

First Quarter Report 2005



"It's not flying that's important, but making the best impression."

Annlaug, aged 89

First Quarter Report 2005

The first quarter of 2005 was a good start to the year for Vital Forsikring ASA and Vital Link AS (Vital), which together represent the life insurance and pension business of the DnB NOR group. Vital strengthened its position as Norway's largest company in the area of pension saving and life insurance.

The results for the first quarter of the year reflect the low level of interest rates and value appreciation in the Nordic stock markets. Before allocations, the profit was NOK 1 564 million, with NOK 1 247 million for allocation to the policyholders and NOK 317 million to the owner and taxes. The profit after tax was NOK 328 million. Total assets at 31 March 2005, including Vital Link, amounted to NOK 181.6 billion, 3.7 per cent up on the year-end figure.

Summarised, the accounts for the first three months of 2005 show:

- Premium income at a high level - sound growth in group pension business
- An increase in total assets
- A net inflow of transfers
- Satisfactory financial return

In the following, comparative figures for the first quarter of 2004 appear in brackets. The figures are presented on a pro forma basis for the merged company.

Premium income

Vital Forsikring ASA and Vital Link AS had combined premium income of NOK 7.2 billion (7.9) in the first quarter. This was 5 per cent down on the corresponding same period last year, excluding premium income from the portfolio sold to Gjensidige Forsikring in 2004. The high sales figure in last year's first quarter was due to low interest rates combined with a strong stock market and the keen interest in pensions that arose when the Pension Commission presented its recommendations. Premium income received by Vital Forsikring ASA was 6 per cent up at NOK 6.6 billion, (NOK 6.3 billion excluding the portfolio sold). Premiums from group pension business totalled NOK 5.1 billion 8 (4.4), a rise of 17 per cent, while aggregate group pension reserves received from other companies totalled NOK 1.2 billion (1). At the end of the first quarter, 1 250 companies had established defined contribution based pension schemes with Vital, an increase of 18 per cent since year-end. The number of members covered by schemes of this kind has risen by 25 percent since year-end and now totals 38 600. During the same period, customer funds rose by 26 per cent to NOK 700 million.

In the individual market, Vital Forsikring and Vital Link received aggregate premium income of NOK 2 billion (3.1), 37 per cent down on last year's high first quarter.

Premiums received by Vital Link were 60 per cent down at NOK 0.5 billion (1.2), while premium income recorded by Vital Forsikring fell by 22 per cent to NOK 1.5 billion (1.9). The low level of interest rates contributed to keen interest in products with a guaranteed return.

Together, Vital Forsikring and Vital Link recorded a net inflow of transfers totalling NOK 1 billion (0.7) in the first quarter.

Insurance payments

Insurance payments totalled NOK 2.5 billion (2.6). The figures show an increase in payments to policyholders compared with the same period last year and a reduction in transfers of reserves to other insurers.

Financial income

The value-adjusted financial return for Vital Forsikring was NOK 2.2 billion (3.4).

The return on book values stood at 1.9 per cent (1.6), while the value-adjusted return, excluding changes in the value of long-term securities, was 1.3 per cent (2.3). Including changes in the value of long-term securities, the return was 1.1 per cent, against 3 per cent in last year's first quarter.

The bond portfolio gave a total yield of 0.6 per cent, with Norwegian portfolio providing 0.8 per cent and foreign bonds 0.5 per cent. The aggregate return on shareholdings was 5.2 per cent, with Norwegian and foreign equities showing 8.5 per cent and 3.7 per cent, respectively. Real estate provided a return of 1.7 per cent, while the yield on the long-term bond portfolio was 1.4 per cent.

The securities adjustment reserve fell by NOK 868 million NOK 2.7 billion in the first quarter, partly due to the realisation of gains in excess of NOK 900 million on the maturity of currency hedging contracts. While unrealised capital gains are posted in the securities adjustment reserve, realised gains are included in the profit for allocation.

Costs

Vital Forsikring's operating expenses, including financial management costs, totalled NOK 346 million, in line with last year's first quarter figure.

Results

The accounts of Vital Forsikring ASA show a profit of NOK 1 567 million (847) for allocation, the improved performance being due to a higher financial return on book values. The pre-tax profit tax was NOK 320 million (240). The final allocation of the profit between policyholders, equity and tax will be determined in connection with consideration of the annual accounts for 2005.

The ordinary risk result was a profit of NOK 47 million (-64), and the aggregate risk result was a loss of NOK 31 million (-146).

The administration result was a loss of NOK 38 million, compared with a loss of NOK 25 million in the same period last year.

Capital adequacy

The capital ratio is the ratio of the capital base to the company's risk weighted total assets. At 31 March 2005 the capital ratio stood at 14.1 per cent, unchanged from year-end 2004. The statutory minimum requirement is a capital ratio of 8 per cent.

Capital base

The capital base protects the policyholders' premium reserve and may consist of the interim profit, the securities adjustment reserve, unrealised gains on long-term securities, additional allocations, equity, subordinated loan capital and the security reserve. Apart from parts of the security reserve, the capital base can be used to cover the interest rate guarantee on policyholders' funds.

At 31 March 2005 the capital base amounted to NOK 20 billion, compared with NOK 19.6 billion at year-end 2004. The increase was due to the interim profit, a reduction in the securities adjustment reserve and a decline in unrealised gains on the long-term securities portfolio. At the end of the first quarter the capital base corresponded to 13.1 per cent of insurance allocations (excluding additional allocations and the security reserve), against 13.3 per cent at year-end.

At 31 March 2005, buffer capital - which is equity in excess of the statutory minimum requirement, additional allocations, the securities adjustment reserve and the unallocated profit - amounted to NOK 9.1 billion, against NOK 8.6 billion at year-end.

Other matters

The integration process continued as planned in the first quarter. In the period 2004-2006 synergies worth NOK 200 million will be extracted and the number of full-time positions will be reduced by 150. By 31 March 2005 synergies totalling NOK 68 million had been realised and the number of full-time positions had been cut by 74. A main focus of attention in the first quarter was co-ordination of the units providing customer service for the corporate, individual and public sector markets, and conversion of customers data to a common IT system. These are changes which call for considerable resources, but they will gradually help to reduce the company's costs.

Vital has decided to develop a new computer system for defined contribution based pensions. Instead of using traditional mainframe solutions, the new system will have a complete server solution and a high degree of self-service. In the first quarter, most of the operative functions of Vital's decentralised IT platform were outsourced. Ergo Integration was chosen to provided this service.

The first quarter saw further work to bring the company's activities into line with amendments of the Insurance Activity Act which were approved by the Storting in October 2004. The new legislation, effective from 2006, will entail considerable changes for the life companies, but Vital is well prepared for the new regulatory environment.

In the first quarter Egil Heilund was appointed chief actuary of Vital

The outlook

Vital expects to see further growth in the market for pension saving in the coming years, mainly from an increase in the number of companies offering their employees an occupational pension scheme in accordance with new legislation and through a further increase in the scope of individual pension saving.

It is likely that more local and county authorities will consider transferring their pension schemes when it became clear in April 2005 that KLP will not be reorganised as a joint stock company but will continue as a mutual company.

The government proposal to the effect that all employees should have an occupational pension also increases the market prospects for Vital and other companies in the market. It is expected that the government will propose the introduction of a minimum contribution to occupational pension schemes for all wage earners who do not already have a better scheme.

The Parliamentary Bill on Pension Reform, due to be debated by the Storting in May 2005, proposes considerable changes to the pension system in Norway. Vital expects that the new pension system will contribute to a higher level of pension saving, by both individuals and through occupational schemes.

Vital Forsikring's objective is to achieve a competitive return over time and be in a position to assume the risks it considers necessary. The company's buffer capital is considered to be sufficient to meet fluctuations in the financial markets. Vital's asset base has been adapted to a market that is expected to be characterised by low interest rates in the period ahead, with long-term bonds and real estate accounting for 42 per cent of the company's investments, which will provided a good and secure return. Vital aims to maintain growth and provide good results for its customers and owner. Central to this process is the work of maintaining and developing cost-efficient and profitable operations as well as strengthening customer service and forging closer customer relationships. By making full use of the breadth of the DnB NOR Group's distribution network Vital will be able to reach all customer groups.

Vital is well prepared to meet the competition in the marketplace and is intent on reinforcing its position in the period ahead as the largest company in Norway in the field of pension saving and life insurance.

Bergen 29 April 2005, The Board of Directors of Vital Forsikring ASA

Accounts

Vital - Life and Pension

(NOK mill)	First Quarter		Year
Profit and loss account	2005	2004	2004
Premium income	7 181	7 929	22 132
Income from financial assets	3 778	4 868	19 562
Income from assets related to Unit Linked insurance business	538	426	754
Other insurance-related income	13	30	266
Insurance payments	(2 845)	(2 810)	(11 895)
Change in insurance reserves	(5 972)	(6 667)	(15 536)
Insurance-related operating expenses	(367)	(382)	(1 439)
Expenses related to financial assets	(1 588)	(1 432)	(8 897)
Expenses related to Unit linked insurance business	(3)	(4)	(8)
Other insurance related expenses	(11)	(39)	(479)
To/from securities adjustment reserve	868	(1 039)	(1 090)
Other expenses	(28)	(28)	(97)
Profit before allocation	1 564	852	3 272
Profit allocated to policyholders	(1 247)	(607)	(2 033)
Profit from ordinary activity	317	245	1 239
Tax cost	11	(40)	78
Profit after tax	328	205	1 317

Balance sheet	as per 31.03.05	as per 31.03.04	as per 31.12.04
Intangible assets	269	371	292
Financial assets	164 055	148 355	158 457
Assets related to unit linked insurance business	10 353	8 676	9 741
Accounts receivable	2 455	1 904	2 052
Other assets	1 828	3 045	1 846
Prepaid expenses and accrued income	2 592	2 427	2 757
Total assets	181 552	164 778	175 145
Paid up equity	2 443	2 443	2 443
Retained profit	5 195	3 756	4 864
Trust preferred stock	225	225	225
Subordinated loan capital	2 313	2 461	2 294
Securities adjustment reserve	2 670	3 486	3 538
Insurance reserves	155 673	141 007	149 796
Provisions in Unit Linked insurance business	10 353	8 676	9 741
Provisions for commitments	642	756	651
Liabilities	1 020	1 846	1 028
Accrued costs and prepaid income	1 020	122	565
Total liabilities and equity	181 552	164 778	175 145

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Accounts

Vital Forsikring ASA

(NOK mill.)	First Quarter		Year
	2005	2004	2004
PROFIT AND LOSS ACCOUNT			
Premium income	6 615	6 659	19 096
Income from financial assets	3 775	4 865	19 554
Other insurance-related income	13	30	265
Insurance payments	(2 454)	(2 583)	(10 661)
Change in insurance reserves	(5 327)	(5 272)	(13 231)
Insurance -related operating expenses	(301)	(315)	(1 200)
Expenses related to financial assets	(1 583)	(1 431)	(8 888)
Other insurance-related expenses	(11)	(39)	(479)
To/from securities adjustment reserve	868	(1 039)	(1 090)
Other expenses	(28)	(28)	(97)
Profit before allocation	1 567	847	3 269
Profit allocated to policyholders	(1 247)	(607)	(2 033)
Profit from ordinary activity	320	240	1 236
Tax cost	10	(39)	64
Profit after tax	330	201	1 300

BALANCE SHEET	as per 31.03.05	as per 31.03.04	as per 31.12.04
Intangible assets	220	327	240
Financial assets **)	164 006	148 314	158 387
Accounts receivable	2 282	1 662	1 924
Other assets	1 573	2 980	1 714
Prepaid expenses and accrued income	2 561	2 395	2 726
Total assets	170 642	155 678	164 991
Paid up equity	2 343	2 343	2 343
Retained profit	5 142	3 714	4 812
Trust preferred stocks	225	225	225
Subordinated loan capital	2 243	2 391	2 224
Securities adjustment reserve	2 670	3 486	3 538
Insurance reserves	155 667	141 003	149 790
Provisions for commitments	641	756	651
Liabilities for commitments	693	1 638	844
Accrued costs and prepaid income	1 020	122	565
Total liabilities and equity	170 642	155 678	164 991
Unrealised capital gains	3 637	4 047	3 935

**) of which

Shareholdings and investments	25 750	22 023	24 554
Short-term bonds and commercial paper	65 435	56 059	59 899
Hold to maturity bonds	52 955	51 912	54 172
Lendings	349	371	352
Real estate	19 518	17 949	19 410
Financial assets	164 006	148 314	158 387

Key ratios

	First Quarter		Year
	2005	2004	2004
Return on total assets	1.9 %	1.6 %	6.5 %
Value-adjusted return, excl. changes in value of hold to maturity securities	1.3 %	2.3 %	7.1 %
Capital ratio	14.1 %	13.2 %	14.1 %