

First half-year 2010



# Report of the Board of Directors – First half-year 2010

**Vital Forsikring ASA is the largest life insurance and pensions company in Norway. Vital insures around 1 million people with individual and collective agreements, and has some 25,000 agreements with companies, municipalities and public enterprises. Vital is a wholly-owned subsidiary of DnB NOR.**

Vital achieved a profit before tax (IFRS) of NOK 215 million for the first half of 2010. This is a decrease of NOK 317 million in relation to the corresponding period last year.

At the end of the first half-year Vital reported a recorded return on the common portfolio of 2.1 per cent and a value-adjusted return of 1.4 per cent. The return on the company portfolio for the same period was 0.7 per cent. The capital ratio stands at 10.3 per cent, well above the requirement of 8 per cent.

Allocations to customers in the sub-portfolios for the first half-year are calculated at NOK 590 million. The total assets of Vital at 30 June 2010 were NOK 245.3 billion, an increase of NOK 12.3 billion since the start of the year.

The accounts for the first half-year show:

- An operating profit before tax of NOK 215 million
- An allocation of NOK 486 million in respect of revised mortality tables of which the owner's share was NOK 269 million
- A capital ratio of 10.3 per cent
- Growth in total assets of 5.3 per cent since the start of the year
- A positive transfer balance and growth in the public sector
- Satisfactory solidity with aggregate solvency capital of NOK 21.0 billion and solvency margin capital 60 per cent above minimum requirements
- The securities adjustment reserve has been applied in full to give a return to customers and shareholders.

The accounts have been presented in accordance with the annual accounts regulations for life insurance companies. In the following the figures from the accounts for the first half-year of 2009 are shown in parenthesis.

## **Premium income**

Total premium income for the first half-year was NOK 11.6 billion (11.5), an increase of 0.5 per cent compared with the corresponding period last year. Premium income for group pensions was NOK 8.9 billion (9.0), a reduction of 0.6 per cent. Premium reserves received for group pensions from other companies amounted to NOK 2.2 billion (1.7). Premiums due for group pensions were reduced by NOK 0.6 billion, corresponding to 8.8 per cent - mainly due to a fall in single premium policies.

The private market continues to be characterised by competition from alternative forms of saving. Premium

income for the first half-year was NOK 2.1 billion (2.2) a reduction of 0.7 per cent compared with the corresponding period last year. Out of total premium income from the private market, unit-linked insurance policies accounted for NOK 0.3 billion (0.5).

Vital had a positive transfer balance at the end of the first half-year of NOK 0.7 billion (0.0). Within the public sector market the transfers result was positive at NOK 623 million.

## **Market**

Vital is the market leader in life insurance and pensions in Norway and had a market share of 30.3 per cent of total customer funds as at 31 March 2010, against 31.8 per cent at the end of 2009. In the corporate market Vital had a market share of 43.1 per cent within private group defined benefit pensions against 42.6 per cent at the year end. Within municipal group pensions the market share was reduced from 10.8 per cent at the year end to 9.6 per cent as at 31 March 2010. This is due to the fact that Oslo Pensjonsforsikring started reporting to FNO with effect from 2010, which has meant that Vital's relative share of the total market was reduced by 1.4 per cent. After taking this into account Vital's share would have increased by 0.2 per cent. In the private market it's market share increased from 52.4 per cent at the year-end to 53.0 per cent at the end of the first quarter of 2010. Within defined contribution pensions the market share was reduced from 29.0 per cent to 28.8 per cent from the end of 2009 to the end of the first quarter of 2010.

## **Payments to customers and claims**

Payments to customers and claims for disability and mortality amounted to NOK 5 billion in the first half-year (4.8). Surrenders of products with a return guarantee amounted to NOK 0.9 billion (1.1). Surrenders of unit-linked products amounted to NOK 0.5 billion (0.7).

## **Financial return**

The recorded and value-adjusted return for the common portfolio for the first half-year was respectively 2.1 per cent (1.9) and 1.4 per cent (1.9), excluding value changes in bonds to be held until maturity.

The return on bonds held as current assets was 5.1 per cent (2.1) in the first half-year. The return is divided between 4.8 per cent (2.5) on Norwegian bonds and 5.7 (1.4) on foreign bonds.

Yields on government bonds, both short and long, have fallen considerably in economies with relatively stable government finances in line with the escalation of the crisis around southern European sovereign debt. The yield on 10-year US Treasury bonds has fallen by 90 basis points. Corresponding Norwegian and European interest yields are down by respectively 25 and 51 basis points.

Bonds to be held until maturity gave a return of 2.5 per cent

(2.5) in the first half-year.

For equities the aggregate return in the first half-year was minus 8.7 per cent (17.9), which is divided between minus 11.6 per cent (26.8) on Norwegian shares and minus 7.6 per cent (5.2) on foreign shares (excluding hedge funds and private equity).

So far this year all asset classes have delivered an excess return and the total contribution exceeds NOK 400 million.

Real estate gave a return of 2.8 per cent for the first half-year (0.5 per cent). The value of investment properties is virtually unchanged since the year end.

The company portfolio achieved a return of 0.7 per cent (2.9) for the first half-year. The company portfolio forms part of the buffer capital that secures customers' funds.

The return on Vital's defined contribution pension portfolios for the first half-year was 0.6 per cent (5.5) for Vital 30, minus 1.3 per cent (7.4) for Vital 50 and minus 4.4 per cent (10.2) for Vital 80

### Costs

Operating costs totalled NOK 896 million (952) for the first half of 2010. Vital's cost savings programme is proceeding according to plan.

### Result

The result calculated under IFRS after using additional allocations was NOK 215 million (532). The result after tax was NOK 139 million (37). The result in accordance with NGAAP (before tax) was NOK 177 million (523) and the result after tax was NOK 115 million (37).

Share gains and dividends on shares that are covered by the exemption method, including the return from property companies, are tax-free income for Vital. At the same time the allocation of this return to customer funds is tax-deductible. A year with a good return under the exemption method therefore gives Vital tax income. In accordance with IFRS deferred tax is not accounted for in relation to property held by the group's own companies. For 2010 it is expected as a result of these factors that there will be a tax charge of 35 per cent of the profit before tax. The high expected effective tax rate reflects the negative development of the stock market in June.

The financial result for the first half-year was NOK 2.8 billion (3.8) and the risk result minus NOK 211 million (149). NOK 486 million has been allocated to reserves for new mortality tables for individual annuity and pension insurance as well as association pension schemes, of which the company's owner has been charged NOK 269 million. As the return result from the old individual portfolio was not sufficiently high to cover the provision for longer life expectancy, the owner was charged a higher proportion of the provision than 35 per cent. If the return in the second half-year is sufficient the proportion above 35 per cent will be reversed. The administration result was minus NOK 31 million (minus 101). The securities adjustment reserve was NOK 0 million at the end of the first half-year (92).

### 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 at 30 June 2010 was 10.3 per cent (11.8). The capital ratio at 31 March 2010 amounted to 10.7 per cent. The decrease is mainly due to growth. The minimum capital ratio requirement is 8 per cent.

### Solvency capital

Solvency capital, which protects the customers' premium reserve, consists of the interim result, the securities adjustment reserve, additional values in bonds to be held until maturity, additional allocations, security reserves, equity capital and subordinated loans.

As at 30 June 2010 solvency capital amounted to NOK 21.0 billion (17.7) while at 31 December 2009 it stood out at NOK 20.4 billion. This is due to the profit for allocation and higher additional values in bonds to be held until maturity.

As at 30 June 2010 solvency capital amounted to 10.9 per cent (9.7) of technical reserves (excluding additional allocations and the security reserve) against 11.7 per cent at the end of the first quarter. Buffer capital, i.e. equity capital in excess of the statutory minimum requirement, additional allocations, the securities adjustment reserve and the unallocated result amounted to NOK 8.5 billion at 30 June 2010 against NOK 9.3 billion at the end of 2009.

### Future prospects

Vital's result for the first half-year has been affected by turbulent financial markets and provisions for longer life expectancy. Continued instability in the financial markets and the continuing low interest rate levels may present challenges in relation to the guaranteed yield on the common portfolio. The Norwegian Financial Supervisory Authority has proposed to reduce the base return requirement for future earnings by 0.25 per cent. Vital supports this proposal, but believes that the reduction should be larger.

Vital has achieved good results from the company's programmes to increase customer focus and improve cost efficiency. Further attention to working processes and IT support made it possible to reduce personnel and cost levels in line with the adopted plans. These measures will also be continued in the second half of 2010.

The Banking Law Commission's report on occupational pensions was presented in May and has now been circulated for consultation. Vital is now working on preparing the changes to systems and products in response to the new regulations. Demand for information about the reform continues to be considerable and further measures are being and will be implemented, both externally and internally, to respond to such information requirements during the autumn.

5 July 2010

The Board of Vital Forsikring ASA  
NGAAP: Norwegian Generally Accepted Accounting Principles  
IFRS: International Financial Reporting Standards

# Income statement

## VITAL FORSIKRING GROUP

## VITAL FORSIKRING ASA

1st half 2009	1st half 2010	Amounts in NOK million	1st half 2010	1st half 2009
9 559	9 228	Premiums due, gross	9 228	9 559
(42)	(67)	- Reinsurance premiums paid	(67)	(42)
2 031	2 446	Transfer of customer premium reserves from other insurance companies/pension schemes	2 446	2 031
<b>11 548</b>	<b>11 607</b>	<b>Premium income for own account</b>	<b>11 607</b>	<b>11 548</b>
(2)	0	Income from investments in subsidiaries, associated companies and joint ventures	848	(36)
3 636	3 356	Interest income and dividends, etc. on financial assets	3 642	3 880
823	871	Net operating income from property	2	3
(1 207)	(2 569)	Changes in value of investments	(2 831)	(599)
422	1 010	Realised profits and losses on investments	1 007	422
<b>3 671</b>	<b>2 668</b>	<b>Net income from investments in the group portfolio</b>	<b>2 668</b>	<b>3 671</b>
28	51	Interest income and dividends, etc. on financial assets	51	28
950	313	Changes in value of investments	313	950
57	96	Realised profits and losses on investments	96	57
<b>1 035</b>	<b>461</b>	<b>Net income from investments in investment choice portfolio</b>	<b>461</b>	<b>1 035</b>
<b>6</b>	<b>1</b>	<b>Other insurance-related income</b>	<b>1</b>	<b>6</b>
(6 521)	(6 415)	Claims paid	(6 415)	(6 521)
(6 573)	(6 444)	Gross	(6 444)	(6 573)
52	30	- Reinsurance share of claims paid	30	52
(83)	(62)	Change in reserves for claims	(62)	(83)
(83)	(62)	Gross	(62)	(83)
(2 075)	(1 855)	Transfer of customer premium reserves, additional statutory reserves and market value adjustment reserve to other insurance companies/pension schemes	(1 855)	(2 075)
<b>(8 678)</b>	<b>(8 332)</b>	<b>Claims for own account</b>	<b>(8 332)</b>	<b>(8 678)</b>
(3 839)	(5 078)	Changes in premium reserve	(5 078)	(3 839)
(3 801)	(5 030)	To (from) premium reserve, gross	(5 030)	(3 801)
(38)	(48)	- Change in Reinsurance portion of premium reserve	(48)	(38)
16	34	Change in additional statutory reserves	34	16
(92)	1 306	Changes in market value adjustment reserve	1 306	(92)
(76)	(77)	Changes in premium fund, deposit reserve and pensioners' surplus fund	(77)	(76)
(163)	(185)	Changes in technical reserves for property and casualty insurance business	(185)	(163)
(163)	(185)	To (from) technical reserves for property and casualty insurance business	(185)	(163)
46	119	Transfer of additional statutory reserves and market value adjustment reserve from other insurance companies/pension schemes	119	46
<b>(4 108)</b>	<b>(3 880)</b>	<b>Changes in insurance liabilities through income statement – Contractually established obligations</b>	<b>(3 880)</b>	<b>(4 108)</b>
(17)	(908)	Change in premium reserve	(908)	(17)
0	0	Changes in premium fund, deposit reserve and pensioners' surplus fund	0	(1 805)
(1 805)	9	Changes in other reserves	9	0
<b>(1 821)</b>	<b>(899)</b>	<b>Changes in insurance liabilities through income statement – special investment choice</b>	<b>(899)</b>	<b>(1 821)</b>

# Income statement continued

## VITAL FORSIKRING GROUP

## VITAL FORSIKRING ASA

Ist half 2009	Ist half 2010	Amounts in NOK million	Ist half 2010	Ist half 2009
(440)	(568)	Surplus from return result	(568)	(440)
0	(19)	Risk result assigned insurance contracts	(19)	0
(1)	(3)	Other assignment of profit	(3)	(1)
<b>(441)</b>	<b>(590)</b>	<b>Funds assigned insurance contracts – contractually established obligations</b>	<b>(590)</b>	<b>(441)</b>
(949)	(893)	Insurance-related operating costs	(893)	(949)
(42)	(18)	Other insurance-related costs	(18)	(42)
<b>219</b>	<b>123</b>	<b>Result from technical account</b>	<b>123</b>	<b>219</b>
		<b>NON-TECHNICAL ACCOUNT</b>		
0	(2)	Income from investments in subsidiaries, associated companies and joint ventures	9	2
257	237	Interest income and dividends, etc. on financial assets	237	255
(34)	(2)	Changes in value of investments	(2)	(34)
139	(135)	Realised profits and losses on investments	(135)	139
<b>362</b>	<b>98</b>	<b>Net income from investments in company portfolio</b>	<b>109</b>	<b>362</b>
14	26	Other income	0	14
(71)	(70)	Management costs and other costs associated with company portfolio	(55)	(71)
<b>305</b>	<b>54</b>	<b>Result from non-technical account</b>	<b>54</b>	<b>305</b>
<b>523</b>	<b>177</b>	<b>Profit before taxes</b>	<b>177</b>	<b>523</b>
(487)	(62)	Tax cost	(62)	(487)
<b>37</b>	<b>115</b>	<b>Result before other profit components</b>	<b>115</b>	<b>37</b>
		Other profit components		
<b>37</b>	<b>115</b>	<b>TOTAL RESULT</b>	<b>115</b>	<b>37</b>
		<b>Notes:</b>		
8	38	Use of additional allocations	38	8
(8)	(13)	Tax effect of use of additional allocations	(13)	(8)
<b>37</b>	<b>139</b>	<b>Result</b>	<b>139</b>	<b>37</b>

Use of additional allocations is not permitted in the interim accounts. Under the rules for annual accounts NOK 38 million could be covered from additional allocations which would give a profit before tax of NOK 139 million.

# Balance sheet

## VITAL FORSIKRING GROUP

## VITAL FORSIKRING ASA

30 June 2009	30 June 2010	Amounts in NOK million	30 June 2010	30 June 2009
		<b>Assets in company portfolio</b>		
274	287	Intangible assets	287	274
		<u>Subsidiaries, associated companies and joint ventures</u>		
5	7	Shares and other equity investments in subsidiaries, associated companies and joint ventures	70	93
0	0	Receivables and securities issued by subsidiaries associated companies and joint ventures	7	0
		<u>Financial assets measured at fair value</u>		
12 745	13 150	Shares and other equity investments (incl. shares and other equity investments measured at cost)	13 150	12 745
4	6	Bonds and other fixed-income securities	6	4
23	3	Loans and receivables	3	23
0	62	Financial derivatives	62	0
172	12	Other financial assets	12	84
<b>12 949</b>	<b>13 241</b>	<b>Investments in company portfolio</b>	<b>13 310</b>	<b>12 949</b>
317	329	Receivables	273	317
939	782	Other assets	666	939
57	41	Pre-paid expenses and earned, non-received income	41	57
<b>14 536</b>	<b>14 680</b>	<b>Total assets in company portfolio</b>	<b>14 576</b>	<b>14 536</b>
		<b>Assets in customer portfolios</b>		
		<u>Buildings and other real estate</u>		
31 632	33 327	Investment properties	69	189
		<u>Subsidiaries, associated companies and joint ventures</u>		
14	14	Shares and other equity investments in subsidiaries, associated companies and joint ventures	16 450	14 010
0	0	Receivables and securities issued by subsidiaries associated companies and joint ventures	18 054	17 889
		<u>Financial assets measured at amortised cost</u>		
66 717	66 707	Hold to maturity investments	66 707	66 717
		<u>Financial assets measured at fair value</u>		
15 750	36 194	Shares and other equity investments (incl. shares and other equity investments measured at cost)	36 194	15 750
67 114	53 062	Bonds and other fixed-income securities	53 062	67 114
5 693	8 341	Loans and receivables	8 341	5 693
3 645	1 077	Financial derivatives	1 077	3 645
3 665	10 202	Other financial assets	9 579	3 222
<b>194 229</b>	<b>208 923</b>	<b>Investments in group portfolio</b>	<b>209 532</b>	<b>194 229</b>
		<u>Financial assets measured at fair value</u>		
10 064	18 660	Shares and other equity investments (incl. shares and other equity investments measured at cost)	18 660	10 064
4 842	0	Bonds and other fixed-income securities	0	4 842
0	2 489	Loans and receivables	2 489	0
3 125	0	Other financial assets	0	3 125
<b>18 031</b>	<b>21 149</b>	<b>Investments in investment choice portfolio</b>	<b>21 149</b>	<b>18 031</b>
<b>212 260</b>	<b>230 072</b>	<b>Total assets in customer portfolios</b>	<b>230 681</b>	<b>212 260</b>
<b>226 796</b>	<b>244 751</b>	<b>Total assets</b>	<b>245 257</b>	<b>226 796</b>

# Balance sheet continued

## VITAL FORSIKRING GROUP

## VITAL FORSIKRING ASA

30 June 2009	30 June 2010	Amounts in NOK million	30 June 2010	30 June 2009
		<b>EQUITY AND LIABILITIES</b>		
		Share capital subscribed		
1 321	1 321	Share capital/primary capital certificates/guarantee fund	1 321	1 321
1 175	1 175	Share premium	1 175	1 175
<b>2 496</b>	<b>2 496</b>	<b>Total paid in equity</b>	<b>2 496</b>	<b>2 496</b>
75	137	Fund for unrealised profits	137	75
248	407	Risk equalisation fund	407	248
0	28	Administration reserve	28	0
5 904	7 065	Other accrued earnings	7 065	5 904
<b>6 227</b>	<b>7 637</b>	<b>Total accrued earnings</b>	<b>7 637</b>	<b>6 227</b>
<b>2 543</b>	<b>2 541</b>	<b>Subordinated loan capital, etc.</b>	<b>2 541</b>	<b>2 543</b>
		<b>Insurance liabilities in life insurance – contractually established obligations</b>		
176 805	185 062	Premium reserve	185 062	176 805
5 453	5 286	Additional statutory reserves	5 286	5 453
92	0	Market value adjustment reserve	0	92
1 399	1 738	Claims reserves	1 738	1 399
5 018	5 848	Premium fund, deposit reserve and pensioners' surplus fund	5 848	5 018
288	358	Other technical reserves for property and casualty insurance business	358	288
<b>189 055</b>	<b>198 293</b>	<b>Total insurance liabilities in life insurance – Contractually established obligations</b>	<b>198 293</b>	<b>189 055</b>
		<b>Insurance liabilities in life insurance – special investment choice portfolio</b>		
18 031	19 883	Premium reserve	19 883	18 031
12	8	Supplementary provisions	8	12
0	1 258	Premium fund, deposit reserve and pensioners' surplus fund	1 258	0
<b>18 043</b>	<b>21 149</b>	<b>Total insurance liabilities in life insurance - Special investment choice portfolio</b>	<b>21 149</b>	<b>18 043</b>
1 230	266	Reserves for liabilities	199	1 230
6 743	11 477	Liabilities	11 291	6 477
0	0	Liabilities to subsidiaries and associated companies	759	266
459	894	Accrued expenses and received, non-earned income	894	459
<b>226 796</b>	<b>244 751</b>	<b>Total equity and liabilities</b>	<b>245 257</b>	<b>226 796</b>

### Key figures

Return on capital in the common portfolio	2.1 %	1.9 %
Value-adjusted return from the common portfolio	1.4 %	1.9 %
Capital ratio	10.3 %	11.8 %

For the Group, the eligible primary capital was NOK 11 030 million, risk-weighted volume NOK 106 016 million and the capital adequacy was 10.4 percent.

# 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 second 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 2009 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 2009.

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

<i>Amounts in NOK million</i>	<b>Share capital subscribed</b>	<b>Accrued earnings</b>	<b>Total equity</b>
<b>Balance sheet as at 31 December 2008</b>	<b>2 496</b>	<b>6 244</b>	<b>8 740</b>
Profit/loss for the year		1 331	1 331
Group contribution		(54)	(54)
<b>Balance sheet as at 31 December 2009</b>	<b>2 496</b>	<b>7 522</b>	<b>10 018</b>
Profit/loss for the year		115	115
<b>Balance sheet as at 30 June 2010</b>	<b>2 496</b>	<b>7 637</b>	<b>10 133</b>

## CASH FLOW ANALYSIS

<i>Amounts in NOK million</i>	<b>1st half 2010</b>	<b>1st half 2009</b>
<b>Cash flow from operating activities</b>		
Net receipts from premiums/premium fund	8 942	8 553
Net receipts/payments from transfers	680	4
Net receipts from investments	5 252	4 319
Payment from life insurance with investment choice	212	(1 236)
Other insurance-related payments	6 360	(363)
Compensation payments	(6 160)	(6 276)
<b>A=Net cash flows from operating activities</b>	<b>15 286</b>	<b>5 001</b>
<b>Cash flow from investments made</b>		
Net investment in shares and other equity investments	(6 670)	(600)
Net investment in bonds and loans	895	(7 067)
Net invested in investment contracts	(641)	564
Net invested in other financial assets	(7 225)	214
Net invested in tangible fixed assets and intangible assets	(51)	(75)
<b>B=Net cash flows from investing activities</b>	<b>(13 692)</b>	<b>(6 965)</b>
<b>Cash flows from financing activities</b>		
Paid dividend/group contributions	0	(54)
Changes in other financing activities	186	820
<b>C=Net cash flows from financing activities</b>	<b>186</b>	<b>766</b>
Net liquidity change (A+B+C)	1 781	(1 198)
Liquidity holding as at 01 January	3 893	4 547
<b>Liquidity holding as at 30 June</b>	<b>5 673</b>	<b>3 349</b>

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