Norwegian shares and 28.1 per cent for foreign shares (excluding hedge funds and private equity).

Volatility in financial markets is considerably reduced so far this year. It has been a good year for Norwegian shares with the Norwegian stock market benefiting from the positive development in commodity prices. The oil price rose considerably during the first half year and has since stabilised at around USD 70 per barrel.

Real estate gave a return of 1.0 per cent for the first nine months (0.3 per cent) after write-downs of NOK 892 million.

The company portfolio achieved a value-adjusted return of 4.0 per cent for the first nine months. Company capital forms part of the buffer capital that secures customer funds.

The return on Vital's defined contribution portfolios for the first nine months was 12.2 per cent for Vital 30, 17.0 per cent for Vital 50 and 24.0 per cent for Vital 80.

Costs

Operating costs amounted to NOK 1 402 million (1 475) for the first nine months of 2009. The decline is mainly due to lower activity-related and commission costs.

Result

The profit before tax for the year to date in accordance with NGAAP improved by NOK 5 524 million to NOK 852 million and the profit after tax is NOK 256 million. As no additional statutory reserves have been allocated as at the third quarter the IFRS result is the same as the NGAAP result.

The estimated tax charge for 2009 is 70 per cent of the forecast annual result. The high tax rate results from the fact that losses on securities are not eligible as a deduction due to the use of the exemption method and also to the writedown of real estate. At the end of the second quarter the estimated tax rate was 93 per cent. The reduction in the effective tax rate is mainly due to an increase in the forecast annual result compared with the second quarter.

The financial result for the first nine months was NOK 6.5 billion (minus 0.2), the risk result was NOK 162 million (271) and the administration result was NOK minus 110 million (minus 109). The administration result is positive for guaranteed products but negative for unit-linked products. The market value adjustment reserve was NOK 689 million at the end of the third quarter (0).

Capital ratio

The capital ratio is an expression of the company's primary capital as a proportion of risk-weighted total assets. The capital ratio as at 30 September 2009 was 10.7 per cent (10.8). The capital ratio as 30 June 2009 stood at 11.8 per cent. The change is mainly due to an increase in the level of equity holdings. The minimum capital adequacy requirement is 8 per cent.

Solvency capital

Solvency capital, which protects customers' premium reserves consists of the interim result, the market value adjustment reserve, excess values on bonds that are held to maturity, equity and subordinated debt.

As at 30 September 2009 solvency capital totalled NOK 20.0 billion (12.4) while as at 30 June 2009 it stood at NOK 17.7 billion. This is due to an increase in the profit for allocation, an increase in the market value adjustment reserve as well as higher excess values in hold-to maturity bonds.

As at 30 September 2009 solvency capital represented 10.8 per cent (7.3) of technical insurance reserves (excluding additional statutory reserves and the security reserve), against 9.7 per cent at the end of the second quarter. Buffer capital, i.e. equity capital in excess of the statutory minimum requirement, additional statutory reserves, the market value adjustment reserve and unallocated profits, amounted to NOK 7.8 billion as at 30 September 2009 against NOK 8.0 billion at the end of the first half-year.

Market

Vital is the market leader in life insurance and pensions saving in Norway and had a market share, based on insurance funds, of 32.4 per cent as at 30 June 2009 against 32.6 per cent at the end of the first quarter of 2009. In the corporate market Vital had a market share of 42.4 per cent within private defined benefit pensions against 43.1 per cent at the end of the first quarter. Within public sector group pensions the market share was 11.1 per cent as at 30 June 2009, unchanged from the end of the first quarter. In the retail market the market share fell from 54.4 per cent at the end of the first quarter to 54.2 per cent. Within defined contribution pensions the market share increased from 29.2 per cent to 29.6 per cent between the end of the first quarter and the end of the second quarter of 2009. (Source: FNH)

Future prospects

During the third quarter Vital continued to increase the equities asset weighting in the common portfolio and the proportion rose to 9.3 per cent. Vital will continue this increase in line with strengthened solvency capital. Vital has more than 70 per cent of the portfolio invested in interest-bearing instruments and the long-term effect of an increase in interest rates is positive for Vital. Approximately half these investments are classified as hold-to-maturity bonds and the value for accounting purposes is not affected by changes in interest rates. In addition roughly one quarter of interest-bearing investments is placed in the money market with a shorter duration. An increase in short-term interest rates will lead to a higher current yield on this portfolio, which will rapidly compensate for the short-term loss. Otherwise interest-bearing investments consist of bonds held as current assets. This part of the portfolio has an average duration of approximately 4 years.

During the first three quarters Vital has strengthened its position in the public sector, both through acquiring new customers and through growth in its existing customer base. The company is competing to win contracts from several major municipalities that have requested tenders this year. It is, however, Vital's view that the acquisition rules for occupational pensions in the public sector should be changed so that there is real competition for all municipal pension schemes.

Work to adapt Vital's product portfolio to the comprehensive pension reform legislation is continuing. This is a complicated, extensive and, not least, time-consuming exercise, and Vital expresses some doubt as to whether enough time has been allowed between the passing of the legislation and associated regulations and the date when the new and adjusted pension schemes are to be brought into operation.

Vital's proactive programme to provide better service to customers at a lower cost was approved by Vital's Supervisory Board in September. This project is designed to establish a strategic direction for the company with a focus on costs, a tougher competitive environment and increased customer requirements. 140 full-time positions are affected by the programme, of whom the vast majority are consultants and temporary employees. One of programme's objectives is to reduce operating costs by at least NOK 200 million by the end of 2010.

16 October 2009

The Board of Directors of Vital Forsikring ASA

NGAAP: Norwegian Generally Accepted Accounting Principles

IFRS: International Financial Reporting Standards

Accounts

Vital Forsikring ASA

Income statement

NOK million	*30. September 2009*	*30.September 2008*
Premium income	16 604	17 078
Net income from investments in the common portfolio	6 757	(3 500)
Net income from investments in the unit-linked portfolio	2 915	(3 133)
Other insurance related income	7	57
Insurance claims	(12 802)	(17 919)
Changes in insurance liabilities recognised in the income statement - contractual obligations	(6 464)	1 662
Changes in insurance liabilities recognised in the income statement - separate unit-linked portfolio	(3 914)	2 561
Funds allocated to insurance contracts- contractual obligations	(1 230)	(93)
Insurance-related operating expenses	(1 398)	(1 472)
Other insurance-related expenses	(48)	(171)
Tecnical insurance result	**428**	**(4 931)**
Non-technical accounts		
Net income from investments in company portfolio	514	261
Other income	14	0
Management costs and other costs related to the company portfolio	(103)	(3)
Result from non-technical accounts	**424**	**258**
Result before tax	**852**	**(4 672)**
Tax	(596)	0
Result before other comprehensive income	**256**	**(4 672)**
Other comrehensive income	0	0
Comprehensive income	**256**	**(4 672)**
Notes:		
Use of additional allocations	0	4 720
Tax effect of use of additional allocations	0	0
Result	**256**	**48**

Balance sheet

NOK million	*30. September 2009*	*30.September 2008*
Assets in company portfolio		
Intangible assets	278	219
Investments	13 111	10 739
Receivables	573	3 545
Other assets	798	2 429
Prepaid expenses and accrued income not received	49	24
Total assets in the company portfolios	**14 808**	**16 957**
Assets in the customer portfolios		
Investments in the common portfolio	194 223	177 168
Investments in the unit-linked portfolio	20 044	26 979
Total assets in the customer portfolios	**214 267**	**204 147**
Total assets	**229 075**	**221 104**
Equity and liabilities		
Paid-in equity	2 496	2 496
Retained earnings	6 446	1 354
Subordinated loan capital, etc	2 491	2 522
Life insurance liabilities - contractual obligations	191 423	178 656
Life insurance liabilities - separate unit-linked portfolio	20 057	26 979
Provisions	1 340	798
Liabilities	4 536	7 779
Accrued expenses and prepaid income received	287	520
Total equity and liabilities	**229 075**	**221 104**

Key figures

Return on capital in the common portfolio	3.2%	(0.1)%
Value-adjusted return from the common portfolio	3.5%	(1.8)%
Capital ratio	10.7%	10.8%

Notes to the accounts

Note 1: Accounting principles

The interim accounts for Vital Forsikring ASA include subsidiaries and associated companies entered in accordance with the equity method. The third quarter accounts have been prepared according to IAS 34 Interim Financial Reporting, unless the regulations on the annual accounts of insurance companies provide otherwise (Annual Accounts Regulations). The interim accounts do not contain all the information that would be included in annual accounts presented in accordance with all relevant IFRS standards.

The annual report for Vital Forsikring ASA for 2008 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 2008.

In preparing the interim accounts estimates and assumptions have been used that affect assets, liabilities, income, costs, note information and information on potential obligations. Actual figures may differ from estimates used

Changes in equity

NOK million	*Paid-in capital*	*Retained earnings*	*Total equity*
Balance at 31 December 2007	**2 496**	**5 867**	**8 363**
Transferred from security reserve to fund for risk-smoothing as at 01 January 2008.		160	160
Demerger property subsidiaries capital reduction	(266)	(865)	(1 131)
Demerger property subsidiaries capital in kind	266	865	1 131
Result for the year		218	218
Balance at 31 December 2008	**2 496**	**6 244**	**8 740**
Result for the period		256	256
Group contribution		(54)	(54)
Balance at 30 September 2009	**2 496**	**6 446**	**8 942**

Cash flow statement	**3rd quarter 2009**	**3rd quarter 2008**
NOK million		
Cash flow from operating activities		
Net premiums/premium funds received	11 823	15 826
Net payments on transfers	57	(222)
Net financial income	7 263	(5 183)
Income from unit-linked life insurance	1 704	3 091
Net other insurance-related income and expenses	(2 086)	(1 659)
Insurance claims paid	(9 250)	(14 724)
A=Net cash flows from operating activities	**9 511**	**(2 871)**
Cash flow from investments		
Net invested in shares and mutual funds	(9 287)	9 406
Net invested in bonds and lending	652	2 866
Net invested in investment agreements	(2 584)	(8 380)
Net invested in other financial assets	(1 295)	(1 342)
Net invested in fixed and intangible assets	(100)	16
B=Net cash flows from investing activities	**(12 614)**	**2 566**
Cash flows from financing activities		
Net dividend/ Group contribution paid	(54)	(1 221)
Changes in other financing activities	930	(2 476)
C=Net cash flows from financing activities	**876**	**(3 697)**
Net changes in cash and cash equivalents (A+B+C)	(2 227)	(4 002)
Cash and cash equivalents at 1 January	4 547	11 802
Cash and cash equivalents at 30 September	**2 320**	**7 800**

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