VITAL

Half-year report 2009

Photographer: Stig Fiksdal

Report for the first half-year 2009

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 around 26 000 corporate customers.

Vital achieved a profit of NOK 532 million before tax for the first half of 2009. This is an improvement of NOK 439 million in relation to the first half of 2008.

Vital reports a recorded and value-adjusted return for the common portfolio for the first half year of 1.9 per cent. The return on the corporate portfolio for the first half year was 2.9 per cent. The capital ratio is 11.8 per cent, well above the requirement of 8 per cent.

NOK 8 million has been used from additional allocations in the group accounts to cover the guaranteed return to customers. Under the accounting rules for Norwegian life insurance companies it is not permitted to use additional allocations in the interim accounts. Without the use of additional allocations of NOK 8 million Vital's profit before tax was NOK 524 million. The corresponding result for the first half of 2008 was minus NOK 2 978 million.

Allocations to customers in the sub-portfolios in the first half year are calculated at NOK 441 million. Vital's total assets as at 30 June 2009 amounted to NOK 227 billion, an increase of NOK 2.7 billion (1.2 per cent) since the start of the year.

The accounts for the first half year show:

- Result before tax of NOK 532 million
- Capital ratio of 11.8 per cent
- Satisfactory solvency with aggregate solvency capital of NOK 17.7 billion, and a solvency margin of 59 per cent
- Securities adjustment reserve of NOK 92 million
- Total market share of 32.6 per cent

The accounts have been presented in accordance with the annual accounts regulations for life insurance companies that have been adapted to the new business rules. Figures from the accounts for the first six months of 2008 are shown in parenthesis below.

Premium income

Premium income amounted to NOK 11.5 billion (12.4), a decline of 7.1 per cent compared with the corresponding period last year. Premium income for group pensions was NOK 9.0 billion (9.6), a reduction of 6.2 per cent. Aggregated premium reserves received for group pensions from other companies totalled NOK 1.7 billion (3.0). Premiums due increased by NOK 0.7 billion corresponding to 10.5 per cent.

The retail market continues to be affected by competition from alternative forms of saving. Premium income amounted to NOK 2.2 billion (2.6), a decline of 17.8 per cent compared with the corresponding period last year. Unit-linked insurance policies represented NOK 0.5 billion (0.8) of aggregated premium income, a decrease of 38.2 per cent.

At the end of the first half year pension funds under management for the public market exceeded NOK 26 billion - an increase of NOK 2.4 billion since the start of the year. The increase is evenly divided between the addition of new customers and growth in the existing customer base.

Vital had a transfers balance in the first quarter of virtually 0 (1.5). In the public market there was a transfers surplus of NOK 706 million.

Payments to customers and claims

Payments to customers and disability and mortality claims amounted to NOK 4.8 billion (4.7). Surrenders of endowment products with a guaranteed return were reduced by NOK 3 billion to NOK 0.6 billion. Endowment products with a guaranteed return have a premium reserve of NOK 10.3 billion. Repurchases of annuities totalled NOK 1.2 billion (2.0).

Financial return

The recorded and value-adjusted return for the common portfolio was 1.9 per cent, excluding value changes in bonds to be held to maturity.

The return on current bonds was 2.1 per cent (0.5) at the end of the first half year. The return breaks down as to 2.5 per cent (0.8) on Norwegian bonds and 1.4 per cent (minus 0.1) on foreign bonds.

The return on foreign bonds was driven during the first half year by rising government bond yields and by credit spreads which widened in the first quarter before narrowing significantly in the second quarter. The return on foreign bonds of 1.4 per cent in the first half year was 0.4 per cent behind benchmark.

Long-dated Norwegian government bond yields have risen slightly and short-dated Norwegian government bond yields have fallen slightly during the first half year. This resulted in a return for the Norwegian bond portfolio of 2.5 per cent in the second quarter. Vital's Norwegian bond portfolio was 0.5 per cent ahead of the benchmark for the first half year.

Hold-to-maturity bonds gave a return of 2.5 per cent (2.5).

In the case of shares the aggregated return was 17.9 per cent (minus 7.6) which breaks down as to 26.8 per cent (minus 2.5) on Norwegian shares and 5.2 per cent (minus 9.9) on foreign shares (excluding hedge funds and private equity).

Volatility in the financial markets has fallen considerably in the first half year but is still at levels well above what can be considered as normal. Norwegian shares had a better development than the world index mainly due to the positive developments in commodity prices. The oil price has risen by more than USD 20 per barrel during the first half year and now trades at around USD 68.

Real estate gave a return of 0.5 per cent (0.1) after write-downs of NOK 616 million.

The corporate portfolio achieved a value-adjusted return of 2.9 per cent. The company's capital invested in the corporate portfolio forms part of the buffer capital that protects customer funds.

The return on Vital's defined contribution pension portfolios was 5.5 per cent for "Vital 30" (minus 2.9), 7.4 per cent for "Vital 50" (minus 5.3), and 10.2 per cent for "Vital 80" (minus 8.9).

Costs

Operating expenses amounted to NOK 952 million (982) in the first half of 2009. The reduction is mainly due to lower commission and asset management costs.

Result

The IFRS result after use of additional allocations is calculated at NOK 532 million. The profit after tax was NOK 37 million.

The profit before tax pursuant to NGAAP was NOK 523 million (minus 2 978). The profit after tax was NOK 37 million.

The risk result was NOK 149 million (171).

The estimated tax charge for 2009 is 93 per cent of the forecast result. The high tax rate is due to the fact that losses on securities are not eligible as a deduction due to use of the exemption method and also to the write-down of real estate.

The financial result was NOK 3.9 billion (0). The risk result was NOK 149 million (171). The administration result was minus NOK 101 million (minus 62). The securities adjustment reserve stood at NOK 92 million at the end of the first half year (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 June 2009 was 11.8 per cent (9.6). The capital ratio as at 31 March 2009 amounted to 12.4 per cent. The change is due to growth in assets and an increased proportion of equities. The minimum capital adequacy requirement is 8 per cent.

Solvency capital

Solvency capital, that protects customers' premium reserves, consists of the interim results, the securities adjustment reserve, excess values on bonds that are held to maturity, additional allocations, equity capital and subordinated loans.

As at 30 June 2009 solvency capital was NOK 17.7 billion (13.9) while at 31 March 2009 it stood at NOK 16.7 billion.

As at 30 June 2009 solvency capital represented 9.7 per cent (7.7) of technical insurance reserves (excluding additional allocations and the security reserve) against 9.1 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 unallocated profits, amounted to NOK 8.0 billion at 30 June 2009 against NOK 8.2 billion at the start of the year.

Market

Vital is the market leader in life and pensions in Norway and had a market share of 32.6 per cent of total customer funds as at 31 March 2009 against 32.7 per cent at the end of 2008. In the corporate market Vital had a market share of 43.1 per cent within private group benefit pensions against 42.8 per cent at the end of 2008. Within public sector group pensions the market share increased from 10.5 per cent to 11.1 per cent at 31 March 2009. In the retail market the market share increased from 54.1 per cent to 54.4 per cent based on insurance funds. Within defined contribution pensions the market share fell from 30.6 per cent at the end of 2008 to 29.2 per cent at the end of the first quarter of 2009. (Source: FNH)

Future prospects

Vital started the second quarter with equity investments representing 3.6 per cent of its portfolio and has now started to gradually increase the weighting. At the end of the quarter the weighting was 4.4 per cent with an increase in equity investments of NOK 1.3 billion from the first to the second quarter.

The financial markets continue to be regarded as volatile, and Vital's substantial holdings of interest-bearing securities mean that the return is dependent on the development in interest rates.

On the market side the Norwegian Post Office's decision to renew its agreement on defined contribution pensions and also to place its portfolio of personal insurance policies with Vital has shown that Vital is highly competitive. The Post Office is one of Norway's largest pension customers and the agreement provides a good basis for Vital's future growth in the defined contribution pensions market.

During the first half year Vital strengthened its position in the public sector - both through the addition of new customers and growth in the existing customer base. The company expects that growth in this area will continue, and that public procurement practices will be amended so that market participants can compete on equal terms.

Vital's cost saving programme "210 in 2010" has as its goal to achieve savings of NOK 210 million by the end of the year 2010. The main elements are a reduction in staffing and an improvement in working practices in the company. The new organisation has been operational since 1 July.

Vital's goal is that the ongoing cost saving programme, combined with steadily closer integration with the DnB NOR group, will lead to the company being more customer-friendly, cost-effective and even more competitive in the Norwegian pensions market.

6 July 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	*30-06-09*	*30-06-08*
Premium income	11 548	12 424
Net income from investments in the combined portfolio	3 671	(3 354)
Net income from investments in the unit-linked portfolio	1 035	(1 461)
Other insurance related income	6	15
Payments to policyholders	(8 678)	(12 237)
Changes in insurance liabilities - contractual liabilities	(4 108)	1 252
Changes in insurance liabilities - separate unit-linked portfolio	(1 821)	1 353
Funds allocated to insurance policies - contractual liabilities	(441)	(84)
Insurance related operating costs	(949)	(980)
Other insurance related costs	(42)	(129)
Result from technical accounts	**219**	**(3 199)**

Non-technical accounts

Net income from investments in the company portfolio	362	223
Other income	14	0
Management costs and other costs related to the company portfolio	(71)	(3)
Result from non-technical accounts	**305**	**221**
Result before tax	**523**	**(2 978)**
Taxes	(487)	0
Result before other items	**37**	**(2 978)**
Other items	0	0
Total result	**37**	**(2 978)**

Notes:

Use of additional allocations	8	3 071
Tax effect of use of additional allocations	(8)	0
Result	**39**	**93**

It is not possible to use additional allocations in the interim accounts. Under the rules for annual accounts NOK 8 million could be covered from additional allocations which would give a profit before tax of NOK 532 million.

Balance sheet

NOK million	*30-06-09*	*30-06-08*
Assets in the company portfolio		
Intangible assets	274	218
Investments	12 949	10 641
Receivables	317	5 405
Other assets	939	2 286
Prepaid expenses and accrued income	57	102
Total assets in the company portfolio	**14 536**	**18 651**
Assets in the customer portfolios		
Investments in the combined portfolio	194 229	180 022
Investments in the unit-linked portfolio	18 031	28 314
Total assets in the customer portfolios	**212 260**	**208 336**
Total assets	**226 796**	**226 987**

Equity and liabilities

Paid-up equity	2 496	2 496
Retained earnings	6 227	3 048
Subordinated loan capital etc.	2 543	2 481
Insurance liabilities in life insurance - contractual liabilities	189 055	180 251
Insurance liabilities in life insurance - separate unit-linked portfolio	18 043	28 432
Provisions for commitments	1 230	798
Liabilities	6 743	7 236
Accrued expenses and prepaid income	459	2 245
Total equity and liabilities	**226 796**	**226 987**

Key figures

Return on capital in the combined portfolio	1.9%	0.0%
Value-adjusted return from the combined portfolio	1.9%	(1.7)%
Capital ratio	11.8%	9.6 %

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 interim accounts for the first half year have been presented in accordance with IAS 34 – Interim accounts, 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 capital

NOK million	*Paid-in equity*	*Other equity*	*Total equity*
Equity as at 31 December 2007	**2 496**	**5 867**	**8 363**
Security reserve transferred to risk equalisation reserve (RUF)		160	160
Demerger real estate subsidiaries capital reduction	(266)	(865)	(1 131)
Demerger real estate subsidiaries subscription in kind	266	865	1 131
Result for the year		218	218
Equity as at 31 December 2008	**2 496**	**6 244**	**8 740**
Result for the period		37	37
Group contribution		(54)	(54)
Equity as at 30 June 2009	**2 496**	**6 227**	**8 723**

Cash flow statement	**01.01.09-30.06.09**	**01.01.08-30.06.08**
NOK million		
Cash flow from operations		
Net premiums/premium funds received	8 553	9 139
Net payments on transfers	4	1 301
Net income from financial assets	4 319	2 016
Income from unit-linked life insurance	(1 236)	979
Net other insurance-related income and costs	(363)	(1 139)
Insurance settlements disbursed	(6 276)	(9 926)
A=Net cash flow from operations	**5 001**	**2 370**
Cash flow from investments		
Net invested in shares and mutual funds	(600)	(2 016)
Net invested in bonds and loans	(7 067)	3 124
Net invested in investment agreements	564	0
Net invested in other financial assets	214	(987)
Net invested in fixed and intangible assets	(75)	41
B=Net cash flow from investments	**(6 965)**	**161**
Cash flow from financing		
Net dividend paid/Group contribution received	(54)	(1 221)
Changes in other financing	820	(5 448)
C=Net cash flow from financing	**766**	**(6 669)**
Net changes in liquidity (A+B+C)	(1 198)	(4 138)
Liquid resources at 1 January (cash/bank)	4 547	11 802
Liquid resources at 30 June 2009 (cash/bank)	**3 349**	**7 664**

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