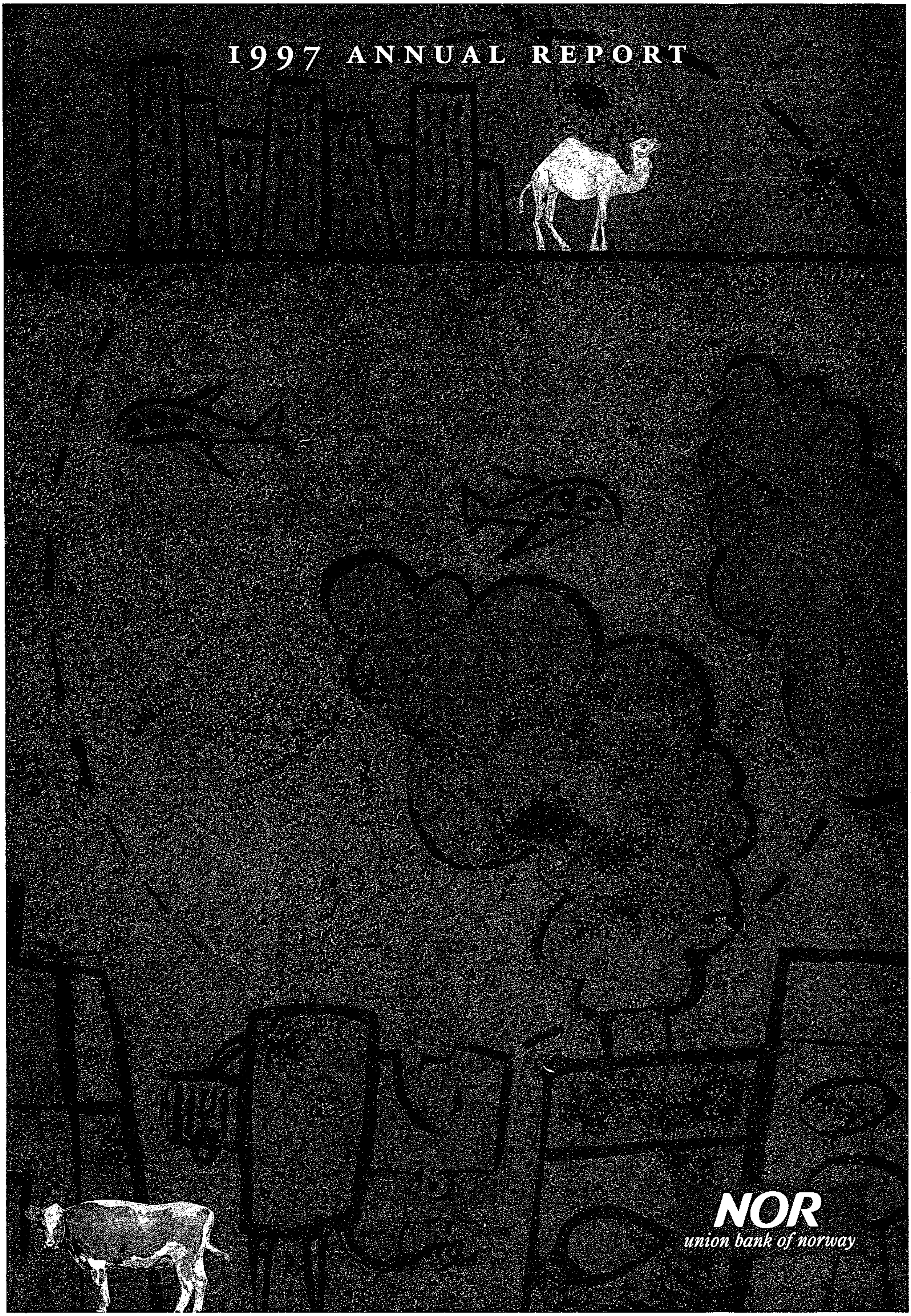
1997 ANNUAL REPORT



NOR
union bank of norway

UNION BANK OF NORWAY

Union Bank of Norway is a leading provider of financial services to Norwegian individuals and companies. Union Bank of Norway, or Sparebanken NOR as we are known in Norway, has a customer base of 750,000 retail customers and 100,000 businesses, associations and cooperatives. Our 174 offices and our staff, who work the equivalent of 3,304 man-years, give us broad market coverage and proximity to customers.

The services we provide range from everyday banking services to insurance, fund management, stockbroking, real estate brokerage, real estate management, syndication, leasing, and factoring.

The bank has a decentralized structure: six regional units, six district offices outside southeastern Norway, and a division for large corporate customers. The Group's subsidiaries maintain independent responsibility for the development of their business areas within the framework set by the Union Bank of Norway Group's overall strategy.

Union Bank of Norway's primary capital certificates are listed on the Oslo Stock Exchange and on SEAQ (Stock Exchange Automated Quotation System) in London.

GOALS FOR THE GROUP

Union Bank of Norway will be:

- One of Norway's leading financial institutions
- The natural first choice for private customers, as well as small and medium-sized businesses
- A professional provider of services to select large corporations
- An adaptable sales organization
- A bank staffed by motivated employees

PROFITABILITY

- Union Bank of Norway will be the most profitable financial institution in Norway, on average over several years
- Cost efficiency will be a hallmark of all units within the Group
- Union Bank of Norway will have an annual return on equity that is at least equal to risk-free interest plus 5 percentage points

FINANCIAL SOUNDNESS

- The equity ratio of the Group will be no less than 12 per cent, of which a minimum of 8 per cent will be Tier 1 (core) capital

YIELD ON PRIMARY CAPITAL CERTIFICATES

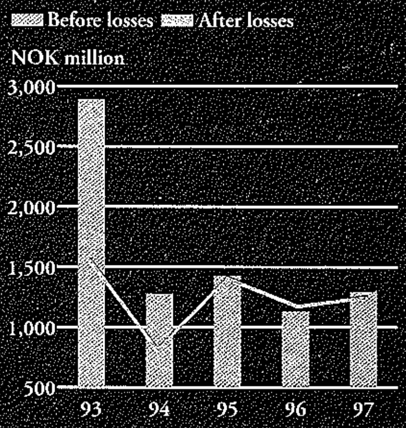
- Union Bank of Norway will offer holders of its primary capital certificates a competitive return on their invested capital.

1997 ANNUAL REPORT

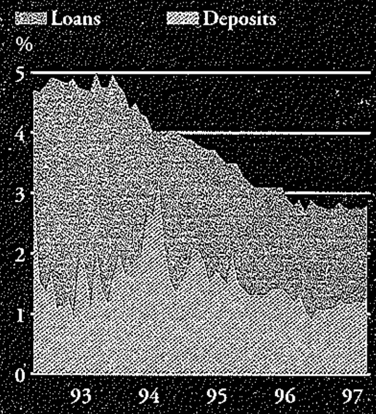
CONTENTS

FINANCIAL DEVELOPMENT

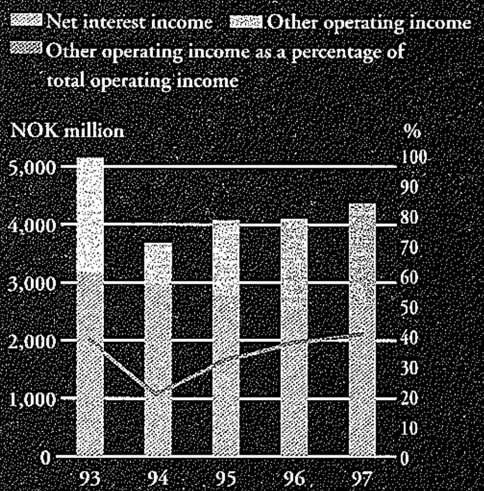
OPERATING PROFIT BEFORE AND AFTER LOSSES ON LOANS AND GUARANTEES



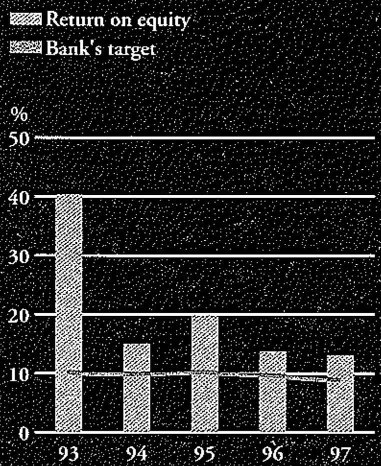
CUSTOMER SPREAD PARENT BANK



NET INTEREST INCOME AND OTHER OPERATING INCOME



RETURN ON EQUITY

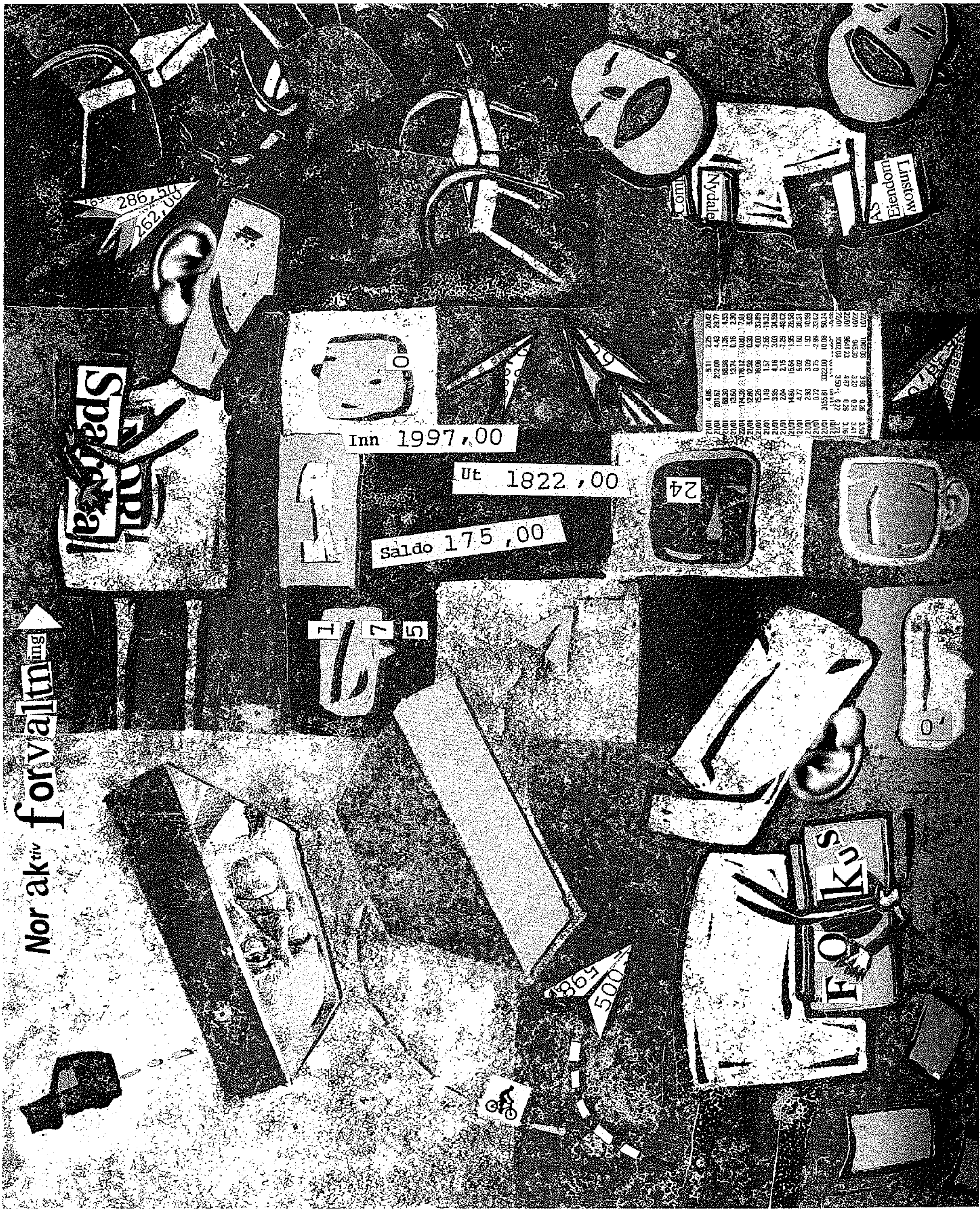


KEY FIGURES

UNION BANK OF NORWAY GROUP

	1997	1996	1995
Net interest income	2,602	2,559	2,781
Capital gains	124	176	215
Other operating income, net	1,642	1,326	1,045
Operating expenses	3,072	2,930	2,616
Operating profit before losses	1,296	1,131	1,425
Losses (gains)	46	(42)	19
Operating profit	1,250	1,173	1,406
Profit for the year	868	851	1,071
Return on equity	13.1%	13.8%	19.9%
Interest margin	2.1%	2.4%	2.8%
Operating profit, before losses	1.0%	1.0%	1.5%
Effective yield on primary capital certificates	38%	31%	34%
Profit per primary capital certificate (in NOK)	23.52	23.93	32.08
RISK amount (in NOK at 1 Jan. in subsequent year) (1997 estimated)	20.50	21.98	4.39
Growth in lending	18.9%	14.0%	9.6%
Growth in deposits	0.4%	8.3%	5.5%
Total assets	132,429	114,540	101,521
Net defaults	0.8 %	1.0%	1.4%
Losses (gains) on loans and guarantees	(0.04%)	(0.04%)	0.1%
Capital base (eligible)	10,973	10,775	9,615
Capital ratio	11.4%	13.2%	13.3%
Of which Tier 1 (core) capital	6.9%	7.5%	7.9%

Amounts are in NOK million. Further key figures and definitions are presented on pages 48 and 49 of this report.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Ut 1822 ,00
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Nor aktiv forvaltning
Fokus
Linstow

1997 HIGHLIGHTS

GOOD RETURN ON PRIMARY CAPITAL CERTIFICATES

In 1997, Union Bank of Norway investors had a total return on their primary capital certificates of NOK 75 per certificate (38 per cent). The total return reflects a NOK 15 annual cash dividend and certificate price growth from NOK 200 to NOK 260.

UPGRADING OFFICES

During 1997, 55 offices started using new, in-house developed IT systems. At the same time, the offices were rebuilt and refurbished. The improved computer-based capabilities provide better customer service and more efficient operations.

NEW SUBSIDIARY

NOR Aktiv Forvaltning (asset management) was formed as a new, wholly-owned subsidiary.

LINSTOW TO MERGE

The Group's Linstow Eiendom real estate subsidiary and Nydalen Eiendomscompagnie ASA decided to merge.

NEGOTIATIONS WITH FOKUS BANK

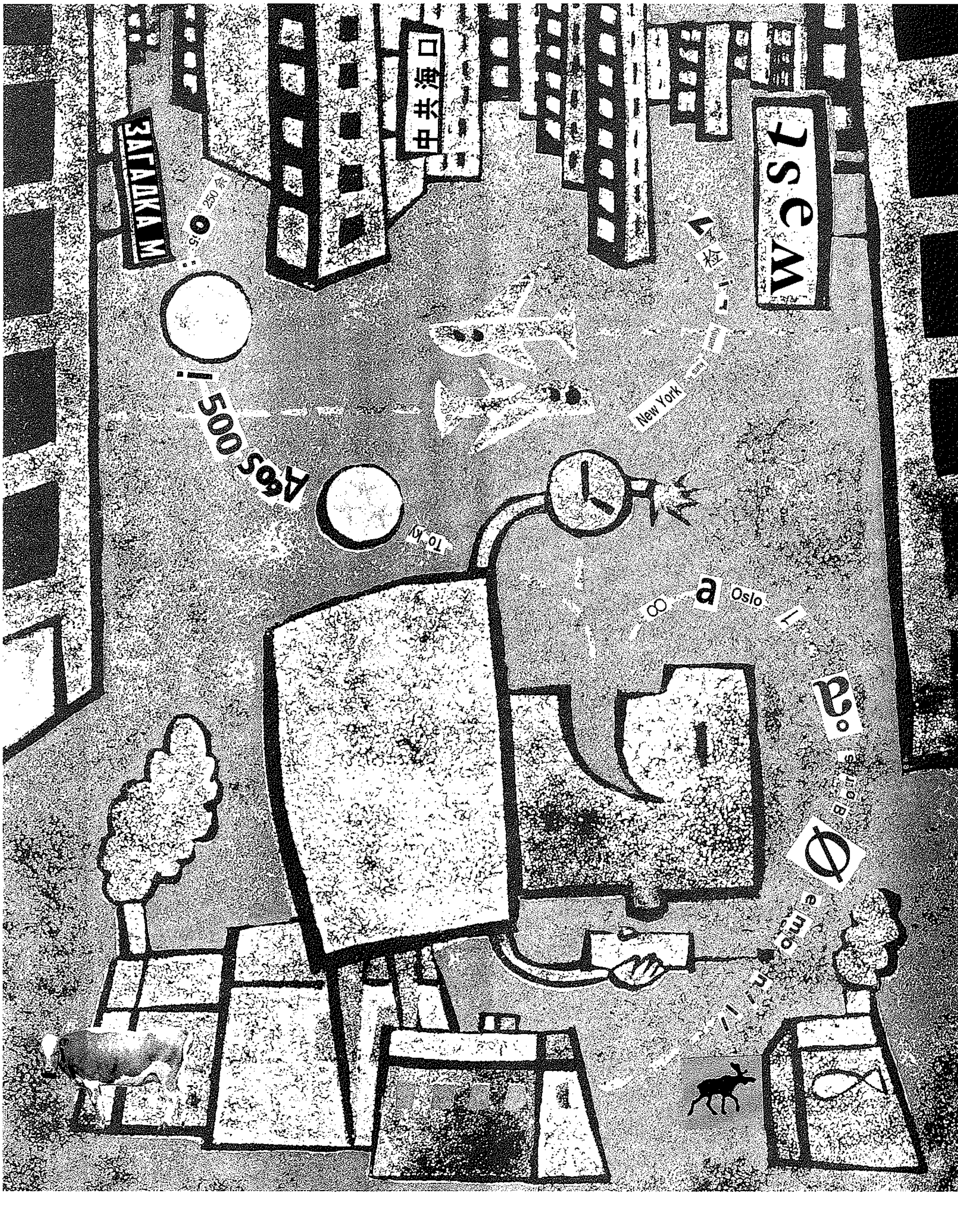
Following negotiations on a cooperative agreement, Fokus Bank and Union Bank of Norway agreed to merge the two banks. The merger was, however, blocked by Norway's SpareBank 1 Group, which was the largest shareholder of Fokus Bank.

PRIZE-WINNING QUALITY

The Group received several awards for outstanding quality in 1997. The National Award for Qualities in the Built Environment was awarded to Ibsenkvartalet, Linstow Eiendom's largest development project. Located in central Oslo, Ibsenkvartalet, was also awarded the Harald Sundt prize for outstanding architectural achievement by the Oslo Association of Architects. The Norwegian Design Council awarded the furniture and appointments in the bank's new offices the Good Design Award.

ANNIVERSARY

The oldest privately held bank in the country, Union Bank of Norway celebrated its 175th anniversary on 20 May.


ЗАГАДКА М
中共海口
500
New York
Oslo

LOCAL BANK AND FINANCIAL CORPORATION

Union Bank of Norway represents the collective strength of more than 100 formerly independent banks whose business has always been to serve their local customers. The competitive edge that distinguishes us from other large banks in Norway is our long tradition of service to local communities. We know our customers, and they know us.

The savings bank has always played an important role for local businesses, organisations, and government throughout Norway – as well being the natural bank of choice for the majority of Norwegian families. The savings bank, with its offices and staff present and ready to solve problems then and there, has always been a building block in local communities.

But traditions are not enough. In today's rapidly changing world, we must be committed to meeting current needs with future-oriented solutions. For example, several thousand Union Bank of Norway customers now pay their bills from the comfort of their homes via our secure banking services on the Internet. Saving for the future used to mean putting money away in a savings account at a local bank. Today, an increasing number of Norwegians buy stock in international companies or buy shares in mutual funds that invest without regard to national borders. Globalisation also affects the way Union Bank of Norway raises funds. In earlier days, savings banks could finance all loans through customers' deposits. Today, all major banks must borrow from international monetary markets to finance the mortgages and business loans of local customers.

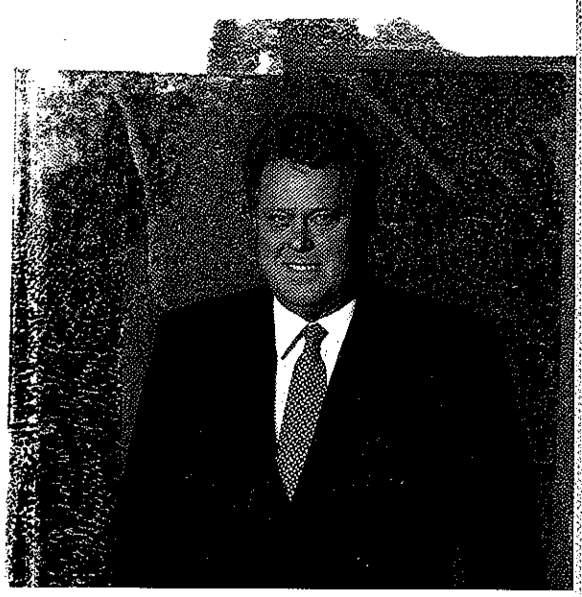
Less than a year from now, the euro will be introduced as the common currency in many European countries. Even though Norway will be a non-participant, Norwegian companies and individuals will soon feel that the distance to Europe has become even shorter. The euro will become part of our everyday life, even in Norway.

The links between "local" and "international" are growing steadily stronger for all major banking products: lending, savings, and payment transfer services. It is no longer only the largest Norwegian companies that feel the effects of living in a border-less society. We all depend increas-ingly on free, rapid, and open movement between our financial home market and the rest of the world.

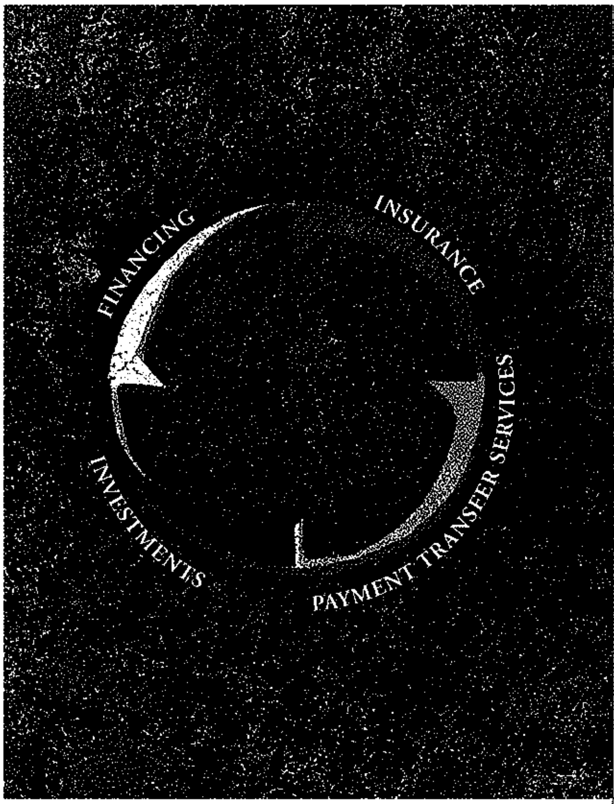
So what is the local bank worth in a borderless world? A great deal! The value of daily interaction and trust between bank and customer will remain the same even as our products and services evolve. In a changing world, the need for nearby, accessible help in mastering both the abstract and remote will increase rather than decrease. Local banks will become the crucial financial link between local communities and international markets. They will be an indispensable link for businesses and individuals in a world in which the significance of national borders lessens daily.

For Union Bank of Norway, the challenge is clear: If we are to reach our objective of being the best bank in all our local markets, we must also be globally skilled professionals.

Kjell O. Kran



A TOTAL SUPPLIER OF FINANCIAL PRODUCTS AND SERVICES



sparebanken NOR

Norway's third largest bank. Proximity to customers and familiarity with local market conditions are the bank's key competitive advantages. Consequently, the bank has a decentralised organisational structure, with widely dispersed authority and high expertise levels at local bank offices. Group subsidiaries have independent responsibility for developing their business area, within the framework set by the Group's overall business strategy.

Union Bank of Norway emphasises profitability and efficiency over expansion. The business will be piloted into areas that provide the greatest yield. The bank strongly emphasises use of its local market knowledge and promoting efficient use of technology in new and more effective day-to-day banking services.

Sparebank kreditt

Sparebank Kreditt is a mortgage company that provides medium- and long-term fixed-interest, realty-secured loans to business and public sector clients, and housing associations. Direct sales, low risk, and low operating expenses are the basis for the company's competitiveness in its markets. Sparebank Kreditt's bond issues are listed on the Oslo Stock Exchange.

NOR finans

NOR Finans provides secured consumer financing, car loans, leasing and factoring. The company operates in both private and business markets. NOR Finans is one of the fastest-growing finance companies in Norway. The company's products are sold through the offices of the Union Bank of Norway, the offices of its cooperating banks, and the company's own offices.

NOR forsikring

NOR Forsikring is one of the largest bank-owned insurance companies in Norway. NOR Forsikring's main business activity has been individual life insurance, but in 1997 the company launched group pension insurance products for businesses. Union Bank of Norway owns 79.8 per cent of NOR Forsikring. The remaining shares are owned by other savings banks, which also sell the insurance products of NOR Forsikring.

	Sparebanken NOR	Sparebank Kreditt	NOR Finans	NOR Forsikring
Operating profit (in NOK million)	1,154	53	33	27 *)
Return on equity before tax	—	4.8%	17.7%	17.2%
Return on the bank's invested capital	—	6.3%	31.1%	17.4%
Sales and portfolio commissions to parent bank	—	—	—	17
Total assets (in NOK million)	115,630	14,035	2,231	6,361
Number of man-years	2,768	39	75	157
Union Bank of Norway's holding	—	100.0%	100.0%	79.8%

*) Owners' share of profit after tax.

linstow	sparebankgårdene	NOR aktiv forvaltning	NOR eiendom	avanse	Karl Johan Fonds AS	NOR union bank of norway
Linstow Eiendom was established in 1990 to manage commercial properties that Union Bank of Norway repossessed during the recent Norwegian bank crisis. Property management and development have grown to become a large part of Linstow Eiendom's activities. To further the company's development, merger negotiations with Nydalens Compagnie ASA were initiated in the autumn of 1997. The General Meetings of the two companies have backed the proposed merger.	Sparebankgårdene rebuilds, remodels, and operates Union Bank of Norway's offices. The company owns a total of about 190,000 square meters and rents an additional 60,000 square meters of floor space. The Group occupies about 75 per cent of this area. In 1997, a total of 55 of Union Bank of Norway's bank offices were rebuilt because new IT systems were introduced and to follow through on the bank's new design and service concept. The remaining offices will be remodelled in 1998.	NOR Aktiv Forvaltning, a new company in the Union Bank of Norway Group, offers active management of accets for large investors. NOR Aktiv Forvaltning was based partly on the existing investment management know-how in NOR Forsikring AS. The company began operating on 1 September 1997. At year-end, it had grown to be Norway's largest asset management company.	NOR Eiendomsmegling is Norway's largest real estate brokerage in the residential property and holiday home market. The company has 30 branch offices, with a total of 180 man-years. The market position of NOR Eiendomsmegling was strengthened in 1997, a year in which the company sold more than 6,400 housing units and cottages. NOR Eiendomsmegling has become an increasingly important conduit to reach new residential mortgage customers.	Avanse Forvaltning is Norway's oldest and largest mutual fund management company. Avanse Forvaltning offers a wide choice of investment products, providing money market, bond market and equity funds that invest in Norway as well as abroad. Avanse's products are sold through Union Bank of Norway branch offices, as well as through many other savings banks.	Karl Johan Fonds became a licensed securities broker under the new Securities Trading Act on 1 January 1997. Karl Johan Fonds is responsible for the Group's customer-oriented activities in the equity market area. The company is active in the primary and secondary markets for stock and primary capital certificates, and in options trading and financial advisory services.	Union Bank of Norway International SA, Luxembourg, provides foreign currency loans to Norwegian and Scandinavian savings banks, in addition to offering financing and advisory services to small-and medium-sized business customers in Scandinavia. Union Bank of Norway International also provides banking services to Norwegians and other Scandinavians who reside abroad.
31	- 19	- 0.5	5	47	52	24
3.2%	- 3.9%	- 10.0%	11.8%	69.4%	82.6%	11.6%
3.4%	- 9.3%	- 10.0%	11.3%	264.8%	112.0%	17.3%
—	—	—	—	88	—	—
2,696	1,556	7,830	337	17,137	166	4,209
49	38	9	171	45	44	32
100.0%	100.0%	100.0%	100.0%	72.2%	75.0%	100.0%

1997 REPORT OF THE BOARD OF DIRECTORS

1997 was another good year for Union Bank of Norway. The Group recorded a pre-tax profit of NOK 1,250 million, compared with NOK 1,173 million in 1996. After taxes, profit was NOK 868 million, which translates into a return on equity of 13.1 per cent. On the basis of 1997 earnings, the Group Board of Directors recommends a dividend of NOK 15 per primary capital certificate.

The Group's results for 1997 reflect good operations for the year at the parent bank as well as its subsidiaries. Despite a continued decrease in the bank's interest margin, a 19 per cent volume increase resulted in a higher net interest income figure for 1997 than for 1996. Income from payment services, mutual fund management, and stockbroking is growing. Losses on loans are low, and there continue to be considerable reversals of earlier recorded losses. Profits were negatively impacted in the amount of NOK 93 million by a write-down of Union Bank of Norway's shares in Fokus Bank.

1997 RESULTS

Lower customer spread: The average customer spread fell from 3.1 per cent in 1996 to 2.8 per cent in 1997. This is a moderate decline compared with the steep drop that occurred from 1993 to 1996. As recently as the beginning of 1994, the customer spread was 4.8 per cent *(see chart page 2)*. The 1997 margin decrease has been exclusively to the benefit of customers. This factor, viewed in isolation, was responsible for a decline in income of NOK 189 million, compared with the previous year's figure. The loss in direct income, however, was more than offset by volume growth, as net interest income actually increased by NOK 43 million. The average customer spread remained stable at 2.8 per cent throughout all four quarters of 1997.

Increase in other operating income: Other operating income increased to NOK 1,766 million in 1997 (1996: NOK 1,502 million). The growth is largely attributable to increased volume in payment services and higher income from the bank's subsidiaries. Avanse Forvaltning, NOR Forsikring, and NOR Finans recorded particularly strong growth in volume. NOR Eiendomsmegling, which is Norway's largest real estate brokerage firm, had a growth in gross revenues of 52 per cent in 1997.

Throughout 1997, the bank maintained a low risk profile in the foreign currency and equity markets. Yield on these and other financial instruments was somewhat lower in 1997 than in 1996, amounting to NOK 124 million in 1997 (1996: NOK 176 million).

Increased operating expenses: Operating expenses increased by NOK 142 million or 4.8 per cent from 1996 to 1997. Higher levels of activity are partly responsible for the growth in expenses. Other contributing factors were:

- Costs related to development and implementation of the new IT platform were significantly higher than anticipated. The remodelling work at our offices became more encompassing than originally projected. Also, more offices implemented the new technological platform than had been planned.

- Activities at subsidiaries required 66 additional man-years.
- The sale of our former district office in Kristiansand and the acquisition of Sparebanken Pluss offices in Telemark county led to increased expenses.
- Higher salary levels partially offset the positive financial effects that the bank achieved by reducing its staff by 181 man-years through restructuring efforts.

Developments in losses and defaults: In 1997, net losses amounting to NOK 46 million were recorded. This is an improvement of NOK 6 million over 1996 figures. Gross losses were reduced to NOK 204 million in 1997 (1996: NOK 295 million), which corresponds to 0.18 per cent of gross lending.

Net defaulted loans totalled NOK 835 million or 0.8 per cent of all loans. The specific loan loss provisions on gross defaulted loans at year-end 1997 was 52 per cent of the default amount (1996: 55 per cent).

In addition to specific loss provisions, NOK 870 million has been reserved for unspecified loss provisions (1996: NOK 867 million). This figure amounts to 0.8 per cent of gross loans to customers in 1997 (1996: 0.9 per cent). The Board considers these loss provisions to be adequate.

Special provisions: At the bank's commemoration of its 175th anniversary in the spring of 1997, NOK 30 million was set aside in a fund for employees. Due to a favorable earnings projection for 1997, an additional allocation of NOK 15 million was made to the fund in December. The assets in the fund are, and will largely remain, invested in primary capital certificates issued by Union Bank of Norway.

Taxes: The Group is in full tax position, and set aside NOK 364 million for taxes for 1997 (1996: NOK 318 million).

Balance sheet: The Group's total assets rose from NOK 115 billion in 1996 to NOK 132 billion in 1997, an increase of 16 per cent.

ALLOCATION OF PROFIT FOR 1997

The Board of Directors recommends that the parent bank's profit for the year, after transfer of Group contributions to subsidiaries of NOK 67 million, be allocated as follows:

Dividend on primary capital certificates, NOK 15 per certificate	NOK 389 million
To dividend adjustment reserve	NOK 160 million
To the Savings Bank's reserve	NOK 233 million
	NOK 783 million

In keeping with the bank's dividend policy, through this distribution of profits, holders of primary capital certificates have received a share of the profit in proportion to their share of equity.

INCREASED MARKET PENETRATION

International finance is undergoing a period of considerable change. There is an ever-stronger capital concentration in the business. The most important driving forces are opportunities opened up by new technology, and international legislation that place few restrictions on investments across national borders. The Board expects the international trends to affect the Norwegian market, so that we will gradually see both larger units and new niche operators in Norway.

In 1996, Union Bank of Norway entered into cooperation agreements with four regional savings banks. In 1997, a similar agreement was made with Sparebanken Hedmark. Through this cooperation the banks have succeeded in becoming the chosen main bank association of several major business customers. The customer base that has come into being because of this cooperation, led to Union Bank of Norway's establishing a special unit for fisheries. The cooperating banks are planning to introduce Union Bank of Norway's IT solutions for their bank offices during the next two years.

In the summer of 1997, Union Bank of Norway increased its market coverage of

Southeastern Norway by taking over Sparebanken Pluss' ten offices in the county of Telemark. In return, Sparebanken Pluss took over Union Bank of Norway's regional operation in the city of Kristiansand on Norway's southern coast. This change of ownership enabled both savings banks to strengthen their market share in their respective core markets: the southeastern parts of Norway and Kristiansand. The offices in Telemark are organised as a separate region within Union Bank of Norway.

In the spring of 1997, Fokus Bank initiated talks with Union Bank of Norway on a cooperation agreement based on the banks' common desire to have a country-wide distribution network. Such cooperation would provide more efficient utilisation of bank offices, a broader product range for Fokus Bank, and broader distribution of the products of Union Bank of Norway's subsidiaries. At the time of the negotiations, Union Bank of Norway purchased 10 per cent of the shares of Fokus Bank.

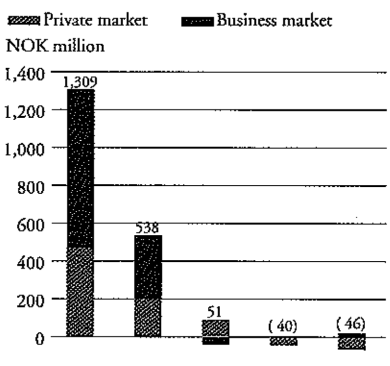
During the negotiations it became clear that a merger of the two banks, in order to create a new, country-wide bank, would clearly be the best solution for owners, customers, and employees. The Boards of the two banks concurred in this evaluation.

The merger was to be carried out by having Union Bank of Norway acquire Fokus Bank. A decisive precondition for a successful merger was that the SpareBank 1 Group, which held a large enough shareholding in Fokus Bank to prevent the merger, favored the merger. However, the SpareBank 1 Group did not wish to give its advance approval of the planned bid by Union Bank of Norway of NOK 77 per share. Consequently the merger was stopped. Union Bank of Norway still owns 10 per cent of the shares of Fokus Bank.

The Board follows developments in the financial industry closely. Heightened international competition makes it more important than ever to increase cost efficiency throughout the Group. From this point of view, continuing development of cooperation among savings banks is essential. Profitability and a sound financial position are the best ways to guarantee that the bank is ready to quickly take advantage of future market opportunities.

GROWTH IN LENDING, PARENT BANK

LOSSES ON LOANS AND GUARANTEES



MARKET TRENDS

Two particular market trends characterised the financial year of 1997: a steep increase in lending, and a shift from traditional bank savings accounts to savings in other investments.

The interest rate in Norway is lower than in decades. This fact, combined with an economic boom, resulted in a 10 per cent increase in lending in 1997 by Norwegian financial institutions. Norwegian banks, alone, increased their lending by 17 per cent. The increase in lending for Union Bank of Norway was 15 per cent in the retail market and 25 per cent for the business sector. The growth in deposits for the Group was 0.4 per cent from 1996 to 1997.

The Board pays close attention to profitability and credit risk in the bank's loan portfolio. When viewed separately, some of the larger loans to businesses yield low profitability, once fixed expenses as well as risk exposure and strain on equity are taken into account.

The Group Board of Directors has taken note of Norway's Banking, Insurance and Securities Commission's report, which was submitted to the Ministry of Finance in 1997. The report expressed concern about the increase in bank lending in Norway. The Board expects considerably lower growth in lending in 1998 than in 1997. In line with these developments, Union Bank of Norway will emphasise pricing of risk in lending, and the Board has decided that budgeted goals for lending in 1998 will give upper lending limits for each of the various organisational units of the bank.

The shift in the traditional savings pattern in Norway is probably a long-term trend.

Long-lasting appreciation in the price of stocks, low yield on traditional, risk-free bank savings, increased familiarity with alternative investments, and greater accumulation of assets, have all led to a strong growth in savings in mutual funds and through insurance companies over the past few years. Savings in mutual funds increased by 50 per cent in 1997; the increase for Avanse Forvaltning was 43 per cent. The life annuity, which is among NOR Forsikring's products, had a steep increase in sales in 1997. NOR Forsikring is preparing the market launch of Unit Linked products in 1998. New regulations regarding tax-deductible pension savings were introduced in the autumn of 1997. In cooperation with Avanse Forvaltning, Union Bank of Norway has developed simple and accessible products for this market.

Because of the expansion of the range of investment products offered by the Group, the Board feels that Union Bank of Norway is well positioned to meet the trends in the savings market.

BETTER SERVICES TO BUSINESSES

The greater accumulation of assets is also evident in the business market. In the autumn of 1997, NOR Forsikring (Insurance) started offering group pension products – a key addition to the Group's product portfolio for business customers.

Establishing NOR Aktiv Forvaltning was yet another step in rounding out the services we offer to larger customers such as city and local governments, companies, savings banks, and wealthy individuals. The company, which is managed by Ola Hjort, offers active management for asset holdings exceeding NOK 5 million.

Union Bank of Norway has traditionally held a strong position in the stock and bond issuance markets. Figures for 1997 show that the bank is a market leader in bond issues, and its activities in the equity markets produced significant contributions to the bank's profits in 1997.

Karl Johan Fonds, a subsidiary of Union Bank of Norway since 1 July 1996, was added to strengthen the Group's equity market capabilities for customers. It maintained a high level of activity and showed good results for 1997.

CUSTOMER SERVICE AT BANK OFFICES

A total of 55 bank offices installed our new IT platform in 1997; two-thirds of branch office employees work in these offices. The new technology platform was also introduced at twelve business and support units. At the same time, offices were remodelled according to the bank's new, unified design format. The rest of our offices are scheduled for similar upgrading in 1998. In the autumn, the specially designed furniture and appointments in the newest branch offices received the Norwegian Design Council's Good Design Award for 1997.

The technological solutions that have been developed by the bank have received international attention. NCR, a leading US firm in IT systems, has purchased the rights to sell the technology to banks outside of Norway. Through our cooperation with NCR, Union Bank of Norway has secured a partner who will contribute to further development of this technology.

The bank's offices are vital to its contact with customers. If the offices are to be efficient sales and advisory centers, the bank must have necessary sales know-how for the Group's various products – and customers must be able to expect quick processing. The bank is taking the necessary initiatives to meet its goals in these areas.

User-friendly, cost-effective self-service products are key to reduced waiting time in the office network. Automatic deduction of periodic bills, at-home banking via the Internet, and expanded phone-banking services, are examples of such products. Favorable pricing of these self-service products will motivate customers to use them. The same is true for the business market, where introduction of better PC solutions (NORnett) is followed up with more appropriate pricing of more costly services. To support the shift toward greater use of automated services, we have built up expertise in payment services in regional as well as central customer locations.

The bank opened several centralised customer service centers in 1997 to free bank offices from handling simple, routine customer requests. We also introduced expanded bank-by-phone services, among them a 24-hour service for customers who lose or have problems with their bank cards.

Union Bank of Norway has a closely knit branch office network. We are continually assessing whether the number and locations of the offices are optimal. After years of cut-backs in the office network, the Board is of the opinion that we are now facing a period where the overall number of offices will remain fairly stable. Office locations must be continually reevaluated, however, in order to adapt to customer traffic patterns.

DIFFERENT DISTRIBUTION CHANNELS; UNIFYING CORPORATE PROFILE

The sales support services for the bank's offices are shifting from a few large campaigns aimed at a broad target audience, to many smaller promotional activities with more clearly defined target groups. Dialogue marketing, used for example in customer loyalty programs targeted to various customer groups, is generating new incoming sales to bank offices. Our Total Customer Program, which was introduced as the bank's first loyalty program in 1996, is highly rated by customers. Total Customers were on the average more satisfied with the bank than a corresponding control group. In 1998, several more loyalty programs targeted at different customer groups will be implemented.

The significance of the bank card as a separate product is increasing. The customer's personal bank card has also become an important element of the bank's corporate profile, and the functionality of the different types of cards is a key factor in competition among various participants in the financial market. Union Bank of Norway is now targeting more intense development of its own cards and is building up our organisation, NOR Kort, as an independent unit in the Group.

Not all customers feel a sense of belonging to a particular bank office. Technological developments make it possible for many people to make do without such a relationship. Our direct bank, NOR24, which takes care of all customer contact via the telephone, has experienced a growth in its total assets of 37 per cent in 1997 to NOK 3.1 billion. The "at-home" bank on the Internet was introduced to the bank's customers in the spring of 1997 as a service to retail customers who are comfortable with new technology. Union Bank of Norway's Vika Bank, on the other hand, is for private customers with more demanding financial needs requiring advisory and personal service.

The need for an effective, common corporate profile for the Group has become greater, in order to counteract the effects of increased segmentation of the customer base. The bank has therefore begun a goal-oriented process to create a new, unified, high-quality visual profile.

REAL ESTATE COMPANIES

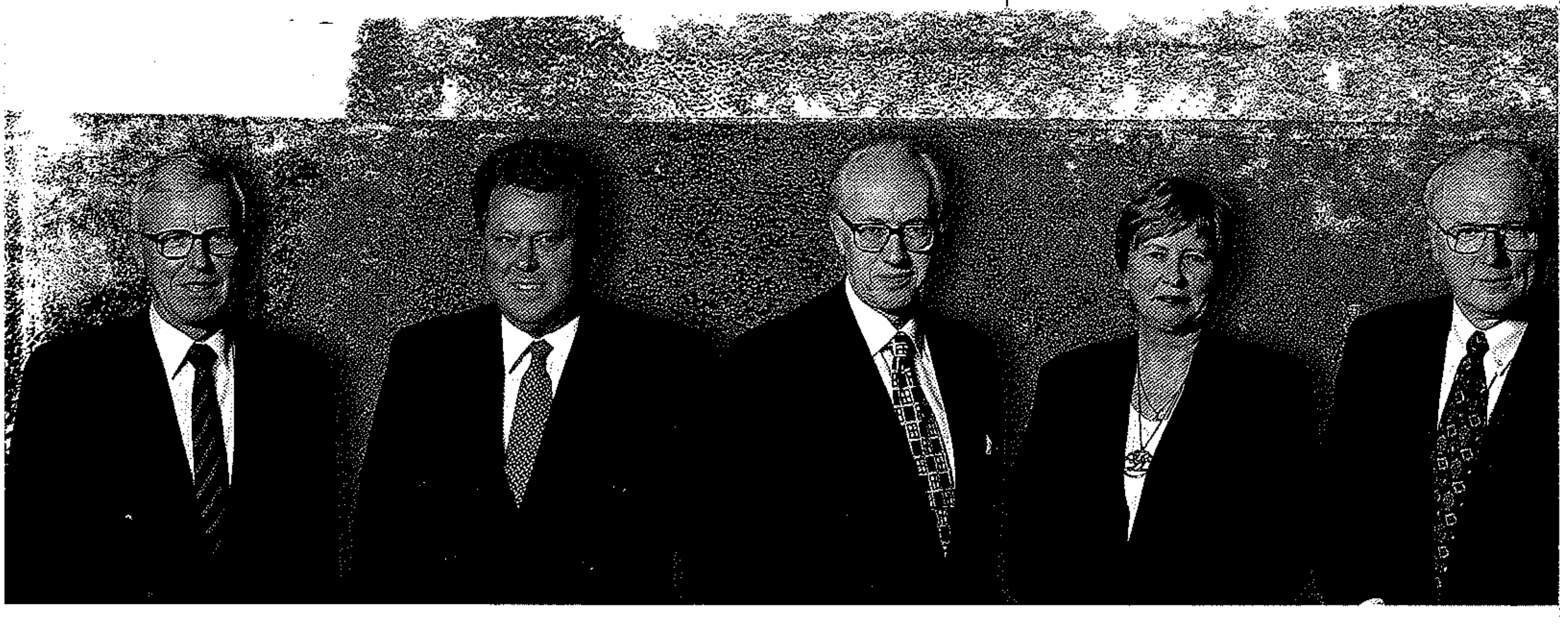
Linstow Eiendom was formed in 1989-90 to manage the bank's own properties, and then primarily the many properties that the bank had to repossess in the late 1980s and early 1990s. The company has developed into a professional real estate firm with an increasing number of real estate projects not directly related to its parent bank. In the interim, the bank has sold off repossessed properties.

After the merger with Aker Brygge I AS and the completion of Ibsenkvartalet (the Ibsen Quarter) in 1996, Linstow Eiendom continued to strengthen its position as a manager and developer of large, modern real estate projects. Ibsenkvartalet received two awards for architectural excellence in 1997: first the Harald Sundt prize for outstanding architecture, which was presented to the architects of the project, Gunnarsjaa+Kolstad, and, later in the year, the 1997 National Award for Qualities in the Built Environment.

To continue to develop the company, in the autumn of 1997 the Board of Linstow Eiendom decided to start merger negotiations with the stock-exchange-listed real estate company, Nydalen Compagnie ASA. The General Meetings of the two companies approved the merger proposal on 4 February 1998. As part of the merger process, Union Bank of Norway has sold shares in Linstow Eiendom, so that at the time of the merger, the bank will own 35 per cent of the merged company, Linstow ASA.

Through its sale of shares in real estate companies, Union Bank of Norway has realized appreciation in value of approximately NOK 170 million. This profit will

Union Bank of Norway's Board of Directors (from left): Hans Bø (Chairman), Kjell O. Kran (President and CEO), Hans O. Bjøntegård, Berit Wenaas, Per Myklebust, Bjørn Sund, Per Otterdahl Møller, Torkel Wetterhus, Tor Ivar Bråten, Finn Kr. Brevig, and Vermund Lyngstad. Ingjerd Skjeldrum was not present when the picture was taken.



be recorded in the accounts during the first six-month period of 1998.
In 1995, operations for the bank's own offices and administrative buildings were organised into a separate, wholly-owned subsidiary of Union Bank of Norway, Sparebankgårdene A/S. Sparebankgårdene is responsible for carrying out extensive rebuilding of our offices in a rational and cost-effective manner.

FINANCIAL SOUNDNESS AND RISK MANAGEMENT

As a financial institution, the Group is exposed to risk, and continuously engages in risk evaluation. This is particularly true for the bank's lending activities and its proprietary trading and capital markets business. With a growth in lending of 19 per cent and a growth in deposits of 0.5 per cent for the parent bank in 1997, Union Bank of Norway is increasingly financing its lending through the international monetary market.

The Board is highly attuned to the need for good capital backing in periods of strong growth in lending. At year-end 1997, the Group had a capital ratio of 11.4 per cent, of which the Tier 1 (core) capital amounted to 6.9 per cent. With its portfolio quality and risk profile, the Board deems the bank's financial soundness to be at a satisfactory level, even though the in-house goals of 12 per cent total capital ratio and 8 per cent Tier 1 capital were not met in 1997.

During 1997, Union Bank of Norway continued to work actively on developing guidelines and systems for managing risk throughout the Group. In addition, organisational changes were implemented to strengthen the Group's financial management systems. In order to secure unified risk management procedures, work on a new policy document covering all risk-exposed areas in the Group was initiated.

The Board will continue to carefully monitor the bank's liquidity and all developments affecting financial soundness. Work is continually underway to improve the measurement and pricing of lending risk. In 1997, the Board of Directors of the Group voted to adopt a new liquidity policy for Union Bank of Norway as an additional safety measure to ensure an appropriate and well-controlled management of the Group's liquidity risk.

THE YEAR 2000 ISSUE

Since the summer of 1996, the bank has conducted wide-ranging projects to prepare for "year 2000" problems. The projects are carried out in the bank's own organisation and by our most important IT suppliers, who are responsible for a significant part of the bank's IT work. Similar processes are underway in Group subsidiaries. Through these projects, many of the potential problems associated with the beginning of the new millennium have been resolved by upgrading existing systems and introducing new IT systems.

The bank's major investments in its IT infrastructure over the past few years also reflect these issues.

These broad-based activities will continue in 1998 and 1999. Because of these efforts, the bank is of the opinion that difficulties associated with the date change to the year 2000 are under control.

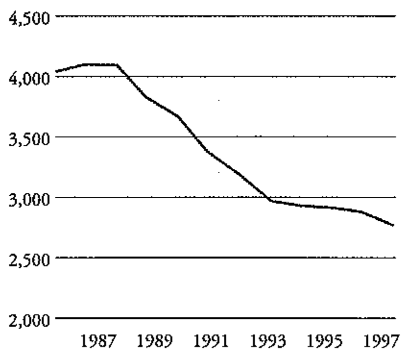
ORGANISATION

The introduction of new technology and services at the bank's offices involves great demands for employee training and adaptability. Wide-ranging in-house training, annual surveys on employee job satisfaction, and great attention to management and team development will ensure that Union Bank of Norway will tackle these challenges the best way possible.

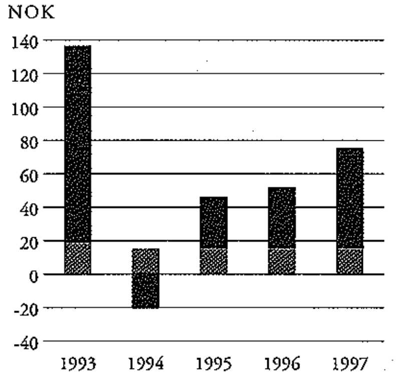
In terms of the banking profession, there are also new performance requirements for individuals; the increased interest in the market for new savings and investment products places greater demands on our employees' expertise. Throughout 1997, a large number of employees received extensive training in this field. The bank now also requires greater competence in new employees.

Staffing of the parent bank was reduced from 2,879 man-years in 1996 to 2,768 in 1997. Adjusted for the ten new offices in the county of Telemark and the transfer of the former Kristiansand district office

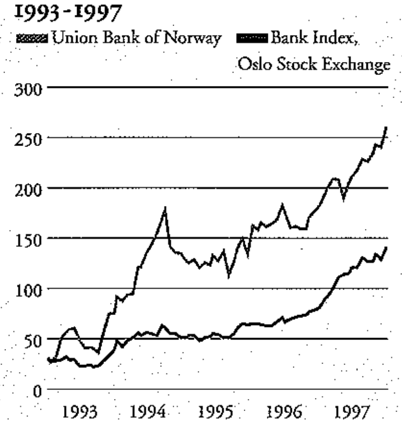
STAFFING, NUMBER OF MAN-YEARS, PARENT BANK



RETURN PER PRIMARY CAPITAL CERTIFICATE



MARKET PRICE DEVELOPMENT, 1993-1997



to Sparebanken Pluss, the reduction in the number of man-years of the parent bank would have been 174. In subsidiaries, staffing increased by 66 man-years.

The Group's finance function was reorganised in 1997. The finance function comprises the Group's various activities concerning monetary and capital markets. The reorganisation was partly intended to attain a more clear-cut division among customer-oriented activities, the Group's own operative finance management, and finance control (follow-up and monitoring), and partly intended to gain synergy effects from related activities of the parent bank and its subsidiaries. This new organizational model went into effect on 1 January 1998.

The former Market, Product, and Technology sections of the Group staff have been joined in a new business area called Market/Product. The purpose of this change is to coordinate these support functions more closely.

Efforts to prevent robberies and other crime continue in full force. Last year was the first time in many years that Union Bank of Norway did not experience any robberies.

The business activities of Union Bank of Norway do not involve any illegal pollution of its external environment. The bank had no labor disputes or dismissals in 1997. The Board views the working-environment of the bank as good.

THE BOARD AND GROUP MANAGEMENT

At a meeting of the Group Committee of Representatives in April, two new members of the Group Board of Directors were appointed. Managing Director Bjørn Sund succeeded Rolf Leisner as Vice-Chairman of the Group Board of Directors. Attorney Per Otterdahl Møller was elected as a representative of Region Telemark. General Manager Anders Sølvberg took over as Deputy Chairman of the Group Committee of Representatives. The Group Committee of Representatives also changed the articles of association as was required to place the new Telemark region on a par with the bank's other regions. Trond Haukvik has been appointed Managing Director of the region.

In August 1997, Managing Director of the Oslo/Akershus region, Olav Hytta, was appointed Deputy President and CEO, responsible for the daily operations of the bank. Åsmund Skår succeeded Olav Hytta as Managing Director of the Oslo/Akershus region.

SIGNIFICANT DISPUTES

Union Bank of Norway did not receive the court's backing in its two largest claims involving Galleri Oslo, a shopping mall in downtown Oslo – against the City of Oslo and the bankruptcy estate of Oslo Næringsselskap. Both cases were tried in the Court of Appeal in December 1996. The bank appealed the decisions, and the cases have been listed for trial in the Supreme Court from 22 September to 23 October 1998. Possible losses in these disputes against the City of Oslo were written off fully in 1993. An allocation to cover possible compensation to Oslo Næringsselskap was made for the 1996 accounting year.

Other disputes Union Bank of Norway is involved in are not expected to affect the results of the bank significantly.

PRIMARY CAPITAL CERTIFICATES

At year-end 1997, the face value of the outstanding primary capital certificates was NOK 2,605 million. The market price of the primary capital certificates rose 30 per cent in 1997, from NOK 200 at 1 January to NOK 260 at 31 December 1997. Including the 1997 dividend of NOK 15, the yield throughout the year was 38 per cent. Over the past three years, the value of our primary capital certificates has grown by 95 per cent *(see chart, opposite page)*. At year-end 1997, Union Bank of Norway had a market value of NOK 6.8 billion, making it the 16th largest company traded on the Oslo Stock

Exchange. The Board of Directors recommends a per-certificate dividend payment of NOK 15 for 1997.

A total of 30 million primary capital certificates were traded in 1997 – the equivalent of 122,000 certificates a day. The Board regards the total traded volume of primary capital certificates in 1997 (an estimated market liquidity or turnover rate of 1.2) to be satisfactory, compared with that of other banks listed on the Oslo Stock Exchange.

The number of primary capital certificates held by members of the Board of Directors, Group Committee of Representatives, Control Committee, management, and auditors are presented in the overview of the bank's governing bodies. The twenty largest holders of primary capital certificates are listed in the chapter "Equity and ownership" in this report.

OUTLOOK

The financial results for the past few years confirm our strategy of targeting sales of the subsidiaries' products through the bank's offices.

In 1997, Union Bank of Norway made great strides in the upgrading of its network of offices. An increasingly important task for the office network is to guide customers through the variety of savings alternatives now available to them. By building expertise, implementing technological improvements for servicing customers, and marketing a complete array of the products offered by the parent bank and its subsidiaries through bank offices, Union Bank of Norway is well positioned to meet the rapid growth in savings in different financial products.

The positive results for 1997 reflect an efficiently operating organisation and the heated Norwegian economy. The current growth in lending will lead to an increased credit risk, should a downturn in the economy occur. This possibility should give rise to special caution in the current phase of the business cycle.

Despite a steep increase in volume, the customer spread remained stable throughout 1997. The leveling off that we have seen in the customer spread is expected to continue. Union Bank of Norway should consequently expect increased interest income in 1998.

In 1998, the bank's results will be positively affected by the partial sale of Linstow Eiendom.

The Group's business activities have been considerably expanded over the past few years, and a high level of activity is forecast for the bank. The pressure in the Norwegian economy makes it difficult to keep costs at the desired level.

The Board expects that Union Bank of Norway's profit level will be good in 1998.

APPRECIATION

The past year was marked by good financial results, but also by great demands on our employees to adapt to changes. As part of the celebrations of the bank's 175th anniversary, the Board of Directors established a NOK 30 million fund for Union Bank of Norway employees. At year-end 1997, an additional NOK 15 million was allocated to the fund as a concrete expression of our appreciation for our employees' efforts to help make 1997 a particularly good year for Union Bank of Norway.

Oslo, 31 December 1997 / 5 March 1998
The Group Board of Directors of Union Bank of Norway

Hans Bø
Chairman

Bjørn Sund
Vice-Chairman

Hans O. Bjøntegård

Finn Kr. Brevig

Tor Ivar Bråten

Vermund Lyngstad

Per Myklebust

Bjørn Vidar Halvorsen

Berit Wenaas

Per Otterdahl Møller

Torkel Wetterhus

Kjell O. Kran
President and CEO

PROFIT AND LOSS ACCOUNT

(IN NOK MILLION)

PARENT BANK					GROUP		
1997	1996	1995		*Note*	**1997**	1996	1995
5,906	6,052	6,068	Interest income	*1*	6,902	7,085	7,205
3,347	3,503	3,330	Interest expenses	*1*	4,300	4,526	4 ,424
2,559	2,549	2,738	**Net interest income**		2,602	2,559	2,781
228	193	108	Dividends and similar income	*2*	95	72	85
784	673	560	Commission income	*2*	1,105	852	721
312	268	240	Commission expenses	*2*	358	315	281
123	170	197	Capital gains	*3*	124	176	215
222	227	201	Additional operating income	*2*	800	717	520
1,045	995	826	**Other operating income, net**		1,766	1,502	1,260
3,604	3,544	3,564	**Operating income**		4,368	4,061	4,041
1,131	1,236	1,043	Personnel expenses	*4,5*	1,413	1,440	1,222
302	287	302	IT and development expenses	*6*	321	311	323
450	386	329	Other administration expenses	*6*	556	468	390
1 ,883	1,909	1,674	**Personnel and administration expenses**		2,290	2,219	1,935
133	105	69	**Depreciation and write-downs**		215	173	161
232	242	243	Properties and premises	*6*	285	274	248
178	200	195	Additional operating expenses	*6*	282	264	272
410	442	438	**Other operating expenses**		567	538	520
2,426	2,456	2,181	**Operating expenses**		3,072	2,930	2,616
1,178	1,088	1,383	**Operating profit before provisions and losses**		1,296	1,131	1,425
(43)	(6)	92	Losses (gains) on loans and guarantees	*7*	(46)	(40)	51
67	(2)	(29)	Losses (gains) on financial long-term holdings		92	(2)	(32)
1,154	1,096	1,320	**Operating profit**		1,250	1,173	1,406
305	274	132	Taxes and minority interests	*8*	382	322	335
849	822	1,188	**Net profit for the year**		868	851	1,071
			Transfers				
0	82	167	Group contributions/dividends received	*31*			
			Allocation of profit				
389	385	369	Dividend on primary capital certificates				
67	77	670	Group contributions made	*31*			
160	212	136	Allocated to dividend adjustment reserve				
233	230	180	Allocated to Savings Bank's reserve				
849	822	1,188	**Total allocations for the year**				
			Earnings per primary capital certificate (in NOK)	*24,25*	23.52	23.93	32.08
			Diluted earnings per primary capital certificate (in NOK)	*24,25*	23.46	23.76	31.08
Est. 20.50	21.98	4.39	RISK amount (in NOK) at 1 Jan. in subsequent year				

BALANCE SHEET

(IN NOK MILLION)

PARENT BANK					GROUP		
1997	1996	1995	Assets	*Note*	1997	1996	1995
1,242	872	618	Cash and deposits with Central Bank of Norway		1,242	872	619
9,274	6,092	2,436	Deposits with and loans to credit institutions	*10*	7,174	5,339	2,604
95,509	80,730	69,715	**Gross loans to customers**	*11,12,13*	**110,948**	93,730	82,801
1,063	1,308	1,667	Specific loan loss provisions	*12,13,14*	**1,087**	1,340	1,722
785	785	785	Unspecified loan loss provisions	*13,14*	**870**	867	888
93,661	78,637	67,263	**Net loans to customers**		**108,991**	91,523	80,191
75	77	110	Repossessed properties	*17*	**79**	81	114
5,079	7,433	6,639	Certificates and bonds	*32*	**6,051**	8,933	8,695
755	212	670	Shares and equity interests	*32,33*	**793**	267	739
230	230	230	Associated companies	*15,32,33*	**447**	432	427
2,484	2,538	2,389	Group companies	*15,32,33*	**131**	141	119
27	63	0	Goodwill		**20**	17	0
526	239	264	Fixed assets	*16,17*	**4,603**	4,460	4,426
2,277	1,880	2,573	Other assets and accruals	*18*	**2,898**	2,475	3,587
115,630	98,273	83,192	**Total assets**		**132,429**	114,540	101,521
			Liabilities and equity				
21,063	12,331	6,423	Loans and deposits from credit institutions	*19*	**24,448**	14,943	9,672
66,285	66,148	61,256	Deposits from customers	*20*	**66,484**	66,224	61,174
14,112	7,091	2,848	Certificates and bond loans	*21,22*	**25,073**	18,368	15,552
3,629	3,010	3,934	Other liabilities, accruals, and allocations	*23*	**4,598**	4,111	5,144
1,234	1,109	1,782	Dated subordinated loan capital	*22*	**1,329**	1,206	1,940
3,859	3,528	2,335	Perpetual subordinated loan capital	*22,25*	**3,859**	3,528	2,335
0	35	142	Convertible subordinated loan capital	*22,25*	**0**	35	142
2,605	2,570	2,463	Primary capital certificate capital	*24,25*	**2,605**	2,570	2,463
1,731	1,499	1,270	Savings Bank's reserve	*24,25*	**1,731**	1,499	1,270
1,112	952	739	Dividend adjustment reserve	*24,25*	**1,112**	952	739
–			Group's equity in subsidiaries	*24,25*	**1,190**	1,104	1,090
115,630	98,273	78,911	**Total liabilities and equity**		**132,429**	114,540	101,521
			Interest rate and liquidity risks, financial derivatives	*26,27,28*			
			Foreign exchange and off-balance sheet liabilities	*29,30*			
			Closely related parties	*31*			

ACCOUNTING POLICY

INTRODUCTION

The accounts for 1997 are presented in accordance with the accounting principles in the bank's financial statement for 1996, and comply with the laws and regulations governing Norwegian savings banks, and with generally accepted accounting principles. All figures are in NOK million, and relate to the Group, unless otherwise expressly stated.

The Norwegian Savings Banks Act uses the term "equalisation reserve." In the annual accounts of Union Bank of Norway, the term "dividend adjustment reserve" is consistently used instead, as we consider the latter term to be more informative.

The accounts have been adapted to the regulations issued by the Norwegian Banking, Insurance and Securities Commission regarding the presentation of financial statements. In those cases where reclassifications have been made, earlier years' figures have been made comparable.

CONSOLIDATION

The Group accounts include Union Bank of Norway and companies in which ownership is considered lasting, and where the bank alone or together with subsidiaries owns more than 50 per cent of the share capital and/or has a deciding influence on the company's operations. These companies are listed in Note 33. Associated companies are also included in the consolidated accounts. Subsidiaries that were purchased or sold during the year are consolidated for that part of the year for which they were part of the Group.

The consolidated accounts are based on the purchase method of accounting. Under this method, all identifiable assets and liabilities are recorded in the balance sheet at their value at the time of acquisition. If the cost price of the shares exceeds the actual value of the identifiable assets less liabilities taken over, and this is due to expectations of future earnings, this difference is recorded in the balance sheet as goodwill and is amortised over the expected lifetime of the asset, normally five years. If the cost price of the shares is lower than the net actual value of identifiable assets and liabilities at the time of the acquisition, the shortfall is entered first as a reduction in fixed assets. Any remaining amount is recorded in the balance sheet as time-limited income periodised over five years. Minority interests are determined based on after-tax profit. Assets and liabilities, and all profit and loss items, are thus shown inclusive of minority interests' shares. Intercompany transactions and gains, interest, and dividend payments among companies in the Group are eliminated.

On consolidation of foreign subsidiaries, profit and loss accounts and balance sheet items in foreign exchange are translated mid-prices in effect on 31 December. Translation differences are charged directly to shareholders' equity in the Group accounts.

Companies acquired or established to secure a lending facility are not regarded as long-term investments and are consequently not consolidated.

ASSOCIATED COMPANIES

Associated companies are companies in which the bank owns between 20 and 50 per cent, where this ownership provides a basis for influence, and is a long-term investment within the Group's natural business activities. These companies are presented in Notes 15 and 33. Associated companies are included in the Group accounts in accordance with the equity method of accounting. Under this method a pro-rata share of the profit or loss after tax is recorded. The shares are recorded in the balance sheet at historical cost, adjusted for the share of the profit and the dividend received. The purchase method of accounting is also used for associated companies (see "Consolidation" above).

In the parent bank's accounts, investments in associated companies are valued at historical cost, and otherwise valued similarly to other fixed assets.

RECOGNITION OF INCOME AND EXPENSES

Interest and commissions are recorded in the profit and loss account as they are earned in the case of income, or as they are incurred in the case of expenses. *Arrangement fees* on business loans are recorded as income in their entirety in the year the loans are established, as these are considered to cover the cost of establishing the loan.

Dividends on shares are recorded as income in the year they are received. However, share dividends and *group contributions* from subsidiaries are recorded as income to the receiving company in the year the provision is made by the paying company. Group contributions received by the parent company are classified as dividends to the extent they reflect a return on invested capital.

Gains on sales of assets are only recorded when there has been a transfer of risk to the buyer. *Gains/losses on the sale of securities* are calculated on the basis of the average cost price of the security sold. Purchases and sales of securities are posted to the accounts on the settlement date.

FOREIGN EXCHANGE

Receivables and liabilities in foreign currency are translated at currency exchange mid-prices in effect on 31 December. Income and expenses in foreign currencies are translated into Norwegian kroner (NOK) at the exchange rate prevailing on the date of the transaction.

FINANCIAL DERIVATIVES

Financial derivatives are agreements entered into with a customer or financial institution for setting future interest terms, foreign exchange rates, or stock prices. Such agreements include forward contracts, interest and currency swaps, interest options (caps, floors), foreign exchange options, forward rate agreements (FRAs), interest futures, interest future options, and stock options. Financial derivatives are classified as either trading or hedging transactions when entered into. Contracts entered into for the bank's own account, with a view to sale in order to benefit in the short term from price or rate fluctuations, are included in the **trading** portfolio. Other contracts are included in the **bank** portfolio.

The bank portfolio comprises contracts intended to neutralise an existing or expected interest rate and/or foreign exchange risk. A considerable degree of negative correlation is required between the values of the hedging agreement and the hedged item. Financial derivatives used to hedge the bank's balance sheet items or other financial instruments are valued together with the hedged item. Income or expenses linked to the agreements are recorded together with the hedged item.

Outstanding contracts in the *trading portfolio* are valued by making a comparison between the price at which the contract was entered into and the market price at 31 December. Union Bank of Norway mainly uses present values in estimating the profits/losses on the derivatives. Changes in market value are recorded net in the profit and loss account as net gains or losses on foreign exchange and financial derivatives.

Transfers between the trading and hedging portfolios are made at market prices, and internal gains and losses are not eliminated.

BONDS, CERTIFICATES, SHARES, AND PARTNERSHIP INTERESTS

Bonds and certificates classified as current assets are valued according to the portfolio principle at the lower of acquisition cost and market value.

Short-term share investments are valued on the same principle as bonds and certificates above.

Bonds – hedging transactions. Bonds are classified as hedging transactions according to the following criteria:

- Items which are hedging transaction must be clearly defined, either individually or on a portfolio basis.
- There must be a high degree of negative correlation between the hedging transaction and the hedged items.

Income or costs associated with bonds that are hedging instruments are recorded in the profit and loss account in accordance with the items they hedge.

Bonds held to maturity. In the case of bonds to be held to maturity, any premium or discount is periodised up to maturity/interest adjustment date.

Long-term shareholdings are recorded at original cost. Should the value of the shares fall significantly below cost price and the downturn is not expected to be temporary, the shares are written down. If the basis for writing down the stock is permanently removed, the write-down is reversed.

Assets of less than 20 per cent in *general partnerships* and *limited partnerships* are recorded according to the cost method.

LOSSES ON LOANS

Defaults: The bank treats a loan or other facility as being in default no later than 90 days after payment default or an unauthorised overdraft of an account. Facilities where debt negotiations or bankruptcy proceedings have started are also defined as in default.

Specific loss provisions: When the bank has identified a facility as being exposed to the risk of loss as a result of bankruptcy, debt negotiations, debt collection proceedings, distress or distraint, or other defaults, a specific loss provision is made.

Also in the case of other circumstances occurring such as deterioration in the customer's liquidity, financial soundness, debt service capacity, or in the value of the collateral lodged, then probable losses on the facility are similarly assessed. Necessary specific loss provisions are made if it appears highly probable that a loss will arise in the relatively near future.

In the event of bankruptcy, creditors' proceedings or debt settlement negotiations, the assessment of losses is based on the value of the collateral lodged. Collateral is assessed at market value. In the event of other kinds of default, the customer's financial status, including his or her debt service capacity, is taken into account in addition to the value of the collateral when assessing the loss.

Unspecified loss provisions: These are intended to cover losses which, due to circumstances existing on the balance sheet day, must be expected to occur on facilities for which specific loss provisions have not been made. Unspecified loss provisions are intended to cover groups of loans where there is a manifest risk of loss based on circumstances at the balance sheet date (e.g., risk sectors, risk classes, geographic areas, historic loss pattern, open risk, etc.) Changes in the size of the loan portfolio are also taken into account.

Realized loan losses: Losses on facilities which are realized through bankruptcy, confirmed creditors' proceedings, unsuccessful distraint, court judgement, the bank ceasing enforcement, or where the bank has otherwise relinquished the facility in whole or in part, are recorded by the bank as realized losses.

Non-accrual of interest: Interest, commissions, and fees on a facility in default are no longer recorded as income if these are expected to be lost. At the same time, unpaid interest, commissions, and fees that have been recorded as income in the current year are reversed.

Reclassification: A loan or other facility previously subject to loss provisions is reclassified (given a clean bill of health) when the facility has returned to a current basis – in that the relevant repayment schedule has been followed – and the facility is no longer considered to be risk-exposed. To ensure that the reclassification is realistic, there is normally a six-month waiting period between the date on which the facility is reclassified and the date it returned to a current basis, as well as a requirement of a clear expectation that the borrower will continue to follow the agreed-upon payment plan. When previous loss provisions are reversed in full, interest not previously recorded as income is then booked to income.

LEASING AND FACTORING

Leasing contracts are treated as financial leasing, i.e. the present value of future payments is recorded in the accounts as loans to customers. Lease payments are recorded to income according to the annuity principle. Ordinary depreciation is recorded as a deduction under rent financing income in the profit and loss account. Ordinary depreciation includes accrued depreciations of pre-paid rent received from the lessee as well as annuity depreciation in accordance with the depreciation schedule.

For factoring, purchased accounts receivable are recorded as loans. The non-financed part of the accounts receivable (the margin) is recorded as debt owed to factoring customers. Net lending, therefore, is the difference between the face amount of client accounts receivable and the margin.

REPOSSESSED ASSETS

Assets taken over in full or as partial settlement of a facility are valued at market value. Assets taken over for long-term ownership are classified and valued in the balance sheet as fixed assets.

FIXED ASSETS

In the balance sheet, fixed assets are recorded at acquisition cost plus any revaluation, less any write-down and straight-line ordinary depreciation. The Union Bank of Norway Group applies the following rates of depreciation:

Asset	Annual depreciation
Buildings	1-2%
Land, art work	0%
Appointments, furniture, equipment	10%
Machinery, IT equipment	25%
Vehicles	20-25%
Goodwill	20%

If the actual value of an asset, or the actual value of a portfolio of assets, is substantially lower than book value, and the decline is not expected to be of a temporary nature, the asset is written down to the actual value. Initially, the need to make a write-down is assessed individually for each asset. However, in the case of real estate, *bank buildings and commercial properties which for the most part are rented,* are valued in separate portfolios, while *other real estate,* including commercial properties which for the most part are not rented, development projects, etc. are valued individually.

Bank premises. Based on the connection to the bank's activities, and the fact that these premises are managed as a group of properties, any need for write-downs is assessed on a portfolio basis.

Commercial properties which for the most part are rented are properties located in central Eastern Norway. These generally have a large number of tenants and are managed by a common management. Any need for writing down the value of these properties is, therefore, assessed on a portfolio basis.

FIXED-RATE BOND LOANS/ OUTSTANDING OBLIGATIONS

Premiums/discounts on disbursements of loan funds, on the issue of funding loans, on the early redemption of loans, and on the repurchase of funding loans, are accrued. Income/expense are periodised as an adjustment to current interest income/expense up to the day of the next interest rate adjustment date, or over the whole term, for fixed-rate loans.

Direct costs incurred in raising long-term loans are accrued and written down over the period to the next interest rate adjustment date or maturity date.

TAX

The tax charge for the year in the profit and loss account consists of tax payable on the year's income, the parent bank's assets tax, and the year's changes in deferred tax.

In the balance sheet, calculation of deferred tax is based on positive temporary differences (differences in value for accounting and tax purposes), offset by negative temporary differences and carry-forward losses that reverse in the same period. According to the Norwegian Accounting Standard for Tax, pension obligations, revaluations of fixed assets, and the excess of purchase price over net assets acquired (such as goodwill) are treated separately.

Deferred tax/deferred tax benefits are booked at nominal values. The difference between nominal value and current value of deferred tax benefits relating to purchases are treated as periodised interest.

PENSION COSTS AND PENSION OBLIGATIONS

The Union Bank of Norway Group adheres to the Norwegian Accounting Standard on pension expenses. This standard uses the present value of projected future pension benefits. The estimated accrued obligation, both regarding pensions covered from operations and pensions covered by a pension fund or insurance company, is compared to the value of the pension plan assets. The difference in estimates, and the effect of changes in assumptions, are amortized over the employees' expected remaining term of employment. The annual pension cost is recorded in the Profit and Loss Account under personnel costs.

NOTES TO THE ACCOUNTS

(AMOUNTS IN NOK MILLION)

1 INTEREST INCOME AND EXPENSES

PARENT BANK					GROUP		
1997	1996	1995			1997	1996	1995
278	213	323	Interest on deposits with and loans to credit institutions		251	206	346
5,260	5,358	5,287	Interest on loans to customers	(*)	6,194	6,275	6,263
85	93	54	Net interest income on loans previously written off		85	93	54
283	388	404	Interest on certificates and bonds		372	511	542
5,906	6,052	6,068	**Interest income**		6,902	7,085	7,205
617	346	210	Interest on loans from credit institutions		740	470	368
1,925	2,551	2,585	Interest on customers' deposits		1,921	2,558	2,606
425	313	192	Interest on certificate and bond loans		1,248	1,189	1,091
380	293	343	Interest on subordinated loan capital		391	309	359
3,347	3,503	3,330	**Interest**		4,300	4,526	4,424
2,559	2,549	2,738	**Net interest income**		2,602	2,559	2,781

(*) Includes NOK 211 million (1996: NOK 212 million; 1995: NOK 184 million) in set-up fees. Discount on the purchase of the DNH portfolio was recorded to income for the last time in 1995 as NOK 97 million. As part of the mutual transfer of ownership with Sparebanken Pluss, on 1 July 1997, a premium of NOK 33 million was paid for the acquired lending and deposit portfolios. The amount will be amortised over 3.5 years, and NOK 5 million has been expensed in the 1997 accounts.

2 OTHER OPERATING INCOME, NET

PARENT BANK					GROUP		
1997	1996	1995			1997	1996	1995
197	166	86	Dividends		22	4	18
31	27	22	Income from ownership interests in associated companies		46	38	37
			Income from NOR Forsikring		27	30	30
228	193	108	**Share dividends and other ownership interests**		95	72	85
46	52	48	Guarantee commissions		46	52	48
56	53	52	Interbank fees		56	53	52
497	429	385	Money transfer fees (1)	(1)	497	429	385
84	58	37	Mutual funds		269	177	137
73	55	14	Securities broking activities		205	106	61
26	25	24	NOR Forsikring		26	25	24
2	1	0	Misc. commissions		6	10	14
784	673	560	**Commission income**		1,105	852	721
54	54	61	Interbank fees		54	54	61
198	177	146	Money transfer services, external costs (1)	(1)	198	176	146
60	37	33	Other commissions (2)	(2)	106	85	74
312	268	240	**Commission expenses**		358	315	281
123	170	197	**Realized capital gains (3)**		124	176	215
4	4	17	Operating income, real estate		354	320	209
5	4	5	Gains on sales of fixed assets (3)	(3)	24	32	6
			Real estate brokering		148	96	73
213	219	179	Additional operating income		274	269	232
222	227	201	**Other operating income**		800	717	520
1,045	995	826	**Other operating income, net**		1,766	1,502	1,260

(1) Commissions to/from VISA Norge for 1997 are recorded gross. In order to be comparable, figures from 1996 and 1995 are adjusted upwards by NOK 23 million and NOK 18 million, respectively.

(2) Avanse's external sales commissions amounted to NOK 62 million in 1997 and have been reclassified to this item from "Sundry operating expenses" in 1996, at NOK 45 million (1995: NOK 39 million); see also Note 6.

(3) In 1997, a total of ten properties were sold (1996: 16; 1995: 7) at a total profit of NOK 17 million (1996: NOK 27 million; 1995: NOK 6 million); see also Note 6.

3

CAPITAL GAINS (LOSSES)

Parent Bank 1997	Parent Bank 1996	Parent Bank 1995		Group 1997	Group 1996	Group 1995
			Recorded to income			
21	21	57	Capital gains on bonds and certificates	20	23	71
(1)	41	23	Capital gains (loss) on shares and PCCs (*)	(1)	43	24
120	112	120	Foreign currency gains	123	113	123
(17)	(4)	(3)	Gain (loss) on financial derivatives	(18)	(3)	(3)
123	170	197	Realized gains	124	176	215
			Unrealized gains, not recorded to income			
5	46	46	Bonds and certificates	6	48	46
56	18	0	Shares and PCCs	71	24	2
61	64	46	Unrealized gains not recorded to income	77	72	48
120	188	243	Value-adjusted capital gains	129	200	257

(*) PCC = Primary Capital Certificate

4

PERSONNEL COSTS

Parent Bank 1997	Parent Bank 1996	Parent Bank 1995		Group 1997	Group 1996	Group 1995
808	827	803	Salaries	1,070	994	935
79	72	72	Pensions	89	77	75
199	182	168	Social costs	209	214	212
45	0	0	Allocation to employee fund	45	0	0
0	155	0	Restructuring costs	0	155	0
1,131	1,236	1,043	Personnel costs	1,413	1,440	1,222

Remuneration of the Group Board of Directors totalled NOK 1,072,000 (1996: NOK 1,181,000; 1995: NOK 1,012,000). Salary for the President and CEO was NOK 1,666,000 (1996: 1,476,000; 1995: NOK 1,301,000); the estimated value of benefits in kind amounted to NOK 160,000 (1996: NOK 105,000; 1995: NOK 91,000).

Group President and CEO Kjell Kran, has a compensation agreement in case the bank terminates his employment contract, under which he will receive full salary for two years from the date of termination. Mr. Kran also has an agreement to retire at the age of 62, with a pension of 67% of his salary at that time. The Group President and CEO will receive a pension in his first two years of retirement equal to his salary at the time of retirement.

Fees paid to independent auditors are recorded at NOK 1,432,200 (1996: NOK 1,314,000; 1995: NOK 1,587,250) for the parent bank and NOK 3,712,000 for the Group (1996: NOK 3,507,000; 1995: NOK 3,485,250). In addition, the parent bank purchased consulting services totalling NOK 776,108 (1996: NOK 852,875; 1995: NOK 654,520) from Coopers & Lybrand in Norway and abroad; the corresponding figures for the Group are: NOK 1,291,000 (1996: NOK 1,411,000; 1995: NOK 926,520).

LOANS TO EMPLOYEES AND OFFICERS

Parent Bank 1997	Parent Bank 1996	Parent Bank 1995		Group 1997	Group 1996	Group 1995
1,651	1,595	1,541	Loans to employees	1,698	1,636	1,604
1	1	2	Loans to officers	1	1	6

Of total loans to employees at 31 December 1997, loans to retirees from the parent bank amounted to NOK 139 million (1996: NOK 130 million; 1995: NOK 125 million).

The interest subsidy on loans on favorable terms to employees of the parent bank amounted to NOK 13 million (1996:1995: NOK 20 million). The interest subsidy has been recorded as a reduction in the bank's interest income (not as a personnel cost) on the grounds of immateriality. The subsidy is calculated on the basis of a taxation rate of 4% (1996: 5%; 1995: 6%) as set by the Norwegian Parliament.

STAFFING

Parent Bank 1997	Parent Bank 1996	Parent Bank 1995		Group 1997	Group 1996	Group 1995
2,768	2,879	2,915	Total man-years at 31 Dec.	3,304	3,349	3,325
3,082	3,233	3,270	Employees at 31 Dec.	3,691	3,764	3,719

In 1997, the parent bank had, on average, 3,098 employees; the group had 3,634 employees. The mutual transfer of ownership with Sparebanken Pluss (at 30 June 1997) led to an increase in staffing of 63 man-years. In 1996, an allocation was made for restructuring costs of NOK 155 million. The allocation covers costs related to reducing staff on a voluntary basis by approximately 450 employees. At 31 December 1997, NOK 97 million of this allocation remains. Incentive programs have been used in cutting back 181 man-years.

5

PENSION COSTS AND PENSION OBLIGATIONS

Union Bank of Norway has its own pension fund for ordinary retirement and disability pensions, including salaries up to 12 times the basic-unit amount (called "G") set by the National Insurance Fund, and a pension retirement age of 67 years. The bank also has uninsured pension obligations for employees whose salaries exceed 12 times the basic "G" amount, as well as early retirement and discretionary pensions, which have been provided for in the accounts.

Pension funds are valued at their market value at 31 December. The estimate of the obligations is also based on the assumptions presented below. For funded obligations, employment tax contributions are expensed on payment to the pension fund. For the non-funded obligations, a provision is made for capitalisation of employment tax contributions (on obligations taxable at the 14.1% rate) that have been accrued. The employment tax contributions are classified as other long-term liabilities, see Note 23.

	1997	1996	1995		1997	1996	1995
Discount rate	7%	7%	7%	Increase in "G"	3%	3%	3%
Expected return	8%	8%	8%	Pension increases	2%	2%	2%
Salary increases	4%	4%	4%	Voluntary resignation	Standard reductions		

PENSION COST

PARENT BANK						GROUP				
1997			1996	1995		1997			1996	1995
Funded	Non-funded	Total	Total	Total		Funded	Non-funded	Total	Total	Total
50	15	65	59	51	Present value of year's pension earnings	58	15	73	64	54
83	22	105	91	81	Interest costs on accrued pension obligations	85	23	108	93	82
(90)	-	(90)	(80)	(74)	Expected return on pension funds	(92)	0	(92)	(82)	(75)
(4)	3	(1)	2	(2)	Variance actual/projected values	(4)	4	0	2	(2)
0	0	0	0	16	Variance for existing retirees	0	0	0	0	16
39	40	79	72	72	Net pension expenses	47	42	89	77	75
3,628	200	3,828	3,880	3,881	Number of active members (*)	3,854	202	4,056	4,090	4,072
1,234	273	1,507	1,480	1,411	Number of retirees	1,243	275	1,518	1,489	1,415
4,862	473	5,335	5,360	5,292	Total number of persons covered	5,097	477	5,574	5,579	5,487

(*) Included in the parent bank figures: 112 employees of subsidiaries, 309 disability pensioners, and 167 persons in early retirement.

PENSION OBLIGATIONS

PARENT BANK						GROUP				
1997			1996	1995		1997			1996	1995
Funded	Non-funded	Total	Total	Total		Funded	Non-funded	Total	Total	Total
1,269	0	1,269	1,141	1,019	Pension funds at market value	1,314		1,314	1,178	1,043
1,294	333	1,627	1,412	1,324	Actual accrued pension obligations	1,331	340	1,671	1,447	1,352
25	333	358	271	305	Net pension obligations	17	340	357	269	309
97	(120)	(23)	56	11	Variance not booked to profit and loss account	95	(120)	(25)	57	9
122	213	335	327	316	Net pension obligations in balance sheet	112	220	332	326	318
					Pension obligations in balance sheet	123	220	343	334	323
					Excess funding in balance sheet	11	0	11	8	5
					Net pension obligations	112	220	332	326	318

The pension funds mainly comprise bonds, certificates, stock mutual funds, and bank deposits, and are valued at market value. When calculating the market value of pension funds, held-to-maturity bonds are valued at their book value at 31 December 1997, in accordance with the relevant accounting principles. Had market value been used as the evaluation basis on this part of the bond portfolio, too, the value of pension funds would have been NOK 1,292 million (1996: NOK 1,163 million; 1995: NOK 1,031 million) for the parent bank.

Early Retirement Plans (called AFP) were modified in accordance with wage settlement negotiations this year. At 1 January 1998, employees may request AFP from age 62; the previous minimum age for AFP was 64 years of age. The probability of accepting early retirement should now be regarded as 45% from age 62, compared with 27% from age 64 as found in the 1996 annual report. These changes in the pension plan, viewed separately, comprise an increase in pension obligations for the parent bank of NOK 113 million and an annual increase in gross pension expenses of NOK 14 million. AFP is classified with non-funded pension obligations.

In some subsidiaries, the value of their pension funds exceeds the present value of accrued pension obligations. In accordance with the Norwegian pension standard, this excess funding is recorded in the Group's balance sheet, as it is regarded probable that these funds will be used to cover future pension obligations.

6 OPERATING EXPENSES

PARENT BANK 1997	1996	1995			GROUP 1997	1996	1995
1,131	1,236	1,043	Staff costs		1,413	1,440	1,222
302	287	302	IT and development costs		321	311	323
38	41	34	Office supplies, etc.		44	48	39
71	66	61	Telephone, postage		89	84	76
161	123	108	Fees, substitute personnel, other services	(1)	187	136	115
60	45	45	Travel, staff training		73	55	53
120	111	81	Marketing		163	145	107
752	673	631	**Administrative costs**		877	779	713
1,883	1,909	1,674	**Personnel and administrative costs**		2,290	2,219	1,935
133	105	69	**Depreciation and write-downs**	(2)	215	173	161
1	1	24	Operating expenses, real estate		164	140	100
231	241	219	Rent and operating expenses, rented premises		121	134	148
232	242	243	**Properties and premises**		285	274	248
59	51	39	Operating assets, expensed		65	56	42
90	118	113	Levy to Savings Banks' Guarantee Fund	(3)	90	118	113
1	0	2	Losses on sales of fixed assets	(4)	48	15	32
28	31	41	Sundry operating expenses	(5)	79	75	85
178	200	195	**Additional operating expenses**		282	264	272
410	442	438	**Other operating expenses**		567	538	520
2,426	2,456	2,181	**Operating expenses**		3,072	2,930	2,616

(1) Reclassified from "Additional operating expenses" according to the new guidelines issued by the Norwegian Banking, Insurance and Securities Commission.
(2) In the parent bank, this includes goodwill of NOK 36 million (1996: NOK 27 million; 1995: NOK 0) related to acquiring the housing loan portfolio of Sparebank Kreditt.
(3) As of 1997, a new method of calculation was introduced for the Savings Banks' Guarantee Fund. This is the reason for the levy being reduced to NOK 90 million, from NOK 125 million according to the old method of calculation. For 1998 the maximum fee has been estimated at NOK 99 million. Because the Savings Banks' Guarantee Fund will meet the minimum requirement for capital in 1998, its board has decided that only half the fee will be levied for 1998. Union Bank of Norway's fee will consequently be NOK 49.5 million.
(4) In 1997, 24 properties were sold (1996: 10; 1995: 9) at a total loss of NOK 44 million (1996: NOK 14 million; 1995: NOK 32 million); see also Note 2.
(5) Avanse's sales commissions paid to other banks were reclassified to "Other commission expenses" for 1996 at NOK 45 million (1995: NOK 39 million).

Union Bank of Norway operates its business through a large number of bank and service offices. Most of this office space is rented. The Group's total external payments for rented space at 31 December 1997 was NOK 90 million (1996: 67 million; 1995: NOK 69 million). The tenancy contracts vary in contract period; average remaining tenancy for the contracts is five years (1996: 5 years; 1995: 4 years). Approximately 2% of rented premises are not in use (1996: 5%; 1995:5%).

7 LOSSES (GAINS) ON LOANS AND GUARANTEES

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
50	77	165	Realized losses exceeding previous years' specific loss provisions	51	78	167
21	114	28	Increase in specific loss provisions	23	115	37
122	95	317	New specific loss provisions	130	102	332
193	286	510	**Gross losses**	204	295	536
47	67	182	Reduction in specific loss provisions due to reduced risk	56	79	206
124	159	158	Reversal of specific loss provisions due to reclassification	125	159	161
171	226	340	**Reversed specific loan loss provisions**	181	238	367
65	66	53	Recovered specific loan losses	72	76	65
0	0	(25)	Increase (reduction) in unspecified loss provisions	3	(21)	(53)
(43)	(6)	92	**Loss (gain) on loans and guarantees**	(46)	(40)	51
181	344	613	Realized losses (additional) which are covered by specific provisions from earlier years	188	363	658

A significant part of the new specific provisions in 1997 comprise a NOK 50 million guarantee loss on NOKA Securities. Of total losses on loans the twenty largest losses amounted to NOK 95 million (1996: NOK 160 million; 1995: NOK 107 million). The bank has a well-diversified loan portfolio, and losses consist mainly of losses on small- and medium-sized facilities.

8 TAX

TAX BASIS

	PARENT BANK 1997	1996	1995
Pre-tax profit	1,154	1,096	1,320
Group contributions made	(67)	(77)	(670)
Permanent differences	59	8	(7)
Dividends received from subsidiaries	(117)	(63)	(57)
Changes in temporary differences			
Changes in write-downs of securities	79	(13)	(62)
Operating assets	(1)	(2)	39
Pension obligations	8	10	31
Other temporary differences and basis for the year's tax credit	(39)	22	(125)
The year's tax base	1,076	981	469
Income tax for the year	302	274	131

TAX CHANGE

PARENT BANK 1997	1996	1995			GROUP 1997	1996	1995
301	271	131	Income tax	(*)	368	365	141
4	3	1	Municipal capital tax		4	3	1
0	0	0	Change in deferred tax		(8)	(50)	188
305	274	132	Total tax charge		364	318	330
			Positive temporary differences				
0	1	1	Fixed assets		270	296	169
0	0	0	Revaluation and premiums on acquisitions		152	164	475
52	61	60	Other positive differences		546	612	633
52	62	61	Total positive differences		968	1,072	1,277
			Negative differences and tax loss carry-forwards				
104	19	33	Securities		109	9	24
47	49	51	Fixed assets		120	204	459
335	327	317	Pension obligations		343	334	322
94	99	59	Other negative differences		293	374	137
0	0	0	Tax loss carry-forward		7	43	0
580	494	460	Total negative differences and tax loss carry-forward		872	964	942
(528)	(432)	(399)	Net positive (negative) differences and tax loss carry-forward		96	108	335
0	0	0	Deferred tax		194	212	329
0	0	0	Deferred tax benefit		160	169	222

(*) Taking into account the previous year's insufficient/excess tax provision.

Deferred tax/deferred tax benefit
Deferred tax is calculated on the positive temporary differences, after setting off negative temporary differences and tax loss carry-forwards. Temporary differences related to pension obligations are not subject to off-setting. The same applies to revaluation of and premiums on properties. Deferred tax and any deferred tax benefit related to these items are capitalised. To the extent that the tax benefit cannot be capitalised in company accounts due to the limit rule on deferred tax benefits, this is done at Group level. Businesses in Norway are subject to a taxation rate of 28%.

Subject to the limit on deferred tax benefit, deferred tax benefit is capitalised as it is regarded as highly probable that the tax benefit can be realized.

RISK adjustment
The RISK adjustment at 1 January 1997 for the bank's primary capital certificates has been set at plus NOK 21.98 (1 January 1996: NOK 4.39). At 1 January 1998, the RISK adjustment amount is expected to be set at approximately NOK 20.50 per primary capital certificate: (Translator's note: the RISK adjustment applies to individuals and businesses with their tax domicile in Norway.)

Dividend/Group contributions
As part of the Union Bank of Norway Group's tax planning, the parent bank has made group contributions of NOK 67 million (1996: NOK 77 million; 1995: NOK 670 million) to subsidiaries. The parent bank received NOK 176 million in dividends/group contributions from Group companies (1996: NOK 245 million; 1995: NOK 234 million).

9 PROFIT CONTRIBUTION FROM PARENT BANK AND GROUP COMPANIES

	Parent bank (1)	Sparebank Kreditt	UBNI Lux.	Avanse Forvaltn. (2)	NOR Finans	NOR Eiendom	Linstow Eiendom	NOR Forsikr. (3)	Karl Johan Fonds	Other (4)	Union Bank of Norway
Net interest income	2,559	77	39	2	80	0	(89)		3	(69)	2,602
Net other operating income	869	0	19	115	9	149	295	27	134	149	1,766
Operating expenses	2,426	35	33	70	50	144	175		85	54	3,072
Operating result before losses	1,002	42	25	47	39	5	31	27	52	26	1,296
Loss (gain)	24	(11)	1	0	6	0	0			26	46
Operaring profit 1997	978	53	24	47	33	5	31	27	52	0	1,250
Operating profit 1996	934	83	24	14	17	2	20	30	9	40	1,173
Operating profit 1995	1,263	70	25	15	9	10	(29)	30		13	1,406
Total assets at 31 Dec.1997	115,630	14,035	4,209	17,137	2,231		2,696	6,361			156,927

(1) Group contributions and dividends from Group companies are not included.
(2) Market value of funds under management amounts to NOK 17,137 million (NOK 11,996 million at 31 Dec. 1996; and NOK 9,072 million at 31 Dec. 1995).
(3) Union Bank of Norway's share of profits.
(4) Includes other subsidiaries and Group eliminations.

10 DEPOSITS WITH AND LOANS TO CREDIT INSTITUTIONS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
401	386	180	Deposits at call	708	854	816
8,895	5,733	2,284	Term deposits and fixed maturity loans (*)	6,488	4,512	1,816
(22)	(27)	(28)	Specific loss provisions	(22)	(27)	(28)
9,274	6,092	2,436	Deposits with and loans to credit institutions	7,174	5,339	2,604

(*) Of which NOK 290 million (1996: NOK 290 million; 1995: NOK 325 million) are subordinated loans in the parent bank, and NOK 40 million (1996: NOK 40 million; 1995: NOK 40 million) are subordinated loans in the Group.

11 GROSS LOANS TO CUSTOMERS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
89,558	76,067	65,277	Instalment loans	103,946	88,411	78,036
4,201	3,267	3,163	Overdraft and working capital facilities	4,206	3,233	3,065
1,750	1,396	1,275	Construction loans	1,750	1,396	1,274
0	0	0	Financial leasing	953	640	348
0	0	0	Factoring	93	50	78
95,509	80,730	69,715	Gross loans to customers (*)	110,948	93,730	82,801

(*) Of which NOK 140 million (1996: NOK 136 million; 1995: NOK 80 million) are subordinated loans in the parent bank, and NOK 139 million (1996: NOK 136 million; 199: NOK 78 million) are subordinated loans in the Group.

12 DEFAULTED, DOUBTFUL, AND NON-PERFORMING LOANS

LOAN LOSS PROVISIONS, DEFAULTED

PARENT BANK				GROUP		
1997	1996	1995		1997	1996	1995
			Private customer market			
546	641	889	Gross defaulted loans	583	673	951
211	275	435	Specific loss provisions	218	283	456
335	366	454	Net defaulted loans to private customers	365	390	495
39%	43%	49%	Level of provisions, loans to private customers	37%	42%	48%
			Corporate customer market			
1,101	1,196	1,489	Gross defaulted loans	1,147	1,261	1,548
668	768	874	Specific loss provisions (*)	677	773	884
433	428	615	Net defaulted loans to corporate customers	470	488	664
61%	64%	59%	Level of provisions, corporate customer loans	59%	61%	57%
			All loans			
1,647	1,837	2,378	Gross defaulted loans	1,730	1,934	2,499
879	1,043	1,309	Specific loss provisions	895	1,056	1,340
768	794	1,069	Net defaulted loans	835	878	1,159
53%	57%	55%	Level of provisions, all loans	52%	55%	54%

(*) Of which credit institutions: NOK 22 million (1996: NOK 27 million; 1995: NOK 28 million).

The table above shows individual loans in default. These customers' total loans, including both those in default and those not in default, amount to NOK 117 million (1996: NOK 117 million; 1995: NOK 147 million) more than the default figures reported above for the parent bank and the Group.

PROVISIONS FOR NON-DEFAULTED LOANS

PARENT BANK				GROUP		
1997	1996	1995		1997	1996	1995
449	584	847	Non-defaulted loans with loss provisions	481	660	930
205	292	386	Specific loss provisions	215	311	410
244	292	461	Net non-defaulted loans with loss provisions	266	349	520
46%	50%	46%	Level of provision	45%	47%	44%

NON-PERFORMING LOANS

PARENT BANK				GROUP		
1997	1996	1995		1997	1996	1995
182	211	305	Net non-performing loans, private customer market	217	224	325
385	359	535	Net non-performing loans, corporate customers	411	386	556
567	570	840	Net non-performing loans (*)	628	610	881
1,446	1,614	2,149	Gross non-performing loans (*)	1,523	1,663	2,216

(*) Net and gross non-performing loans are included in the table "Provisions for non-defaulted loans."

For 1997, interest in suspense on non-performing loans in the parent bank amounted to NOK 72 million (1996: NOK 65 million; 1995: NOK 65 million).

13 LOANS AND LOSSES (GAINS) BY CUSTOMER SECTOR

	1997			1996		1995	
Sector/industry	Loans	Share in %	Loss	Loan	Loss	Loan	Loss
Private customer market	53,823	48,3	(68)	46,641	(46)	42,757	89
Public sector	1,156	1.0	0	1,099	0	1,410	0
Agriculture, forestry, fishing and hunting	2,318	2.1	1	2,236	(9)	2,141	(5)
Mining and manufacturing	3,312	3.0	(6)	2,602	(13)	2,402	(4)
Construction and building, power and water supply	2,913	2.6	(7)	2,359	(6)	2,629	9
Retail, hotel and restaurant business	7,672	6.9	(12)	6,182	0	5,574	0
Shipping	3,854	3.5	0	2,748	(4)	2,310	(20)
Real estate management	22,648	20.3	9	17,754	19	13,394	(11)
Financing	2,848	2.6	(2)	2,582	0	3,033	0
Transportation and other services	4,601	4.1	(2)	4,575	(2)	3,821	(17)
Foreign	5,803	5.2	(4)	4,952	39	3,330	60
Gross loans to customers	110,948	99.6	(91)	93,730	(22)	82,801	101
Credit institutions	431	0.4	(8)	1,245	1	2,370	3
Total loans	111,379	100.0	(99)	94,975	(21)	85,171	104
Increase (decline) in unspecified loan loss provisions			3		(21)		(53)
Losses on guarantees			50		2		0
Losses (gains) on loans and guarantees			(46)		(40)		51

A table found in the chapter "Distribution" presents the geographic distribution of the parent bank's loan portfolio.

14 LOSS PROVISIONS

SPECIFIC LOSS PROVISIONS

PARENT BANK 1997	1996	1995			GROUP 1997	1996	1995
1,339	1,700	2,308	Provisions at 1 January		1,371	1,756	2,412
181	344	613	Reversed on confirmation		188	363	658
8	0	0	Inflow at exchange with Sparebanken Pluss (net)		8	0	0
(27)	(17)	5	This year's allocation		(28)	(22)	2
1,139	1,339	1,700	**Provisions at 31 Dec.**	(*)	1,163	1,371	1,756

(*) Of which NOK 22 million (1996: NOK 27 million; 1995: NOK 28 million) is on loans to credit institutions and on guarantees NOK 54 million (1996: NOK 4 million; 1995: NOK 5 million).

UNSPECIFIED LOSS PROVISIONS

The size of the unspecified loss provisions is based on an overall evaluation of historic losses, the open risk/risk classifications of the facilities, and the change in lending volume. The table below shows loss provisions by industry.

	PARENT BANK 1997		1996		1995	
Sector/Industry Basis Provision	Basis	Provision	Basis	Provision	Basis	Provision
Corporate loans to risk-exposed industries						
Mining and manufacturing	2,989	30	2,251	40	2,367	45
Construction and building, power and water supply	2,308	40	1,833	45	1,800	50
Retail business, hotel and restaurant	6,449	100	4,815	100	4,369	100
Shipping	3,749	35	2,642	30	2,242	35
Real estate management and financing	16,470	240	13,404	240	11,410	240
Transportation and other services	3,801	50	3,693	70	3,273	70
Foreign	4,283	40	3,822	50	2,099	45
Private customers, risk-exposed						
Housing loans secured by mortgages exceeding 80% of value	3,091	100	3,157	100	3,477	100
Loans with security other than housing	3,398	50	2,985	50	2,839	50
Loans with normal risk of losses						
Public sector	633	0	489	0	701	0
Agriculture, forestry, fishing and hunting	2,195	0	2,084	0	2,029	0
Private customer market	46,143	100	39,555	60	33,109	50
Total basis and provision	95,509	785	80,730	785	69,715	785

The sector distribution for the unspecified loss provisions on corporate loans is based on the average of actual annual loss percentages in the period 1991-1997, less 0.5 percentage points for loan losses. Based on an overall assessment, a provision of 0.5% of total loans to the private customer market has been made.

15 VALUES AND RESULTS IN ASSOCIATED COMPANIES

VALUES AND RESULT IN ASSOCIATED COMPANIES

		Eksport-finans A/S (*)	Felles-data A/S	Total assoc. companies
Parent bank	Book value at 1 January	209	21	230
	Book value at 31 December	209	21	230
	Bank's receivables from associated companies	0	39	39
	Bank's debt to associated companies	0	87	87
Group	Book value at 1 January	372	60	432
	Share of profit	41	21	62
	Share of tax	10	6	16
	Dividends received	26	5	31
	Book value at 31 December	377	70	447
	Ownership interest	20.0%	33.0%	

(*) See also Note 30 concerning loan guarantee.

Through NOR Forsikring Holding AS, Union Bank of Norway has a 79.8% ownership interest in NOR Forsikring AS. Owners of life insurance companies are entitled to a maximum of 35% of the company's profits, and must cover the company's tax charges, whereas policy-holders are entitled to no less than 65% of the profits. Consolidation is consequently done according to the equity method of accounting, and not according to full accounting consolidation. Book value in the Group's accounts at 31 December 1997 was NOK 131 million.

GROUP COMPANIES - NOR FORSIKRING

Main items of NOR Forsikring's accounts			1997	1996	1995
Profit and loss account	Premium income		1,035	723	598
	Net financial income		491	442	422
	Insurance benefit payments		(621)	(599)	(622)
	Change in insurance allocations		(513)	(240)	(85)
	Additional provisions allocated to customers		(95)	(42)	(35)
	Operating expenses, taxes		(164)	(165)	(156)
	Profit allocated to customers	(*)	(87)	(79)	(87)
	Profit for the year		46	40	35
Balance sheet	*Assets*				
	Financial assets	(**)	5,887	5,227	4,854
	Other assets		474	417	258
	Total assets		6,361	5,644	5,112
	Liabilities and equity				
	Insurance reserves		5,908	5,169	4,788
	Other liabilities		289	298	174
	Equity	(*)	164	177	150
	Total liabilities and equity		6,361	5,644	5,112

(*) In addition, NOK 13 million (1996: NOK 3 million; 1995: NOK 0) has been allocated to customers from equity. This refers to costs relating to group pension plans that are covered by the owners.

(**) The company has a bond portfolio of NOK 1,603 million (1996: NOK 1,628 million; 1995: NOK 1,494 million) that has been classified as "hold to maturity". The market value of these bonds amounted to NOK 1,779 million at 31 December 1997 (1996: NOK 1,785 million; 1995: NOK 1,611 million).

16 TANGIBLE FIXED ASSETS

PARENT BANK			GROUP	
Machinery, equipment, vehicles	Buildings and other real estate		Machinery, equipment, vehicles	Buildings, and other real estate
1,058	23	Acquisition cost at 1 January	1,211	4,714
388	1	Additions during the year	431	261
41	0	Additions at exchange of ownership with Sparebanken Pluss	41	84
362	9	Disposals during the year	369	484
1,125	15	Acquisition cost at 31 December	1,314	4,575
835	7	Ordinary depreciation at 1 January	938	527
32	0	Additions, accumulated depreciation at ownership exchange	32	0
88	0	Ordinary depreciation, this year	107	92
8	0	Write-downs, this year	8	7
354	2	Accumulated depreciation on disposals	359	66
609	5	Ordinary depreciation at 31 December	726	560
516	10	**Book value at 31 December**	588	4,015

INVESTMENTS IN AND SALE OF TANGIBLE FIXED ASSETS LATEST FIVE YEARS

44	2	Investments	1993	142	37
7	2	Sales		80	44
52	3	Investments	1994	83	244
6	4	Sales		9	80
157	11	Investments	1995	180	1,323
8	261	Sales		11	161
63	0	Investments	1996	93	447
9	2	Sales		14	321
397	1	Investments	1997	440	345
5	7	Sales		7	316

17

REAL ESTATE AND REPOSSESSED PROPERTIES

		1997				1996	1995
Property category		Annual rent (*)	1,000 sq.m.	Price per sq.m.	Book value	Book value	Book value
Bank premises		115	169	7,414	1,253	1,165	1,170
Commercial properties		253	247	8,753	2,162	2,414	2,205
Total commercial properties	(1)	368	416	8,209	3,415	3,579	3,375
Sites					293	296	276
Homes, holiday homes, etc.					17	24	33
Miscellaneous properties	(2)				369	369	561
	(3)	Sum			4,094	4,268	4,245

(*) Actual rent in the accounting year, excluding share of joint expenses.

(1) Of which NOK 154 million (1996: NOK 147 million; 1995: NOK 108 million) was intra-group rent.

(2) Properties which do not naturally lend themselves to evaluations based on the number of square meters, etc. Includes repossessed properties that mainly consist of construction projects abroad, plots, and other rented properties.

(3) In 1997, 35 properties were sold (1996: 26) at a total of NOK 316 million (1996: NOK 321 million). Of these, 10 sales generated profits of NOK 17 million and 24 sales resulted in losses of NOK 44 million (1996: net profit of NOK 13 million). See also Notes 2 and 6.

DISTRIBUTION OF COMMERCIAL PROPERTY PORTFOLIO, BY COUNTY

	1997			1996			1995		
	Book value	1,000 sq.m.	Price per sq.m.	Book value	1,000 sq.m.	Price per sq.m	Book value	1 000 sq.m	Pris pr. sq.m
Østfold	236	54	4,370	251	60	4,183	269	65	4,138
Akershus	225	41	5,488	306	67	4,567	340	74	4,595
Oslo	2,327	193	12,057	2,329	209	11,144	1,956	178	10,989
Oppland/Hedmark	160	29	5,517	164	34	4,824	153	38	4,026
Buskerud	244	50	4,880	295	61	4,836	313	61	5,131
Vestfold	138	37	3,730	212	48	4,417	280	66	4,242
Telemark	73	10	7,300	-	-	-	-	-	-
Other counties	12	2	6,000	22	4	5,500	64	14	4,571
Group	3,415	416	8,209	3,579	483	7,410	3,375	496	6,804

Union Bank of Norway has a diversified property portfolio. It comprises buildings that are used for ordinary banking operations as well as properties that Union Bank of Norway has invested in on purely financial grounds. In addition, the Group had properties at 31 December 1997 amounting to NOK 659 million (1996: NOK 978 million; 1995: NOK 1,070 million) which were originally repossessed as part of securing facilities.

OCCUPANCY RATES FOR RENTED PROPERTIES

	1997				1996	1995
Property category (All areas in 1,000 sq.m.)	Area used by Group	Area let outside Group	Area not rented	Vacancy in %	Vacancy in %	Vacancy in %
Bank premises	116	36	17	10%	8%	4%
Commercial properties	8	220	19	8%	10%	15%
Total commercial properties	124	256	36	9%	9%	12%

Pursuant to Section 2a-9 of the Norwegian Financial Activities Act, a proportionate consolidation is to be used as the basis for evaluating the bank's maximum permitted property ownership. According to these rules, the Group's real estate holdings are NOK 4,121 million (1996: NOK 4,363 million; 1995: NOK 4,215 million), whereas the maximum limit under these rules is NOK 5,297 million (1996: NOK 4,917 million; 1995: NOK 4,215 million).

In 1997, the property portfolio of Linstow Eiendom produced a direct yield of 8.5% (1996: 8.5%; 1995: 7.7%) excluding development properties valued at NOK 92 million (1996: NOK 367 million; 1995: NOK 316 million). The direct yield is arrived at as the operating profit for the real estate operations before financial expenses and depreciation, divided by the book value of the properties. More details on Linstow can be found in Note 31.

18 OTHER ASSETS AND ACCRUALS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
557	375	649	Forward-dated assets	557	375	649
932	794	1,091	Other receivables and assets	1,112	898	1,380
1,489	1,169	1,740	Other assets	1,669	1,273	2,029
771	699	810	Earned income and prepaid expenses	1,039	1,011	1,308
0	0	0	Excess funding of pension obligations	11	8	5
16	11	18	Capitalised costs on long-term loans	16	11	18
0	0	0	Deferred tax benefit	160	170	222
1	1	5	Other accruals	3	2	5
788	711	833	Accruals	1,229	1,202	1,558
2,277	1,880	2,573	Other assets and accruals	2,898	2,475	3,587

19 CALL ACCOUNTS AND TERM DEPOSITS FROM CREDIT INSTITUTIONS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
2,097	3,250	1,578	Call accounts	2,526	3,225	4,757
18,966	9,081	4,845	Term deposits	21,922	11,718	4,915
21,063	12,331	6,423	Call accounts and term deposits from credit institutions	24,448	14,943	9,672

20 CALL ACCOUNTS AND TERM DEPOSITS FROM CUSTOMERS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
47,088	43,177	36,718	Call accounts	46,923	42,877	36,299
19,197	22,971	24,538	Term deposits	19,561	23,347	24,875
66,285	66,148	61,256	Call accounts and term deposits from customers	66,484	66,224	61,174

CUSTOMER ACCOUNTS AND DEPOSITS, BY SECTOR

Sector/Industry	1997 Amount	1997 Share of all deposits in %	1996 Amount	1995 Amount
Private customers market	30,641	46.1	29,563	28,593
Public sector	5,506	8.3	7,257	6,632
Agriculture, forestry, fishing and hunting	1,368	2.0	1,469	1,667
Mining and manufacturing	1,902	2.9	1,853	2,050
Construction and building, power and water supply	2,896	4.3	3,026	2,126
Retail, hotel and restaurant business	4,192	6.3	4,311	3,530
Shipping	976	1.5	377	414
Real estate management	3,417	5.1	2,531	3,272
Financing	6,921	10.4	6,619	4,020
Transportation and other services	7,221	10.9	7,797	7,485
Foreign	1,444	2.2	1,421	1,385
Customer deposits	66,484	100.0	66,224	61,174

In the chapter "Distribution" in this annual report, there is a table showing the geographic distribution of deposits in the parent bank.

21 CERTIFICATES AND BOND LOANS

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
4,612	4,361	1,101	Certificates and other short-term borrowings	6,080	5,246	2,751
0	0	0	Repurchased unamortised certificates	0	130	0
9,823	3,700	1,869	Bond loans and other long-term borrowings	22,140	16,316	18,986
323	970	122	Repurchased unamortised bonds	3,147	3,064	6,185
14,112	7,091	2,848	Certificates and bond loans	25,073	18,368	15,552

22 MATURITY STRUCTURE OF BOND LOANS AND SUBORDINATED LOAN CAPITAL

BOND LOANS

PARENT BANK			GROUP	
NOK	Currency	Maturity	NOK	Currency
		1998	2,711	
5,730	2,194	1999	6,341	2,194
		2000	2,757	
200		2001	203	
352		2002	1,392	
	1,024	2003 and later	2,371	1,024
6,282	**3,218**	**Book value at 31 December 1997**	**15,775**	**3,218**

The bank's repurchased bonds have been deducted from the figures. The face value of the bond debt (including subordinated bond loans) amounted to (gross) NOK 26,892 million at 31 December 1997 (1996: NOK 20,654 million; 1995: NOK 22,825 million). The face value of the repurchased bonds totalled NOK 3,147 million in 1997 (1996: NOK 3,064 million; 1995: NOK 6,186 million), whereas the market value of the repurchased bonds was NOK 3,234 million (1996: NOK 3,145 million; 1995: NOK 6,185 million).

SUBORDINATED LOAN CAPITAL

Year raised	Currency	Amount	Interest terms (1)	Maturity	Borrower	Call date	Book value	
Time-limited								
1988	JPY (2)	6,830	6.10% p.a.	1998	Parent bank		385	
1993	NOK	300	10.25% p.a.	2003	Parent bank	1998	300	
1997	USD	75	3 month LIBOR + 0.30% p.a.	2007	Parent bank	2002	549	1,234
					UBNI/Sparebank Kreditt			95
Perpetual								
1993	USD	100	3 month LIBOR + 1.625% p.a.		Parent bank	1998	731	
1994	JPY	7,000	4.27% p.a.		Parent bank	1999	395	
1994	USD	75	9.10% p.a.		Parent bank	2000	549	
1994	JPY	5,000	5.85% p.a.		Parent bank	2000	282	
1994	USD	78	9.12% p.a.		Parent bank	2001	570	
1996	USD	105	7.65% p.a.		Parent bank	2006	768	
1996	JPY	10,000	4.00% p.a.		Parent bank	2011	564	3,859
					Total			**5,188**

(1) For all loans, varying FRN (floating rate note) terms apply after call date.
(2) Private placements, not bond loans

In addition, the parent bank has granted subordinated loans to Sparebank Kreditt, NOR Finans, and Terminalutleie of NOK 200, 50, and 0.7 million, respectively. The amounts are used in the same currency as they were borrowed in, or swapped to USD and used in USD. Consequently, no currency translation gains or losses have been generated on the subordinated loan capital. Fixed-rate loans are swapped to floating interest rate.

23 OTHER LIABILITIES AND ACCRUALS

PARENT BANK					GROUP		
1997	1996	1995			1997	1996	1995
1,236	978	1,616	Checks, giros, etc. under clearing		1,236	978	1,616
306	277	133	Allocated tax		363	371	140
457	462	369	Allocated dividend, Group contributions		408	395	376
612	349	990	Miscellaneous liabilities		824	714	1,371
2,611	**2,066**	**3,108**	**Other liabilities**	(*)	**2,831**	**2,458**	**3,503**
629	**613**	**504**	**Accrued costs and unearned interest**		**1,120**	**1,041**	**922**
335	327	317	Pension obligations		343	334	323
0	0	0	Deferred tax		194	212	329
54	4	5	Specific loss provisions for guarantee liabilities		54	4	5
0	0	0	Other provisions for liabilities		13	20	7
389	**331**	**322**	**Provisions for liabilities**		**604**	**570**	**664**
			Minority interests		**43**	**42**	**55**
3,629	**3,010**	**3,934**	**Other liabilities, accruals, and provisions for liabilities**		**4,598**	**4,111**	**5,144**

(*) Other liabilities includes employment tax on non-funded pension obligations.

24 EQUITY, PER-CERTIFICATE PROFIT

CHANGE IN EQUITY

PARENT BANK				GROUP		
1997	1996	1995		1997	1996	1995
5,021	4,472	3,976	Equity at 1 January	6,125	5,562	4,681
			Change in primary capital certificate capital:			
35	107	175	Additions on conversion of subordinated loan capital	35	107	175
			Change in other equity:			
	1	6	Sale of primary capital certificates from Employees' Fund		1	6
			Implementation of new pension standard in associated company		(6)	
	(1)	(1)	Costs of converting subordinated loan capital into primary capital certificates		(1)	(1)
392	442	316	Addition on allocation of profit for the year	479	466	701
			Translation difference	(1)	(4)	0
5,448	5,021	4,472	Equity at 31 December	6,638	6,125	5,562
			which is allocated as shown below:			
2,605	2,570	2,463	Primary capital certificate capital	2,605	2,570	2,463
1,112	952	739	Dividend adjustment reserve	1,112	952	739
			Group equity in subsidiaries	1,190	1,104	1,090
1,731	1,499	1,270	Saving's Bank reserve	1,731	1,499	1,270
5,448	5,021	4,472	Equity	6,638	6,125	5,562

At 31 December 1997, Union Bank of Norway's primary capital certificate (PCC) capital amounted to NOK 2,604,964,200 on a total of 26,049,642 PCCs with par value of NOK 100. After 31 December 1996, the number of PCCs increased by 351,270 (the increase from 31 December 1995 is 1,423,060) due to conversion of subordinated loan capital totalling NOK 35,127,000 (since 1995: NOK 142,306,000). At 31 December 1997, Union Bank of Norway had no subordinated convertible loan capital outstanding. Of the PCCs converted in 1997, a total of 106,130 were converted at such a late date that they are entitled to interest, but no dividend, for 1997.

A listing of the twenty largest holders of primary capital certificates in Union Bank of Norway is presented on page 63 of this report.

PROFIT PER PRIMARY CAPITAL CERTIFICATE

The purpose of calculating profit per primary capital certificate (PCC) is to present a measure of earnings for the holders of Union Bank of Norway's primary capital certificates. The calculations presented below are in accordance with the "Preliminary Norwegian Accounting Standard for per-share profit."

Profit per primary capital certificate is determined by dividing the profit that is due to the holders of primary capital certificates by a time-weighted average of the number of outstanding PCCs. In the calculations, the adjusted PCC capital at 1 January is used, as interest expenses for the entire year are eliminated on conversion of subordinated bond loans (CSBLs), while the holders of primary capital certificates are entitled to full dividends.

Diluted profit per PCC is determined in corresponding figures, so that all potential primary capital certificates (non-converted SBLs) that have been outstanding in the period and that will have a diluting effect, are taken into account. The numerator is adjusted for the after-tax effect of the elimination of interest expenses on the outstanding CSBL capital in the period, and the denominator is adjusted for the increase in the number of primary capital certificates due to full conversion of the remaining CSBL capital.

			1997	1996	1995
	PCC capital at 1 January		2,570	2,463	2,288
	SBL conversions in the year	(*)	24	107	175
A	Adjusted PCC capital at 1 January		2,594	2,570	2,463
B	Dividend adjustment reserve at 1 January		952	739	599
C	Adjusted PCC holders' capital at 1 January (A+B)		3,546	3,309	3,062
D	Savings Bank's reserve at 1 January		1,499	1,270	1,089
E	Total adjusted equity capital, parent bank at 1 January (C+D)		5,045	4,579	4,151
F	Remaining CSBL capital at 31 December	(*)	11	35	142
G	PCC holders' capital, fully diluted (C+F)		3,557	3,344	3,204
H	Total equity capital parent bank, fully diluted (E+F)		5,056	4,614	4,293
I	Adjusted PCC ownership share at 1 January (C/E)		70.3%	72.3%	73.8%
J	PCC ownership share, fully diluted (G/H)		70.4%	72.5%	74.6%
K	Number of primary capital certificates entitled to dividend		25,943,512	25,698,372	24,626,582
L	Number of primary capital certificates at full conversion		26,049,642	26,049,642	26 049,642
M	Profit for the year		868	851	1,071
	The year's interest expenses for CSBL capital (less 28% tax)		1	3	14
N	Profit for the year at full dilution		869	854	1,085
	Per-certificate profit (M*I/K) in NOK		23.52	23.93	32.08
	Per-certificate profit, fully diluted (N*J/L)		23.46	23.76	31.08

(*) Of the primary capital certificates converted in 1997, a total of 106,130 were converted at such a late date that they are entitled to interest, but no dividend, for 1997.

25 CAPITAL ADEQUACY

GROUP	1997		1996		1995	
Tier 1 capital	6,669	6.9%	6,166	7.5%	5,730	7.9%
Upper Tier 2 capital	3,670	3.8%	3,534	4.3%	2,341	3.3%
Lower Tier 2 capital	1,213	1.3%	1,189	1.5%	1,394	1.9%
Unspecified loss provisions	0	0.0%	0	0.0%	296	0.4%
Other items, net	(579)	(0.6%)	(114)	(0.1%)	(146)	(0.2%)
Capital base	10,973	11.4%	10,775	13.2%	9,615	13.3%
Calculation base	96,672		81,856		72,480	
PARENT BANK						
Tier 1 capital	5,448	6.9%	5,056	7.6%	4,614	8.1%
Upper Tier 2 capital	3,669	4.7%	3,528	5.3%	2,335	4.1%
Lower Tier 2 capital	849	1.1%	784	1.2%	1,058	1.9%
Unspecified loss provisions	0	0.0%	0	0.0%	262	0.5%
Other items, net	(558)	(0.7%)	(155)	(0.2%)	(139)	(0.3%)
Capital base	9,408	12.0%	9,213	13.9%	8,130	14.3%
Calculation base	78,491		66,227		56,994	

SPECIFICATION OF THE CALCULATION BASE

	Nominal amount by risk class					1997	1996	1995
	0%	10%	20%	50%	100%	Risk-weighted volume	Risk-weighted volume	Risk-weighted volume
Banking portfolio								
Cash and bank deposits	2,442		6,020			1,204	1,097	662
Short-term investments in securities	3,717	19	5,724		1,705	2,852	2,530	3,337
Loans	1,721		6,522	53,813	54,590	82,801	69,082	60,712
Other receivables	93		1,698	429	894	1,448	1,508	1,818
Fixed assets	1,106	5	1,162		5,255	5,488	5,188	5,151
Total assets	9,079	24	21,126	54,242	62,444	93,793	79,405	71,680
Interest and foreign exchange rate instruments						349	344	636
Other off-balance-sheet items						3,440	2,695	2,649
Total off-balance-sheet items						3,789	3,039	3,285
Total banking portfolio						97,582	82,444	74,965
Trading portfolio including currency exchange risk						1,663	1,743	
Deductions for:								
Loss provisions and subordinated capital in other financial institutions						2,573	2,331	2,485
Total calculation base						96,672	81,856	72,480

Deductions from capital
Among the deductions from the total capital are book values of the bank's investments in subordinated capital issued by other financial institutions when, according to certain rules, the bank's share of such capital is less than 20% of the total subordinated loan capital of these institutions. If the bank has an ownership interest in a financial institution that is equal to or exceeds 20%, the financial institution will be consolidated proportionately when calculating the capital adequacy.

SUBORDINATED LOANS' CONTRIBUTION TO MEETING EQUITY REQUIREMENTS, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
At 31 December: Current subordinated loan	5,374	5,097	5,097	5,097	5,097	4,934	4,634
Less 20%	491	307	399	492	594	611	430
Eligible as equity	4,883	4,790	4,698	4,605	4,503	4,323	4,204

To illustrate the effect of different repayment scenarios for subordinated capital under current loan agreements, two sets of calculations have been prepared. The first model (excluding call) is calculated in such a way that the bank does not use its rights for calling subordinated loans. Furthermore, the assumptions used for the calculation are: same calculation base as used at year-end 1997; profit from 1998 is zero; and no change in the other equity items that are not affected by the stepping down.

CAPITAL EXCLUDING CALL

	1997	1998	1999	2000	2001	2002	2003
Subordinated capital	10,973	10,883	10,791	10,698	10,596	10,416	10,297
Coverage in %	11.4	11.3	11.2	11.1	11.0	10.8	10.7

Applying the same assumptions as outlined above, but in a scenario in which the bank exercises its right to call subordinated loans as specified in the loan agreements (normally five years before maturity), the change will be as shown below. Call options exist also for the bank's perpetual subordinated loans after 5-7 years.

CAPITAL INCLUDING CALL

	1997	1998	1999	2000	2001	2002	2003
Subordinated capital	10,973	9,912	9,485	8,684	8,110	7,551	7,542
Coverage in %	11.4	10.3	9.8	9.0	8.4	7.8	7.8

26 LIQUIDITY RISK / REMAINING TERM

Liquidity risk

In somewhat simplified terms, liquidity risk may be defined as the risk that the bank will be unable to meet its obligations as they fall due. A key measure in this respect is the bank's net lending/deposit ratio, which is an expression of the bank's dependency on the money market. Union Bank of Norway has only to a limited degree drawn on its credit lines with the Central Bank of Norway. Deposit coverage in the parent bank at year-end 1997 was 69% (1996: 83%; 1995: 88%) which is in line with other major Norwegian banks. For the Group, the deposit coverage at year-end 1997 was 60% (1996: 71%; 1995: 74%).

Remaining term	NOK million						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Cash and receivables from central banks, etc.	1,118	0	0	0	0	0	1,118
Loans to and receivables from credit institutions	1,396	752	1,747	78	75	0	4,048
Loans to and receivables from customers (*)	1,350	1,932	10,926	31,028	57,761	0	102,996
Loss provisions	0	0	0	0	0	(1,819)	(1,819)
Bonds, certificates, and other interest-bearing securities	50	65	3,745	591	696	0	5,147
Other assets	928	424	493	75	0	6,390	8,310
Total assets	4,842	3,173	16,911	31,771	58,532	4,571	119,800
Liabilities to credit institutions	3,154	830	147	0	4	0	4,135
Deposits from and liabilities to customers	31,141	1,534	29,763	1,398	60	0	63,896
Liabilities from issuing securities	1,140	1,400	6,451	10,492	2,371	0	21,854
Other liabilities	454	487	1,705	47	365	948	4,006
Subordinated loan capital	0	43	2	0	300	0	345
Equity	0	0	0	0	0	6,433	6,433
Total liabilities and equity	35,890	4,293	38,068	11,937	3,100	7,381	100,669
Net liquidity exposure on balance sheet items	(31,048)	(1,121)	(21,157)	19,834	55,432	(2,810)	19,131
Payments in/out, off-balance-sheet financial derivatives	(4,448)	(10,875)	(3,126)	(275)	0	0	(18,724)
Net total, all items	(35,496)	(11,996)	(24,283)	19,559	55,432	(2,810)	407

Remaining term	Foreign currency						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Cash and receivables from central banks, etc.	124	0	0	0	0	0	124
Loans to and receivables from credit institutions	2,235	307	313	261	10	0	3,126
Loans to and receivables from customers (*)	501	192	1,217	2,582	3,460	0	7,952
Loss provisions	0	0	0	0	0	(138)	(138)
Bonds, certificates, and other interest-bearing securities	0	0	242	340	310	12	904
Other assets	94	117	206	0	0	244	661
Total assets	2,954	616	1,978	3,183	3,780	118	12,629
Liabilities to credit institutions	9,692	6,291	3,598	732	0	0	20,313
Deposits from and liabilities to customers	688	943	957	0	0	0	2,588
Liabilities from issuing securities	0	0	0	2,195	1,024	0	3,219
Other liabilities	139	163	221	0	0	69	592
Subordinated loan capital	0	0	385	0	4,458	0	4,843
Equity	0	0	0	0	0	205	205
Total liabilities and equity	10,519	7,397	5,161	2,927	5,482	274	31,760
Net liquidity exposure on balance sheet items	(7,565)	(6,781)	(3,183)	256	(1,702)	(156)	(19,131)
Payments in/out, off-balance-sheet financial derivatives	4,453	10,874	3,127	270	0	0	18,724
Net total, all items	(3,112)	4,093	(56)	526	(1,702)	(156)	(407)

(*) Overdraft facilities and construction loans are included in the interval "3-12 months".

The above tables have been prepared in accordance with the rules of the Norwegian Banking, Insurance and Securities Commission. They do not show the actual liquidity needs of the Group, and are not part of the Group's internal liquidity management.

27 INTEREST RATE RISK / REMAINING TERM TO INTEREST RATE ADJUSTMENT

Interest rate risk

Interest rate risk arises from the bank's lending and borrowing activities and its activities in the Norwegian and international money and capital markets. Interest rate risk results from the existence of varying interest rates and periods for the bank's assets and liabilities (both on and off-balance sheet).

The bank's Board of Directors has set upper limits for the bank's interest rate risk. These limits apply to trading and central interest positioning. Exposure is continuously monitored to ensure that these limits are observed. The aggregate limit for interest risk exposure in Norwegian kroner (NOK) and foreign currencies expresses the maximum (unrealised) loss the bank could suffer in the event of an unfavourable general interest rate movement of 1%.

The parent bank's maximum limit for interest rate risk is set at NOK 300 million (1996: NOK 300 million; 1995: NOK 300 million). The highest utilisation of the limit in 1997 was 52% (1996: 57%; 1995: 44%), the utilisation at year-end 1997 was 22% (1996: 47%; 1995: 41%). The average for the year was 27% (1996: 24%; 1995: 24%).

Remaining term to interest rate adjustment	NOK						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Cash and receivables from central banks, etc.	480	0	0	0	0	638	1,118
Loans to and deposits with credit institutions	1,657	2,230	112	38	11	0	4,048
Loans to and receivables from customers (*)	77,795	12,267	4,828	5,863	2,243	0	102,996
Loss provisions	0	0	0	0	0	(1,819)	(1,819)
Bonds, certificates, and other interest-bearing securities	139	455	3,711	408	434	0	5,147
Other assets	0	0	0	0	0	8,310	8,310
Total assets	80,071	14,952	8,651	6,309	2,688	7,129	119,800
Liabilities to credit institutions	2,881	1,121	130	0	3	0	4,135
Deposits from and liabilities to customers	39,034	10,042	14,070	750	0	0	63,896
Liabilities from issuing securities	2,668	3,689	6,533	6,937	2,027	0	21,854
Other liabilities	0	0	0	0	0	4,006	4,006
Subordinated loan capital	43	0	2	0	300	0	345
Equity	0	0	0	0	0	6,433	6,433
Total liabilities and equity	44,626	14,852	20,735	7,687	2,330	10,439	100,669
Net interest rate exposure on balance sheet items	35,445	100	(12,084)	(1,378)	358	(3,310)	19,131
Off-balance-sheet financial derivatives	(4,973)	(13,548)	2,810	(2,636)	(732)	0	(19,079)
Net total interest rate exposure	30,472	(13,448)	(9 ,274)	(4,014)	(374)	(3,310)	52

Remaining term to interest rate adjustment	Foreign currency						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Cash and receivables from central banks, etc.	0	0	0	0	0	124	124
Loans to and deposits with credit institutions	2,241	343	303	261	0	(22)	3,126
Loans to and receivables from customers (*)	1,863	2,625	3,464	0	0	0	7,952
Loss provisions	0	0	0	0	0	(138)	(138)
Bonds, certificates, and other interest-bearing securities	5	126	181	340	252	0	904
Other assets	0	0	0	0	0	661	661
Total assets	4,109	3,094	3,948	601	252	625	12,629
Liabilities to credit institutions	9,692	7,022	3,599	0	0	0	20,313
Deposits from and liabilities to customers	1,489	942	156	0	0	0	2,588
Liabilities from issuing securities	2,195	0	0	0	1,024	0	3,219
Other liabilities	0	0	0	0	0	592	592
Subordinated loan capital	0	1,280	385	1,796	1,382	0	4,843
Equity	0	0	0	0	0	205	205
Total liabilities and equity	13,377	9,244	4,140	1,796	2,406	797	31,760
Net interest rate exposure on balance sheet items	(9,268)	(6,150)	(192)	(1,195)	(2,154)	(172)	(19,131)
Off-balance-sheet financial derivatives	4,965	5,629	2,997	2,450	2,509	0	18,550
Net total, interest rate exposure	(4,303)	(521)	2,805	1,255	355	(172)	(581)

(*) Overdraft facilities and construction loans are included in the interval "1-3 months".

The above tables have been prepared in accordance with the rules of the Norwegian Banking, Insurance and Securities Commission. They do not show the actual interest rate risks of the Group, and are not part of the Group's internal management of interest rate risk.

28 FINANCIAL DERIVATIVES

Some derivatives that may be used to hedge liquidity and interest rate risks:

Forward exchange contracts:	Contract between two parties to exchange foreign currencies on a specified future date at a fixed price.
Forward rate agreements (FRAs):	Agreements on a fixed interest rate for a future period for a fixed amount. When the contract expires, only the difference between the agreed-upon interest rate and the market interest rate is exchanged.
Interest rate options:	Contracts giving the buyer the right to demand payment of the difference between the money market interest rate and the interest rate agreed to by the seller. The difference is calculated for a fixed amount and a specified time period.
Currency options:	Agreements giving the buyer the right to buy or sell a specific quantity of one foreign currency in exchange for another on a future date at a fixed price.
Interest rate swaps:	Contracts in which two parties agree to exchange interest payment obligations for a fixed amount and specified period.
Interest rate futures:	Standardised contracts for receipt or delivery of specified interest rate instruments at a specific date at a fixed price. Interest rate futures are traded on internationally recognised exchanges. The value of an interest rate future follows the price fluctuations of its underlying financial instrument.
Interest rate and currency swaps:	Contracts where the counter-parties agree to exchange both interest rate obligations and currencies for a fixed amount for a specified period.

Nominal values/risk-weighted volume

The nominal amount for forward exchange contracts is calculated as the sum of currencies (including NOK) bought and sold forward, based on the foreign exchange rates at 31 December. The nominal amount for the other derivatives is equal to the sum of the nominal amounts of contracts entered into (contracts in foreign currencies are translated at the exchange rate on 31 December).

PARENT BANK						GROUP				
Trading portfolio		Bank portfolio		Risk-weighted		Trading portfolio		Bank portfolio		Risk-weighted
31. Dec.1997	Average	31 Dec.1997	Avarage	volume	Derivative	31 Dec.1997	Average	31 Dec.1997	Average	volume
159,404	140,020	0	0	515	Forward exchange contracts	165,422	146,264	0	0	524
532,084	685,497	1,000	1,628	68	FRAs	532,253	685,739	1,320	2,033	70
634	964	0	0	0	Interest rate options	634	964	0	0	0
555	667	0	0	1	Currency options	555	667	0	0	1
60,422	40,209	14,436	9,741	176	Interest rate swaps	60,473	40,260	15,671	11,099	181
2,107	1,808	0	0	0	Interest rate futures	2,107	1,808	0	0	0
0	0	2,774	2,607	70	Interest rate and currency swaps	0	0	2,793	2,696	70

Risk factors

In the case of open positions in forward exchange contracts and currency options, the bank assumes risks related to fluctuations in the exchange ratio (currency risk) and market interest rates (interest rate risk) in the currencies involved. The bank's trading activities in this field are mainly related to interest rate. Positions in the other derivatives expose the bank to risks of interest rate changes (interest rate risk). All interest rate and currency swaps are entered into in order to hedge against risks associated with the bank's bond debt in foreign currencies. For all types of derivatives, except futures, the bank has a counter-party risk.

Credit exposure

In the above table, credit risk is expressed in figures (risk-weighted volume) prepared in accordance with the regulations issued by the Norwegian Banking, Insurance and Securities Commission. Credit risk is the risk that a counter-party will not meet his or her contractual obligations. The bank has set internal limits to counter-party exposure. Monthly reports on credit risk are prepared for each counter-party. The above table shows that there is no significant credit risk associated with the above financial instruments. Union Bank of Norway has its greatest credit risk exposure in its regular lending portfolio.

29 FOREIGN CURRENCY POSITION AND RISK

CURRENCY, ASSETS AND LIABILITIES

PARENT BANK				GROUP		
1997	1996	1995		1997	1996	1995
9,160	6,797	5,663	Foreign currency assets in balance sheet	12,511	9,653	8,995
28,001	12,971	8,073	Foreign currency liabilities in balance sheet	31,943	16,210	11,401
58,278	44,341	33,974	Forward exchange contracts, purchases	61,051	46,723	36,664
39,553	38,151	31,034	Forward exchange contracts, sales	41,539	40,844	33,362

Foreign exchange risk

Foreign exchange risk may be defined as the risk of loss that the bank may suffer due to changes in currency exchange rates. The bank's Board of Directors has determined limits for the overnight foreign currency position the bank may assume. The limit for the parent bank is set at NOK 1,400 million; the figure remains unchanged since 1996. Routines for daily follow-up of the bank's foreign currency exposure have been implemented. At every meeting, the Board receives reports on foreign currency risk. Forward exchange contracts (see Note 28) are used for hedging currency positions in the balance sheet and for other purposes. The net aggregate currency position at 31 December 1997 was NOK 106 million (1996: NOK 158 million). The daily average in 1997 was NOK 229 million (1996: NOK 210 million). The highest foreign currency position in 1997 was NOK 548 million (1996: NOK 585 million), which represents 5.8% of the bank's capital. For Union Bank of Norway, the maximum limit for foreign currency positions, as set by the Central Bank of Norway, amounts to approximately NOK 2,100 million.

30

COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

PARENT BANK					GROUP		
1997	1996	1995			1997	1996	1995
8,563	8,124	6,916	Undrawn credit facilities		8,352	7,424	6,840
8,563	8,124	6,916	**Commitments**		8,352	7,424	6,840
726	511	585	Payment guarantees		726	511	585
1,793	1,394	1,274	Contract guarantees		1,793	1,394	1,274
1,681	2,914	4,705	Funding guarantee, Eksportfinans	(*)	1,681	2,914	4,705
1,282	1,114	943	Other loan guarantees		1,282	1,114	943
91	55	31	Guarantees for tax		91	55	31
1,374	990	895	Other guarantees for customers		1,150	837	586
6,947	6,978	8,433	**Guarantee liabilities**	(**)	6,723	6,825	8,124
3,985	1,157	1,192	Pledged certificates and bonds	(***)	3,985	1,157	1,192
0	0	0	Pledged real estate		12	19	684
10,932	8,135	9,625	**Contingent liabilities**		10,720	8,001	10,000

(*) From and including 1 January 1996, new loans are no longer guaranteed by the banks that own Eksportfinans.

(**) From January 1995, savings banks were again required to issue guarantees in favour of the Savings Banks' Guarantee Fund. Until 29 September 1997, savings banks must also deposit bonds in a separate account in the Norwegian Registry of Securities (VPS). The face value of the amounts must at all times be at least equal to the bank's guarantee liability. In the case of Union Bank of Norway, the guarantee liability in 1997 was NOK 114 million (1996: NOK 338 million; 1995: NOK 444 million). This guarantee is in addition to the figures stated on this line.

(***) Pertains to the parent bank's access to D-loans from the Central Bank of Norway, collateral (with the Banking, Insurance and Securities Commission as ultimate rights owner) relating to the parent bank's securities brokering and option trading (from and including 1996), and (up until 29 September 1997) the guarantee in favour of the Savings Banks' Guarantee Fund. The par value of the securities was NOK 3,976 million in 1997 (1996: NOK 1,150 million; 1995: NOK 1,180 million). They have been pledged as collateral for a total of NOK 4,366 million (1996: NOK 1,206 million; 1995: NOK 1,217 million).

31

INFORMATION ON RELATED PARTIES

Remuneration paid to the Group Board of Directors and the Group's President and CEO is presented in Note 4 to the accounts. Assets in and results of associated companies in the Union Bank of Norway Group are shown in Note 15.

In Note 33, the subsidiaries consolidated in the Union Bank of Norway Group are listed. Pursuant to the Financing Activities Act, all intra-group transactions are carried out as "arm's-length" transactions.

INTRA-GROUP TRANSACTIONS AND ACCOUNTS WITH CONSOLIDATED SUBSIDIARIES

	PARENT BANK		
Profit and loss account	1997	1996	1995
Income			
Interest on loans	114	139	131
Interest on deposits in credit inst.	93	93	80
Interest on bonds and certificates	0	2	13
Dividends received/Group contributions(*)	176	163	67
Other income	98	67	32
Total income	481	464	323
Expenses			
Interest on customer deposits	10	13	6
Interest on loans from credit institutions	20	31	15
Rent	219	190	145
Other expenses	25	1	3
Total expenses	274	235	169
(*) Dividends and Group contributions from:			
Sparebank Kreditt	49	83	
SPN Fonds		3	18
Union Bank of Norway International	30	1	10
Hafjell Invest	20		
Linstow Eiendom	13	20	
Sparebankgårdene	(6)	14	12
NOR Forsikring Holding	39	29	19
Vigar	14	3	
NOR Eiendomsmegling Holding	4	5	3
Avanse Forvaltning	12	4	4
Miscellaneous	1	1	1
Total	176	163	67

		PARENT BANK		
Balance sheet		1997	1996	1995
Assets				
Loans		2,303	2,225	2,735
Deposits in credit institutions	(*)	3,359	1,915	1,044
Bonds and certificates		0	0	100
Other assets		262	289	114
Total assets		5,924	4,429	3,993
Liabilities				
Deposits from customers		266	426	483
Deposits from credit institutions		239	547	46
Other liabilities		69	95	456
Total liabilities		574	1,068	985
Commitments and guarantees		245	173	337

(*) Of which NOK 250 million (1996: NOK 250 million; 1995: NOK 284 million) in subordinated loan capital.

Group contributions paid to:			
Linstow Eiendom		40	176
Sparebankgårdene			296
Sparebank Kreditt			162
Hafjell Invest	39		4
NOR Eiendomsmegling Oslo/Akershus	1	3	
NOR Finans	26	33	29
Miscellaneous	1	1	3
Total	67	77	670
Dividends received (included in transfers) from:			
Linstow Eiendom (see Note 9)		82	
Sparebank Kreditt			167
Total	0	82	167

(Note 31 continued)

Sparebanken Pluss

From 1 July 1997, Union Bank of Norway took over the offices of Sparebanken Pluss in the county of Telemark. Under the same agreement, Sparebanken Pluss took over the offices of Union Bank of Norway in Kristiansand from 1 July. The exchange gave Union Bank of Norway an increase in loans to private customers of NOK 540 million; loans to business customers increased by NOK 140 million, and customer deposits increased by NOK 1,040 million. Union Bank of Norway staffing increased by 63 man-years net. The exchange led to a net increase in expenses of some NOK 25 million annually.

Union Bank of Norway paid Sparebanken Pluss NOK 55 million beyond the net book value of the assets involved in the transaction. This sum includes a premium on lending and deposit portfolios of approx. NOK 34 million, which will be expensed over a period of 3½ years. Other excess value is mainly related to the real estate that was part of the transaction.

NOR 24

On 1 April 1996, NOR 24 took over the NOK 2.7 billion housing loan portfolio of Sparebank Kreditt. The transfer generated goodwill for the parent bank of NOK 90 million, which will be amortised over 2½ years.

Karl Johan Fonds

Union Bank of Norway acquired 75% of the shares in Vigar AS, which is the holding company of the securities brokerage Karl Johan Fonds, on 1 July 1996. The bank has an option to purchase the remaining shares of Vigar.

Agreement with Fellesdata

As a result of the August 1995 share issue in Fellesdata, Union Bank of Norway's ownership share of the company decreased from 40.7% to 33.0%. The conditions for the stock issue stipulated that Union Bank of Norway, within certain limits, should receive compensation for this dilution if the value on which the issue was based proved to be significantly too low, and if such increased value materialised by selling parts or all of the company. Similarly, Union Bank of Norway should pay compensation if the value was proved to be too high.

Fellesdata and Union Bank of Norway have entered into an agreement which regulates the above matters. The agreement is based on Fellesdata being valued at NOK 200 million. Adhering to the letter of the agreement, Union Bank of Norway has put forward a claim for compensation. The claim is currently under evaluation.

Linstow and Nydalen Compagnie

The extraordinary General Meetings voted on 4 February 1998 to merge Linstow Eiendom AS and Nydalen Compagnie ASA. The merged company will be called Linstow ASA.

At 31 December 1997, Union Bank of Norway owned all shares in Linstow Eiendom AS. On 19 January 1998, the bank sold 516,000 shares of Linstow Eiendom AS (which correspond to 7,600,680 shares in the merged company Linstow ASA) to institutional investors. The bank has a repurchase right for these shares should the merger fail. On 19 December 1997, Union Bank of Norway entered into an agreement with Anders Wilhelmsen & Co AS to sell 3,200,000 of the shares in the merged company as soon as the merger has taken place.

The sales correspond to 40.7% of Linstow Eiendom AS and 24% of the merged company. The bank's shareholding in the merged company after completion of these sales will be 15,713,320 shares, or 34.9% of all shares.

The shares in the merged company are being sold for NOK 549 million, which corresponds to NOK 51 per share. These shares are recorded in the accounts of the parent bank at NOK 366 million, and in the consolidated accounts of the Group at NOK 382 million. The sale will generate a profit of NOK 167 million in the 1998 Group accounts if the merger is completed.

Linstow Eiendom AS will change its accounting status from being a consolidated wholly-owned subsidiary to becoming an associated company which is consolidated according to the equity method.

KEY FIGURES FOR THE LINSTOW EIENDOM GROUP:

	1997	1996	1995
Net interest income	(87)	(111)	(68)
Net other operating income	260	240	170
Operating expenses	144	111	132
Operating profit (loss)	29	18	(30)
Total assets	2,784	2,941	3,235
Real estate (book value)	2,513	2,715	2,711
Number of employees	52	50	46

32 INVESTMENTS IN SECURITIES

Investments:	Bank/ Trading	Risk-weighting	Book value 1997	1996	1995	Market value 1997	1996	1995	Share in % 1997
Certificates									
Government and Govt. guaranteed	B	0	2,840	345	400	2,841	346	400	
	T		75	4,064	3,200	75	4,080	3,201	
Other	B	20	220	735	495	220	736	496	
	B	100	0	51	12	0	51	12	
	T		145	149	0	145	149	0	
Total certificates			3,280	5,344	4,107	3,281	5,362	4,109	44.2%
Bonds (1)									
Government and Govt. guaranteed	B	0	264	402	1,182	265	403	1,204	
	T		131	751	891	131	757	895	
Credit institutions	B	20	964	758	318	955	759	320	
	T		160	124	236	160	125	237	
Other Norwegian	B	10	18	19	20	19	20	22	
	B	100	45	111	64	45	112	64	
	T		91	46	0	92	46	0	
Foreign	B	0	2	2	2	2	2	2	
	T		0	0	238	0	0	239	
	B	20	371	449	873	371	450	874	
	B	100	175	524	319	185	525	314	
Subordinated loans	B	100	549	403	445	550	420	461	
Subordinated loans	T		1	0	0	1	0	0	
Total bonds and bond funds			2,771	3,589	4,588	2,776	3,619	4,632	37.3%
Total certificates and bonds			6,051	8,933	8,695	6,057	8,981	8,741	81.5%
Shares (2)									
Norwegian, short-term	B	20	0	22	379	0	22	383	
	B	100	0	27	50	0	15	17	
	T		89	7	0	84	7	0	
Foreign, long-term	B	20	22	21	24				
Foreign, long-term	B	100	1	0	0				
Norwegian, long-term	B	20	426	23	0				
	B	100	50	83	165				
Units in mutual funds	B	100	120	72	109	135	106	127	
Units in mutual funds	T		73	0	0	130	0	0	
Primary capital certificates	B	100	0	10	22	0	12	24	
	T		12	2	0	16	2	0	
Price adjustment		100	0	0	(10)	0	0	0	
Total shares and units			793	267	739				10.7%
Associated companies	B	20	377	372	372				
	B	100	70	60	55				
Total associated companies			447	432	427				6.0%
Group companies (3)	B	20	131	141	119				1.8%
Total securities			7,422	9,773	9,980				100.0%

Unrealised gains on bonds and current-asset stocks not recorded as income are shown in Note 3 to the accounts.

B = Bank portfolio; T = Trading portfolio

(1) In the Union Bank of Norway Group, only NOR Forsikring has «hold-to-maturity-bonds», see footnote in the balance sheet found in Note 15. In the part of the Group's portfolio which is not intended to be held to maturity, there are some items that have an aggregate original cost that exceeds the book value by NOK 3 million.

(2) See Note 33 for an overview of the most important shareholdings.

(3) Relating to NOR Forsikring AS, which is treated according to the equity method.

INTERESTS IN COMPANIES OTHER THAN JOINT STOCK COMPANIES

	Share in %	Book value	Income included net in the accounts(*)
K/S Larvik Torg Parkering	13.1	1	0
ANS Dreyfushammarn	6.5	1	0
Procuritas MBO Invest Consortium		1	1
Miscellaneous		1	0
Fixed assets, parent bank		4	1
ANS Parkeringshuset Sarpsborg	50.0	2	0
Fixed assets, subsidiaries		2	0
Fixed assets, Group		6	1

(*) Interests of less than 20% are treated according to the cost method of accounting. Income from these investments consists of dividends received and net gains on sales of assets.

33

SHAREHOLDINGS

Amounts in NOK 1,000		Company's capital	No. of shares	Owner-ship in %	Par value	Book value	Market value
SHARES, ETC. HELD BY PARENT BANK AS CURRENT ASSETS							
Vestfold Sparebank (PCCs)		50,000	1,000	0.2	100	100	187
Sparebanken Rana (PCCs)		50,935	9,500	1.9	950	1,045	1,615
Sparebanken Møre (PCCs)		451,660	56,000	1.2	5,600	7,648	10,864
Avanse Finans			162 ,734		16,273	14,111	36,745
Avanse Industri			11,267		1,127	2,022	4,047
Avanse Shipping			135,382		13,538	13,146	26,047
Avanse Markedsverdi			1,556		15,558	19,468	35,120
Avanse Pensjonspar			100,000		10,000	10,000	9,782
Avanse Vekst			100,000		10,000	10,000	12,531
Avanse Lange Obligasjoner			5,000		50,000	50,000	49,865
Avanse Lang Likviditet			5,000		50,000	50,000	50,012
Kongsberg Gruppen ASA		120,000	150,000	0.6	750	11,273	11,550
Norsk Hydro ASA		4,581,453	40,000	0.0	800	16,015	14,520
A-pressen AS, A shares		144,044	80,000	1.1	1,600	14,484	12,800
Dyno Industrier ASA		511,652	60,000	0.2	1,200	10,261	8,550
Frontline Ltd.			250,000			9,144	7,500
Misc. Norwegian shares						18,875	20,048
Interspar, Luxembourg (fund units) in	DEM		43,000			4,067	6,203
Total shares, etc. held by parent bank as current assets						261,659	317,986
SHARES HELD BY REST OF GROUP AS CURRENT ASSETS							
Avanse Utland			25,000			2,852	7,604
Avanse Barnespar			150,000			15,000	23,279
Avanse Finans			18,488			2,000	4,174
Nopec International ASA		12,278	32,000	0.3	32	3,059	2,352
Mindex ASA		20,090	488,538	1.2	244	4,936	2,369
A-pressen ASA, A shares		144,044	11,880	0.2	238	2,209	1,960
Misc. shares held as current assets						7,172	5,882
Price adjustment, Karl Johan Fonds AS	(1)					(4,723)	
Total shares held by the rest of the Group as current assets						32,505	47,620
Total shares held by Union Bank of Norway Group as current assets						294,164	365,606
PARENT BANK'S SHARES, REPOSSESSED ASSETS							
A/S Algarve		100	100	100.0	100	0	
Hispano A/S		990	2,000	100.0	990	0	
Smalvollveien 34 A/S		50	5	100.0	50	50	
Chancery Plc ord. B-shares	GBP		1,843,197		5,594	0	
Total shares, repossessed assets, parent bank						50	
SHARES, REPOSSESSED ASSETS, REST OF GROUP							
AS Norefjell Ski og Friluftssenter		2,000	40	100.0	2,000	0	
Total shares, repossessed assets, rest of Group						0	
Total shares, repossessed assets, Union Bank of Norway Group						50	
SHARES HELD BY PARENT BANK AS FIXED ASSETS							Share of equity
Shares/interests in subsidiaries							
Sparebankenes Kredittselskap A/S		708,000	7,080,000	100.0	708,000	835,552	1,083,009
NOR Forsikring Holding AS		195,750	156,255	79.8	156,255	169,987	187,510
NOR Aktiv Forvaltning AS		10,000	10,000	100.0	10,000	10,000	10,063
Sparebankgårdene AS		204,920	204,920	100.0	204,920	204,920	475,778
Avanse Forvaltning AS		2,400	1,732	72.2	1,732	11,536	48,862
NOR Eiendomsmegling Holding AS		39,100	1,955	100.0	39,100	44,200	46,920
Linstow Eiendom AS		900,000	1,800,000	100.0	900,000	900,000	927,809
NOR Finans AS		100,000	100,000	100.0	100,000	106,079	220,727
SPN Oppland/Hedmark Terminalutleie A/S		50	5	100.0	50	50	(410)
Hafjell Invest A/S		26,330	2,633	100.0	26,330	12,400	59,397
Sparebanken NOR Dataservice Østfold A/S		750	750	100.0	750	0	908
Gran Eiendom A/S		3,900	3,900	100.0	3,900	3,900	6,146
Greåker Industripark A/S		3,000	3,000	100.0	3,000	3,000	5,676
Terminalutleie a.s		300	300	100.0	300	619	11
Vigar A/S		1,015	7,614	75.0	761	34,821	18,400
UBN Reinsurance S.A., Luxembourg	NOK(1,000)	11,000	11,000	100.0	11,000	11,000	25,882
Union Bank of Norway Int. S.A., Luxembourg	LUF(1,000)	700,000	70,000	100.0	700,000	136,157	190 ,446
Total shares/interest in subsidiaries						2,484,221	3,307,134
SHARES IN ASSOCIATED COMPANIES							
A/S Eksportfinans		1,075,000	2,150	20.0	215,000	208,692	376,813
Fellesdata A/S		60,000	495,000	33.0	19,800	21,530	70,130
Total shares in associated companies						230,222	446,943

(1)There are no shares held as current assets in the rest of the Group for which the original price is higher than the book value.

Profits for the most important subsidiaries are presented in Note 9.

(Note 33 continued)

Amounts in NOK 1,000		Company's capital	No. of shares	Ownership in %	Par value	Book value	Share of equity
OTHER SHARES, ETC. HELD AS FIXED ASSETS							
Fokus Bank ASA	(2)	722,567	6,560,010	10.0	72,160	405,061	
Four Seasons Venture A/S	(*)	256	62,000	24.2	62	62	
Four Seasons Venture II A/S		75,000	1,000	1.3	1,000	1,060	
AS Globusgården	(*)	1 300	624	48.0	624	624	
AS Sparebankmateriell - Spama	(*)	3,156	7,674	24.3	767	747	
BBS/Bank-Axept Holding AS		165,000	1,169,032	17.7	29,226	29,226	
Buskerud Telemark Vestfold Invest AS		49,004	25,883	5.3	2,588	2,588	
Norsk Opsjonssentral AS		14,903	236,510	15.9	2,365	21,286	
NORbillett a.s	(*)	2,300	70	30.4	700	700	
Trumf Holding AS	(*)	1,000	3,333	33.3	333	333	
Visa Norge A/S	(*)	8,000	1,600	20.0	1,600	397	
Norsk Tillitsmann AS		10,500	11,974	11.4	1,197	1,197	
Grenland Investeringsfond AS		47,000	1,000	2.1	1,000	1,000	
Bikuben Girobank A/S	(in DKK 1,000)	2,927,766	34,285	0.1	3,429	10,495	
Finanzierungsgesellschaft Viking	(CHF 1,000)	30,000	9,000	9.0	2,700	11,213	
Miscellaneous shares held as fixed assets						6,910	
Total misc. shares held as fixed assets						492,899	
Total shares/units held as fixed assets by the parent bank						3,207,342	
SHARES HELD BY REST OF GROUP AS FIXED ASSETS							
Shares in subsidiaries							
Sparebankenes Kredittselskap A/S							
SK eiendom A/S		50	50	100.0	50	50	31
Karihaugen eiendom A/S		1,000	1,000	100.0	1,000	1,293	1,293
NOR Forsikring Holding AS							
NOR forsikring AS		130,002	1,460,700	100.0	130,002	16 ,132	163,780
Vigar AS							
Karl Johan Fonds AS		13,400	134,000	100.0	13,400	11,100	37,271
NOR Eiendomsmegling Holding A/S							
NOR Eiendomsmegling Oslo Akershus A/S		11,000	11,000	100.0	11,000	13,000	13,741
Estator AS		250	2,500	100.0	250	4,758	1,150
NOR Eiendomsmegling Vestfold A/S		950	950	100.0	950	2,060	6,805
NOR Eiendomsmegling Oppland Hedmark A/S		2,000	2,000	100.0	2,000	2,224	2,927
NOR Eiendomsmegling Østfold A/S		2,000	2,000	100.0	2,000	2,200	2,627
NOR Eiendomsmegling Buskerud A/S		1,000	1,000	100.0	1,000	6,868	3,141
NOR Eiendomsmegling Ringerike A/S		50	46	92.0	46	2,400	630
NOR Eiendomsmegling Rogaland A/S		950	874	92.0	874	874	(1,775)
NOR Eiendomsmegling Bergen A/S		200	184	92.0	184	920	(1,755)
The Linstow Group							
Vaterland Invest AS		50	500	100.0	50	50	730
P-Hus Drift AS		50	500	100.0	50	50	144
ANS P-Hus Christian Krohgsgate				100.0		25,392	16,527
Linstow Drift AS		50	1,000	100.0	50	50	164
Bryggeforvaltning AS		50	1,000	100.0	50	0	(162)
ANS Rykkinn Kjøpesenter				100.0		0	0
Verkstedhallene ANS				100.0		0	0
Terminalbygget ANS				100.0		0	0
Bryggehandel Invest I ANS				100.0		0	0
Bryggehandel Invest II ANS				100.0		0	0
Bryggehandel Invest III ANS				100.0		0	0
Aker Brygge ANS				100.0		0	0
ANS Skarnes Næringspark				100.0		0	0
Aker Entertainment AS		1,000	20,000	100.0	1,000	229	1,530
Total shares in subsidiaries						242,650	248,799
OTHER SHARES HELD AS FIXED ASSETS							
A/S Bøndenes Hus	(*)	350	3,502	48.3	169	456	
Kirkegt. 74 A/S	(*)	500	250	50.0	250	250	
Miscellaneous shares held as fixed assets						3,712	
Total shares held as fixed assets, rest of Group						4,418	

(2) Written-down by 92,970 from an original cost of 498,031. The shares are recorded in the accounts at NOK 61.75 per share.
(*) The company is not included according to the equity method of accounting, as the profit components are insignificant for the Union Bank of Norway Group.

The following company is new to the Group in 1997: NOR Aktiv Forvaltning.
The following company has merged with Sparebankgårdene A/S: Sentrumbygg A/S.
The following company has merged with SK eiendom A/S: Nye Vestby hotell A/S.
The following company has been liquidated: SPN fonds a.s.

CASH FLOW ANALYSIS

(IN NOK MILLION)

PARENT BANK 1997	1996	1995		GROUP 1997	1996	1995
5,866	6,194	5,832	Interest receipts	6,909	7,412	6,939
3,292	3,407	3,385	Interest payments	4,165	4,403	4,500
1,333	1,091	1,008	Other receipts	2,081	1,726	1,471
2,644	2,431	2,168	Operating expenses	3,312	2,848	2 ,426
65	66	53	Recovered on losses previously written off	72	76	65
276	130	82	Tax paid	380	136	110
1,052	1,383	1,258	**Net cash flow from operations**	**1,205**	1,827	1,439
(15,044)	(11,413)	(6,509)	(Increase) lending	(17,492)	(11,415)	(7,197)
(263)	703	761	Decrease (increase) in other receivables	(404)	760	389
2,182	(344)	(543)	Decrease (increase) in short-term securities	2,728	182	(1,221)
(3,182)	(3,656)	2,260	(Increase) deposits in and loans to credit institutions	(1,835)	(2,735)	2,951
(16,307)	(14,710)	(4,031)	**Net cash flow from current financial activities**	**(17,003)**	(13,208)	(5,078)
(398)	(63)	(168)	(Increase) tangible assets	(785)	(495)	(1,502)
(492)	(154)	(189)	(Increase) other fixed assets	(433)	(34)	(212)
120	36	359	Sale of fixed assets	339	360	247
(770)	(181)	2	**Net cash flow from investments**	**(879)**	(169)	(1,467)
137	4,892	3,359	Increase in customer deposits	260	5,050	3,122
421	413	(1,194)	Increased subordinated loan capital	419	352	(1,195)
35	107	180	Increase in equity	35	107	180
8,732	5,908	1,256	Increase in loans and deposits from credit institutions	9,505	5,271	1,486
7,070	2,442	(788)	Increase other debt	6,828	1,023	1,554
16,395	13,762	2,813	**Net cash flow from long-term financing activities**	**17,047**	11,803	5,147
370	254	42	**Net changes in liquid assets**	**370**	253	41
872	618	576	Liquid assets at 1 January 1997	**872**	619	578
1,242	872	618	Liquid assets at 31 December 1997	**1,242**	872	619

AUDIT REPORT FOR 1997

TO THE GROUP COMMITTEE OF REPRESENTATIVES OF UNION BANK OF NORWAY

We have audited the financial statements for Union Bank of Norway for 1997, showing a profit for the year of NOK 849 million for the parent bank and an annual profit of NOK 868 million for the group. The financial statements, consisting of the Board of Directors' report, profit and loss account, balance sheet, cash flow statement, notes and consolidated financial statements, have been presented by the bank's Board of Directors and its Group Executive Officer.

Our responsibility is to examine the bank's financial statements, the accounts and accounting records and other related matters.

We have performed the audit in accordance with the relevant laws, regulations and generally accepted auditing standards. We have performed the audit procedures which we have considered necessary in order to confirm that the annual report and accounts do not contain material errors or misstatements. We have examined on a sample basis the evidence supporting the accounting items and assessed the accounting principles applied, the estimates made by management and the overall financial statements' content and presentation. To the extent it is required by generally accepted auditing standards we have reviewed the bank's management routines and internal control.

The Board's proposed disposition of the net profit is in accordance with the requirements of the Savings Banks' Act and the bank's Articles of Association.

In our opinion the financial statements are prepared in accordance with the laws and regulations as they apply to savings banks and present fairly the financial position of the bank and the Group per 31 December, 1997 and the result of the operations in the accounting year in compliance with generally accepted accounting principles.

Oslo, 5 March, 1998
Coopers & Lybrand ANS

Einar Westby
State Authorized Public Accountant
(Norway)

STATEMENT BY THE CONTROL COMMITTEE

TO THE GROUP COMMITTEE OF REPRESENTATIVES OF UNION BANK OF NORWAY

The Group Control Committee has carried out the commissions required by Section 13 of the Norwegian Savings Banks Act.

The Group Control Committe has examined the annual accounts and the auditors' report and recommends that the Group Committee of Representatives adopt the presented profit and loss account and the balance sheet as the 1997 financial statement of Union Bank of Norway.

Oslo, 10 March 1998

Arne Meltvedt   Jan Torgersen   Sjur Lohne

KEY FIGURES

UNION BANK OF NORWAY GROUP

Amounts in NOK million (unless otherwise specified)		1997	1996	1995	1994	1993
PROFIT AND LOSS ACCOUNT						
Net interest income		2,602	2,559	2,781	2,934	3,146
Capital gains (losses)		124	176	215	(228)	1,003
Other operating income		1,642	1,371	1,084	978	1,002
Operating income		4,368	4,106	4,080	3,684	5,151
Operating expenses		3,072	2,975	2,655	2,406	2,262
Operating profit before losses		1,296	1,131	1,425	1,278	2,889
Losses		46	(42)	19	466	1,327
Operating profit		1,250	1,173	1,406	812	1,562
Net profit		868	851	1,071	704	1,519
BALANCE SHEET						
Loans, private customer market		53,823	46,641	42,757	40,644	41,334
Loans, business customers		57,125	47,089	40,044	35,685	38,209
Specific loan loss provisions		1,087	1,340	1,722	2,375	3,268
Unspecified loans loss provisions		870	867	888	941	963
Customer deposits		66,484	66,224	61,174	57,962	56,901
Total assets at 31 December		132,429	114,540	101,521	94,962	95,162
Average total assets (ATA)		123,600	107,900	98,100	97,100	94,700
Total assets under management		156,927	134,543	122,380	*	*
Primary capital certificate capital		2,605	2,570	2,463	2,288	2,084
Savings Banks' reserve		1,732	1,499	1,270	1,089	1,282
Dividend adjustment reserve		1,112	951	739	599	599
Group's equity in subsidiaries		1,189	1,105	1,090	705	315
Total equity		6,638	6,125	5,562	4,681	4,280
OPERATIONS, PROFITABILITY AND RETURN ON EQUITY						
Interest income (in % of ATA)		5.6%	6.6%	7.3%	7.7%	9.7%
Interest expenses (in % of ATA)		3.5%	4.2%	4.5%	4.7%	6.4%
Interest spread (in % of ATA)		2.1%	2.4%	2.8%	3.0%	3.3%
Operating income (in % of ATA)		3.5%	3.8%	4.2%	3.8%	5.4%
Operating income (excluding capital gains), change from previous year		8.0%	1.7%	(1.2%)	(5.7%)	19.9%
Cost ratio (in % of ATA)		2.5%	2.8%	2.7%	2.5%	2.4%
Costs per NOK earned	1	0.70	0.72	0.65	0.65	0.44
Costs per NOK earned excl. capital gains		0.72	0.76	0.69	0.62	0.55
Operating profit before losses and write-downs (in % of ATA)		1.0%	1.0%	1.5%	1.3%	3.1%
Return on total assets (operating profit after taxes in % of ATA)		0.7%	0.8%	1.1%	0.7%	1.6%
Return on equity	2	13.1%	13.8%	19.9%	15.0%	40.4%
KEY FIGURES, PRIMARY CAPITAL CERTIFICATES						
Market price at 31 December (in NOK)		260	200	163.50	133	154
Book value per PCC (NOK, including allocations of dividend)		189	182	177	164	157
Effective yield per PCC (in %)	3	38%	31%	34%	(2%)	328%
PCC ownership percentage	4	68%	70%	72%	73%	68%
* Earnings per PCC (in NOK)	5	23.52	23.93	32.08	26.51	49.71
Diluted yield per PCC	6	23.46	23.76	31.08	25.00	41.12
Profit coverage per PCC, gross (in NOK)	7	33	33	43	31	73
Dividend per PCC (in NOK)		15	15	15	15	18
Direct yield (dividend allocated as a % of market price at year-end)		6%	8%	9%	11%	12%
Allocated dividend, % of PCC holders' share of profit		64%	63%	48%		
Pay-out ratio (gross)	8	45%	45%	34%	48%	25%
RISK amount, 1 January in subsequent year (in NOK)		Est. 20.50	21.98	4.39	(2.31)	(18.24)
BALANCE SHEET DEVELOPMENT						
Growth in lending		18.9%	14.0%	9.6%	(3.0%)	3.3%
Growth in deposits		0.4%	8.3%	5.5%	1.9%	6.5%
Deposit coverage	9	60%	71%	74%	76%	72%
Growth in total assets		15.6%	12.8%	6.9%	(0.2%)	5.5%
DEFAULTS, PROVISIONS, AND LOAN LOSSES						
Defaults, gross		1.6%	2.1%	3.0%	4.7%	7.2%
Defaults, net		0.8%	1.0%	1.4%	2.3%	3.6%
Provision ratio on defaulted loans		52%	55%	54%	53%	52%
Unspecified loan loss provisions in % of gross lending		0.8%	0.9%	1.1%	1.2%	1.2%
Losses on loans in % of gross lending		(0.04%)	(0.04%)	0.1%	0.7%	1.6%
CAPITAL ADEQUACY						
Equity and subordinated loan capital (eligible)		10,973	10,775	9,615	9,848	8,572
Calculation base		96,672	81,856	72,480	66,340	67,551
Capital ratio (in %)		11.4%	13.2%	13.3%	14.8%	12,7%
- of which Tier 1 (core) capital		6.9%	7.5%	7.9%	7.7%	7.1%
No. of man-years at 31 December		3,304	3,349	3,325	3,312	3,325

DEFINITIONS

1 Relationship between operating expenses and operating income.
2 After-tax operating profit as a percentage of average equity (incl. minority interests).
3 Dividend paid plus change in market price from 1 Jan. to 31 Dec. as a percentage of market price on 1 Jan.
4 PCC holders' share of total equity at year-end.
5 PCC holders' share of after-tax operating profit, divided by average number of PCCs entitled to dividend.
6 As (5) but where the numerator is adjusted for the reduced interest expense (after tax) and the denominator is adjusted for growth in PCC capital as a result of full subordinated loan conversion.
7 After-tax operating profit divided by the average number of outstanding PCCs entitled to dividend.
8 Dividend as a percentage of after-tax operating profit.
9 Customer deposits as a percentage of gross lending to customers at 31 Dec.

ANALYSIS OF KEY FIGURES

NET INTEREST INCOME

Net interest income is positively affected by increases in lending volume and negatively affected by weakened margins and decreased deposit coverage.

Net interest income in 1997 amounted to NOK 2,602 million, or 2.11% of the average total assets of the bank. The corresponding figures for 1996 were NOK 2,559 million and 2.37%. Strong growth in lending has boosted net interest income (recorded in NOK), while both a weakened interest margin and a decrease in deposit coverage have had contrary effects.

The bank's average customer spread (the spread in average interest rates between loans and deposits to customers) fell from 3.1% in 1996 to 2.8% in 1997. The customer spread remained stable throughout 1997.

In 1997, the bank's lending increased by 19%, whereas customer deposits only grew by 0.5%. This decreased the relative deposit coverage (deposits expressed as a percentage of loans) from 71% in 1996 to 60% in 1997. Thus an increasing share of the bank's activities must be financed by more expensive funding, which in turn negatively affects net interest income.

OTHER INCOME

Other income increased sharply, so that it now represents 40% of total income.

Over time, Union Bank of Norway's other operating income has grown from approximately 25% of total income to 40% in 1997. Growth was largely due to subsidiaries' products, whose relative importance to the bank is increasing. Growth in income from subsidiaries is expected to continue; from 1998 on, however, income from Linstow's real estate portfolio of NOK 260 million will be gone.

EXPENSES

Expenses grew by NOK 142 million in 1997; in relative terms, however, expenses decreased from 2.76% of average total assets in 1996 to 2.49% in 1997, due to strong growth in volume. The single most important contributing factor in increased expenses is salary level growth. In 1997, salaries at the parent bank grew by about 5%.

Expenses per NOK earned amounted to NOK 0.70 in 1997. In other words: for each NOK earned as net interest income and other operating income, NOK 0.70 was spent on expenses. The remaining NOK 0.30 covers losses, taxes, and equity capital servicing.

LOSSES

In 1997, the bank had net losses of 0.04% of its gross lending volume. Over the past five years, losses have averaged 0.46% of gross lending.

YIELD ON PRIMARY CAPITAL CERTIFICATES (PCCs)

Holders of Union Bank of Norway's primary capital certificates (PCCs) once again received a good yield in 1997. The price of PCCs increased from NOK 200 to NOK 260 in 1997. This increase in value, along with a NOK 15 cash dividend, produced a 38% effective yield for PCC holders in 1997. In 1996, the corresponding yield was 32%.

The dividend yield (cash dividend as a percentage of market price per share) was 5.8% in 1997, a highly competitive rate compared with our major competitors among commercial banks in Norway.

Earnings per PCC for the bank, based on the PCC holders' ownership share of the bank (70%) was NOK 23.52 in 1997. This translates into a price-to-earnings ratio of 11, an indication that the price of our PCCs is in line with other securities on the stock market. A price-to-book-value of 1.4 indicates a price level in keeping with that of other banks.

Owing to payment of cash dividends of NOK 15 per PCC for 1997, certificate holders' ownership share in the bank will be reduced from 70% in 1997 to 68% at the beginning of 1998.

DISTRIBUTION NETWORK: RENEWAL AND COOPERATION

Nearness to customers via a local presence, as well as accessibility, are key features of Union Bank of Norway's corporate mission. Today, our markets are served by a modern, widely dispersed network of offices and new electronic and largely self-service channels of distribution. Union Bank of Norway's goal is to be an attractive and natural business partner, and to play an active role in the structural changes taking place in the Norwegian financial markets.

UPGRADING AND RENEWAL

Our offices are the backbone of the bank's distribution apparatus. Most of our customers need skilled financial counselling and services, and our offices are the Group's most important customer contact point.

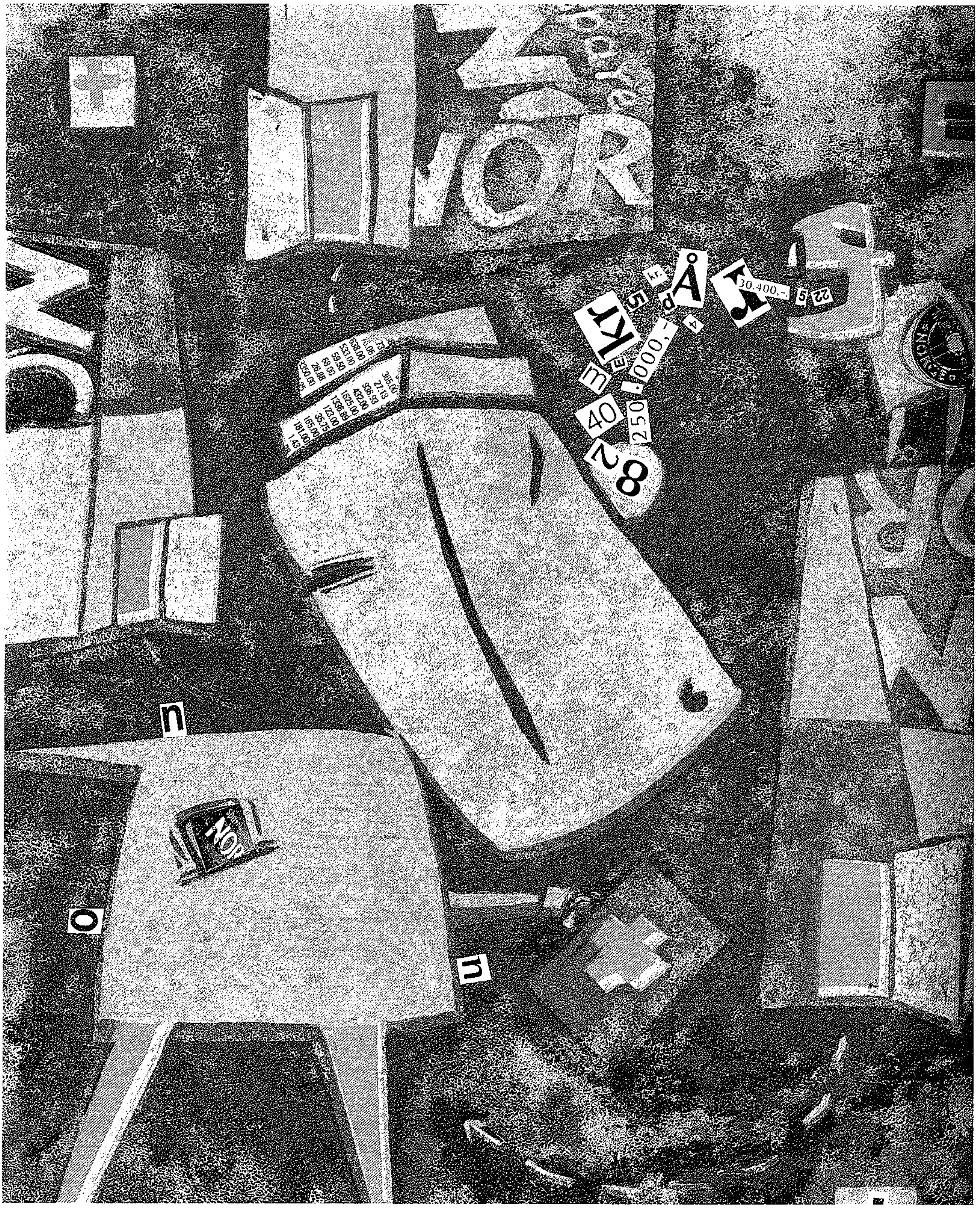
In the early 1990s, Union Bank of Norway decided to initiate several technological development projects. In each of the projects, resources were channelled into developing decentralised yet integrated services that would support the sales and service functions of our bank offices and other offices serving customers. In 1997, many of our offices had their interiors remodeled, and a new IT system was introduced.

The new office solutions will simplify and reduce both customers' and bank's resources needed for consulting, operations and sales of the more than 200 products we offer retail and business clients. Our office design also aims to create a more pleasant and comfortable working environment. The Norwegian Design Council awarded the furniture and appointments for our new offices the 1997 Good Design Award. The remodelling work was also timely; much of it has been needed for maintenance reasons, to compensate for reductions in office space, and to meet various official regulations such as fire safety and access for people with disabilities.

Central to the upgrading of offices has been the introduction of a new technological platform. During 1997, new technology was introduced at 55 offices; the remaining offices will be upgraded in 1998. In addition, in the spring and autumn of 1998, the IT system will be introduced at the five regional savings banks that Union Bank of Norway cooperates with. The user-friendly technological platform is constructed so that different tasks and operations work in familiar ways.

Union Bank of Norway's in-house developed technology is the subject of great interest from other banks in Norway and abroad. Our partner in the development process, NCR – a worldwide leader in IT – has purchased the rights to sell the technology to banks outside of Norway.

In addition to the upgrading process, new distribution channels have significantly enhanced the accessibility of our services. NOR24, which was established in 1996, is a full-service bank where customers can conduct all banking services via the telephone, mail, or the Internet. NOR24 showed positive development in its second year of operation, and it has become one of Norway's leading direct, self-service banks. During 1997, NOR24 granted new loans amounting to NOK 1.8 billion; at year-end 1997, its total lending was NOK 3.1 billion. The telephone will be key in future communications between Union Bank of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Norway and our customers. Continued development of our telephone banking services is a top priority. Usage increased sharply through 1997, and at year-end our telephone banking services were receiving on average 90,000 calls a day. For business customers, our PC bank, NORnett, means that Union Bank of Norway is only a few key-strokes away, regardless of the time of day.

Union Bank of Norway's at-home Internet banking services were introduced in April 1997. During the year, Hjemmebanken enrolled 5,200 on-line customers without any marketing other than a presence on the Internet. Union Bank of Norway expects Internet-based distribution of our financial services to become increasingly important.

STRATEGIC COOPERATION

In order to increase our market impact and reduce the Group's unit costs, Union Bank of Norway must expand opportunities for selling its products from subsidiaries as well as the parent bank. To reach this goal, Union Bank of Norway has initiated a variety of cooperative arrangements with other participants in the Norwegian financial market.

Cooperation with other savings banks

In 1996, Union Bank of Norway entered into a close cooperation with the regional savings banks Sparebanken Hedmark, Møre, Rana, Sogn og Fjordane, and Sør. Collectively, these five independent regional savings banks have 166 offices and total assets of NOK 44.7 billion.

KEY FIGURES FOR REGIONS AND DIVISIONS

		Region Buskerud	Region Oppland/ Hedmark	Region Oslo/ Akershus	Region Telemark	Region Vestfold	Region Østfold	District offices	Corporate Customer Division	Other branches(*)	Total parent bank
No. of bank offices	1997	29	31	52	10	26	20	6			174
Man-years		280	304	797	86	344	264	117	243	333	2,768
No. of customers		94,900	107,700	342,600	25,800	119,300	107,900	30,600	2,600	6,800	838,200
No. of accounts		169,900	198,800	596,200	46,400	223,700	193,000	65,000	8,000	18,200	1,519,200
(Amounts in NOK million)											
Deposits at 31 Dec.	1997	**6,748**	**7,358**	**24,605**	**1,540**	**6,734**	**5,484**	**1,798**	**11,839**	**179**	**66,285**
	1996	6,630	7,396	23,499	--	6,910	5,500	2,419	11,073	2,721	66,148
	1995	6,432	7,145	21,857	--	7,104	5,164	2,199	8,515	2,840	61,256
Loans at 31 Dec.	**1997**	**8,086**	**10,917**	**26,504**	**2,146**	**11,432**	**7,966**	**7,435**	**15,324**	**5,699**	**95,509**
	1996	7,118	9,712	23,179	--	10,181	7,080	7,332	11,485	4,643	80,730
	1995	6,583	9,022	21,438	--	9,384	6,327	6,059	8 ,438	2,464	69,715
Profit and loss account					(**)						
Operating income	1997	327	400	1,139	43	468	341	213	587	86	3,604
Operating expenses		229	257	728	29	284	218	103	283	295	2,426
Profit before losses		**98**	**143**	**411**	**14**	**184**	**123**	**110**	**304**	**(209)**	**1,178**
Losses		(33)	(12)	(71)	1	(34)	(24)	3	30	164	24
Profit after losses		**131**	**155**	**482**	**13**	**218**	**147**	**107**	**274**	**(373)**	**1,154**
Profit after losses	1996	141	127	471	--	177	117	87	273	(298)	1,096
Profit after losses	1995	139	165	399	--	181	135	63	270	(32)	1,320
Return on equity (in %)	**1997**	16%	14%	18%	16%	22%	20%	18%	13%		13%
Costs/income ratio (in %)		70%	64%	64%	67%	61%	64%	48%	48%		67%
Losses on loans (in %)		(0.4%)	(0.1%)	(0.3%)	0.1%	(0.3%)	(0.3%)	0.0%	0.2%	2.9%	0.0%

(*) Includes NOR24 and other Group and staff functions' staffing, operating expenses, balance sheet items, and related returns.
(**) Relates to the period 1 July to 31 December.

The goal of this cooperation is to strengthen the competitiveness of the participating banks, locally as well as in the large-customer market. The cooperation experience was extremely positive in 1997. It enables Union Bank of Norway and the other banks to serve customers that we would otherwise not have been able to offer a satisfactory array of products and services. For the Union Bank of Norway Group, the cooperative relationship results in a significant strengthening of our distribution network; for the regional savings banks, it provides an expanded range of financial services for customers. As a result of working together, we have gained several new and important business customers.

One of the priorities for cooperation is the introduction of a common concept for bank operations, including a technology platform. After thorough preparations throughout 1997, Sparebanken Møre will start converting to the new IT system in the spring of 1998. The other cooperating banks will gradually introduce the strategic IT solutions that have been developed by Union Bank of Norway.

The agreement with the regional savings banks builds on a vision for a long-term, broad, and committed cooperation based on mutual trust. Union Bank of Norway has great expectations for the continued development of the cooperation with these banks.

Fokus Bank

In early 1997, Fokus Bank offered Union Bank of Norway a cooperative arrangement between the two banks if the then-current acquisition bid from SpareBank 1 Group fell through. The purpose of the cooperative efforts was to expand the spectrum of products offered to both banks' clients and to increase the sales volume of subsidiaries of the banks. In addition, the two banks were to enter into cooperation on insurance products with the Danish insurance company Codan, which owns 10 per cent of the shares in Fokus Bank. During the spring of 1997, Union Bank of Norway bought 10 per cent of the shares in Fokus Bank.

Negotiations between Fokus Bank and Union Bank of Norway about a cooperative agreement started immediately after the SpareBank 1 Group failed to obtain majority approval by shareholders for their acquisition offer. During these negotiations it became clear that it would be difficult to find a solution that would benefit both banks without treating any of the Fokus Bank shareholders unfairly. During the process, both parties agreed that the best solution for owners, customers, and employees of both banks would be to merge the two banks.

The Board of Directors of the two banks voted unanimously in favor of this proposal. The Board of Union Bank of Norway decided to make an offer to acquire all shares in Fokus Bank at a per-share price of NOK 77. Before the offer could be presented to shareholders, the owner who would be able to prevent a merger single-handedly – SpareBank 1 Group – would have to agree to accept the offer.

The SpareBank 1 Group was, however, not able to provide such acceptance. The offer was consequently never presented to the other shareholders of Fokus Bank.

To date, no final determination has been made as to whether there will be a cooperation agreement between Union Bank of Norway and Fokus Bank.

KEY FIGURES, COOPERATING BANKS, AS OF 31 DEC. 1997

(Amounts in NOK million)	TOTAL	Hedmark	Møre	UBN	Rana	SSF	Sør
Group							
Profit after losses	1,829	177	190	1,250	45	60	107
Total assets	177,176	11,864	13,549	132,429	3,342	6,272	9,720
Subordinated loan capital	15,301	1,395	1,242	10,973	328	558	805
Man-years, Group	4,860	516	364	3,238	120	240	382
Bank							
Number of offices	340	30	50	174	10	34	42
Number of customers	1,306,000	146,000	125,000	835,000	31,000	58,000	111,000

MARKET TRENDS IN 1997: GROWTH AND CHANGE

The Norwegian financial services market is undergoing rapid change in both the variety of products and services available and the nature of demand for them. Our customers' needs are becoming increasingly complex. They have become more familiar with financial products and services and they expect more from their bank. For Union Bank of Norway these trends require continual evolution and improvement in the products we offer.

Union Bank of Norway's goal is that our Group's product range meets all of our retail and business customers' needs for financial services. Simplicity, efficiency, quality, and profitability must be the hallmarks of our products.

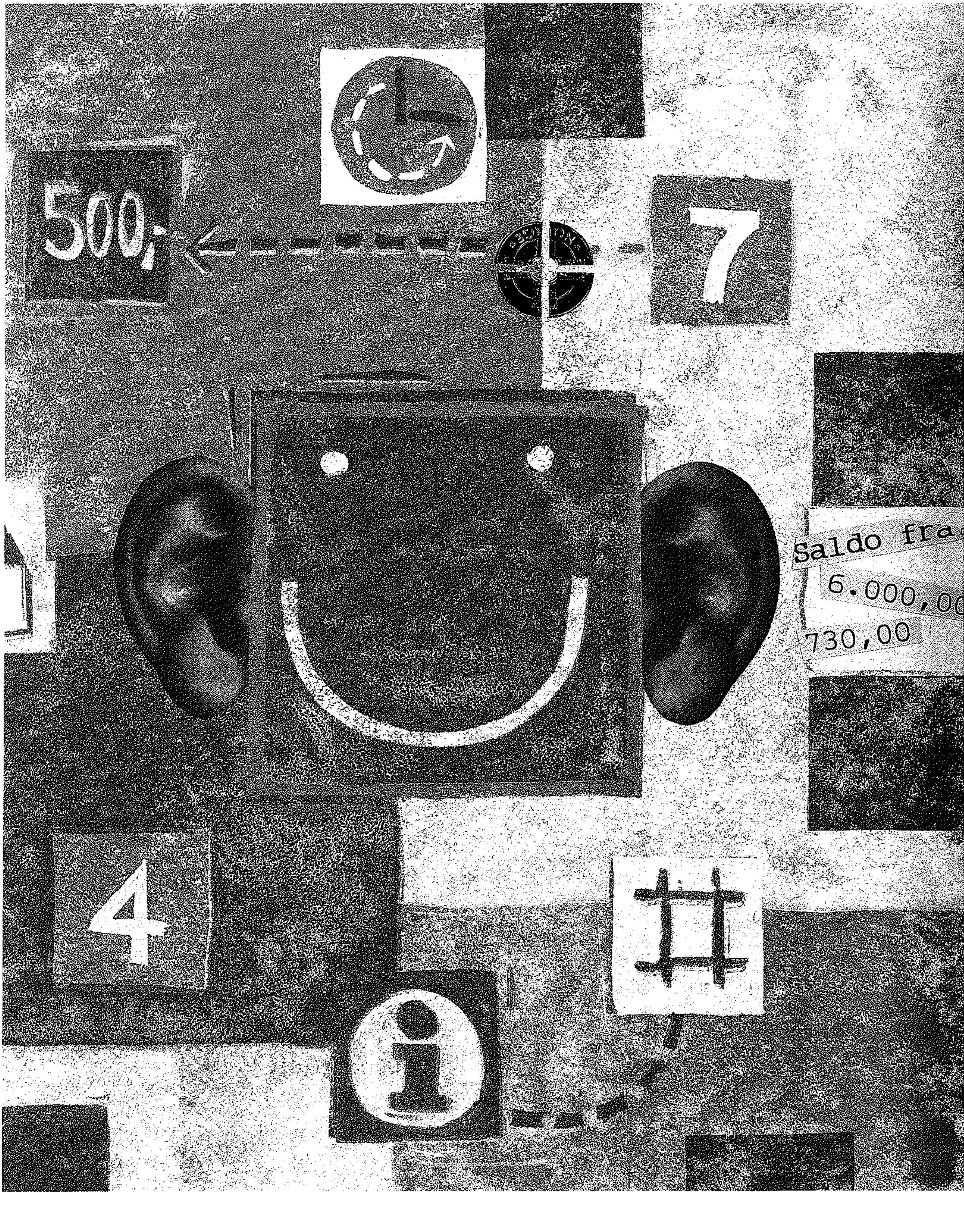
SIMPLER EVERYDAY FINANCES

One trend that is increasingly evident in the markets we service is the need for simple and easily-accessible everyday banking services. Union Bank of Norway meets this demand with an increasingly wider choice of products that make handling everyday financial matters simpler for both individuals and businesses. New technology plays a key role in making this transition.

Many retail customers rarely visit a bank office. Instead, the *bank card* has become an important daily link between customer and bank. For this reason, Union Bank of Norway established a separate organisation called NOR Kort (Cards) in 1997 to handle bank cards. A total of 80 per cent of all Union Bank of Norway customers now have a cash or credit card associated with their regular checking accounts; and the typical customer uses his or her card 100 times a year. Union Bank of Norway has issued some half a million cards, and we are the largest issuer of VISA cards in Norway. In 1997, we also increased our penetration of the credit card market as we issued approximately 7,000 charge and credit cards. We will continue to focus on developing the credit card market in 1998.

In payment transfer services, we expanded the bank's product spectrum by introducing automatic deduction services for bills paid at regular intervals, so-called Avtalegiro, and bill payment by telephone, Telegiro, in 1996. Use of both of these automated services soared in 1997. In 1997, several major payment recipients established systems for transactions via Avtalegiro, and 84,000 retail customers have entered into agreements for this service. The number of customers who have signed an agreement for Telegiro services doubled from 1996 to 1997: 130,000 customers are using our telephone banking services. In 1997, 2.5 million bills were paid through this service.

Union Bank of Norway has approximately 26,000 small-business customers. Targeting them for automatic banking services as well, the Small-Business Package was introduced in February 1997. The Small-Business Package offers day-to-day banking services, such as the Business Account and Brevgiro (payment of bills by mail) along with our new payment card, NOR Bedrift (Business) VISA, which allows businesses to pay for smaller purchases more easily than by using a check or cash.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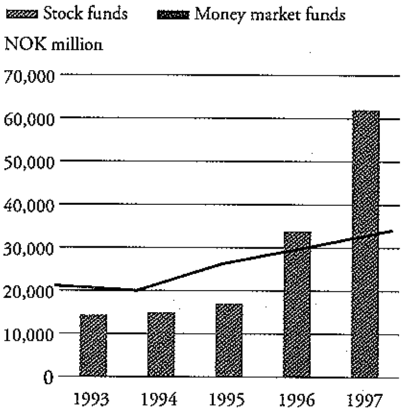
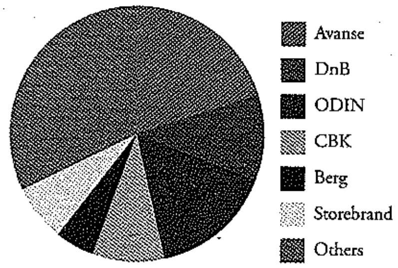
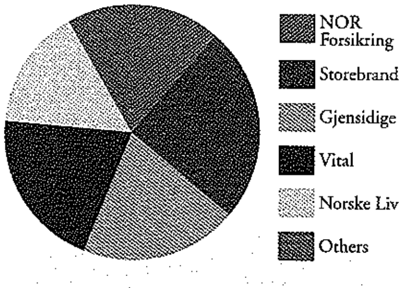
THE NORWEGIAN SECURITIES MARKET



STOCK FUNDS, 1997 MARKET SHARE



INDIVIDUAL INSURANCE, 1997 MARKET SHARE



The bank introduced its NORnett service, a new Windows-based banking tool for PCs, as an optional add-on to the Small-Business Package. NORnett gives business customers the ability to make payments, transfer funds among their own accounts, and access updated account information from an office PC or workstation. NORnett services were expanded in 1997, and the updated version of NORnett, which will be available in the spring of 1998, will provide solutions for domestic and international payment services and for integrating information in the company's own computer-based administrative systems. With these capabilities, our small- and medium-sized business customers have a future-oriented and complete solution for banking services.

It has become more common for medium-sized and large companies, institutions, and public sector organisations to request a bid for their banking services. This practice leads to much greater pressure on prices and margins, but at the same time makes the bank more responsive to customers' needs and requirements. One example is the Norwegian government's new consolidated accounts system that requires specialised functionalities for the accounts of all governmental agencies. In the autumn of 1997, following an extensive bidding process, Union Bank of Norway was designated as one of the three banks that are to maintain accounts for governmental agencies. Development of the system for payment transfers and account maintenance services has given the bank solid expertise in this important product area, and has contributed to the quality of our payment transfer services in general.

SAVING AND INVESTING

In 1997, we saw a rapidly growing demand for alternatives to traditional bank savings. This trend is evident, for example, in the increase in deposits in our subsidiaries NOR Forsikring and Avanse Forvaltning: deposits increased from 8.4 per cent (in 1996) to 12 per cent of the bank's total deposits volume in 1997. Between them, the two companies increased their deposits from Union Bank of Norway customers by NOK 3 billion, an increase of 52 per cent above the 1996 figure.

As a consequence of generally greater wealth in Norway, there was also a growth in deposits in the parent bank in 1997. At year-end 1997, the deposit volume was NOK 64.4 billion, an increase of 2.3 per cent compared with 1996.

NOR Forsikring (Insurance) has had a very steep growth in premiums over the past few years; from 1996 to 1997 premium income grew by 43.2 per cent. The growth is largely attributable to sales of flexible life annuities. Total premium income in 1997 exceeded NOK 1 billion. An important addition to NOR Forsikring's product range – group pensions – was introduced in the autumn of 1997. Also in 1997, NOR Forsikring started developing Unit Linked products (life insurance with investment options) with the objective of starting sales of such products in 1998.

Avanse Forvaltning held its position as Norway's largest mutual fund manager, with 17.8% of the total mutual fund market. Avanse introduced several new products in 1997. *Avanse Vekst* (Growth) is a new so-called AMS fund (some tax benefits for long-term holders) with a somewhat higher risk profile than Avanse's other funds. The mutual fund *Avanse PensjonSpar* is intended for long-term pension savings. The fund features simplicity and safety, and is targeted mainly at customers for whom retirement is still a few years away. The mutual fund *Avanse BarneSpar*, which was introduced in the autumn of 1996, continued its success in 1997. This fund, introduced as a long-term savings vehicle to benefit children, now has more than 28,000 regular savings contracts.

Avanse also intensified efforts to target business customers in 1997, and this market segment will continue to be among its priority areas. In 1997, two new interest-rate funds aimed at business customers were introduced: *Avanse Lang Likviditet* and *Avanse Lang Obligasjon*.

An increasing demand for active management of financial assets led to the formation of our new company NOR Aktiv Forvaltning in the autumn of 1997. Through NOR Aktiv Forvaltning, which provides tailor-made agreements and personalised follow-up, Union Bank of Norway now offers a complete product range in all types of fund management.

LOANS AND FINANCING

Demand for loans remained high throughout 1997, and Union Bank of Norway had an increase in lendings of 19 per cent. The growth rate was highest for our business segment; loans and credits to business customers now make up 52 per cent of the bank's total lendings.

In May 1997, Union Bank of Norway became the first Norwegian bank to offer so-called stepped-interest loans to retail customers. This is a new housing loan product for customers who need to borrow more than 60 per cent of the value of the property they are financing. It guarantees that the interest rate will decrease in steps as the loan is paid off. The stepped-interest loan was very well received by the market.

Through NOR Finans AS, Union Bank of Norway offers car loans with a vendor's lien on the car. In 1997, distribution of the company's products through the offices of Union Bank of Norway was more heavily targeted, and NOR Finans' lending volume via the parent bank increased sharply. NOR Finans also experienced considerable interest in leasing and factoring, and through increased focusing and improved sales adaptations, the sales growth rate for these products is expected to rise in 1998.

In the business market, there has been an increasing shift towards money-market-related products. In 1996, Union Bank of Norway introduced a new margin-based overdraft facility, a product which had considerable growth in 1997. The bank has a broad range of other products that covers business customers' financing needs.

EURO

The introduction at 1 January 1999 of the euro as a common currency in many European countries will have significant impact – even on countries that are not members of the EU, such as Norway. The advent of the European Monetary Union is a challenge that Norwegian banks and businesses must meet.

The full-scale implementation of the euro is taking place in stages. During the current preparatory phase, which lasts until 1 January 1999, decisions will be made as to which countries will participate in the European Monetary Union (EMU), and the relative exchange rates of the participating currencies and the euro will be determined.

The second phase, often termed the transition phase, runs from 1 January 1999 to 1 July 2002. During the transition phase, the European Central Bank takes over responsibility for the monetary policy of the EMU, while the national currency markets of individual member states cease to exist. During this phase, the euro will be an electronic currency only. Bills and coins will be introduced on 1 January 2002, and on 1 July of that year, the euro will become valid currency in the countries participating in the monetary union.

Union Bank of Norway has done a great deal of work relating to the introduction of the euro. A task force has been set up to implement the changes necessitated by the euro and to act as the bank's competence center in these matters. The task force has a management group and three sub-groups that cover issues such as:

- Payment transfer services
- Information and training
- Euro settlement and savings banks

Building expertise in the field and ensuring that all of the bank's currency products are available in euro form on 1 January 1999 are Union Bank of Norway's most important tasks right now. In addition, a review has begun of all agreements that extend beyond 1 January 1999 and that involve currencies expected to convert to the euro. Development of payment transfer service products tailored to the special needs of businesses during the transition phase is also a priority.

Union Bank of Norway has joined with several other savings and commercial banks in a preliminary project investigating solutions for euro clearing in Norway. It is highly likely that domestic payment transfer services in euros will be needed, and it is crucial to establish a common clearing center for all Norwegian banks so that we can offer our customers competitive services. Union Bank of Norway is also working on various ways to secure stable access to euro liquidity. The bank will strengthen its role as a settlement bank for other savings banks, and intends to offer settlement in euros in the same way settlement in Norwegian kroner takes place today.

RISK MANAGEMENT

In its activities as a financial institution, the Group must continually deal with issues of risk, particularly in its lending business and its activities in money and capital markets. Risks involved in operations are usually divided into three main categories: Credit risk, market risk, and administrative risk.

MANAGING CREDIT RISK

The bank's credit policy and guidelines for the credit process are intended to ensure that its customer portfolio has an acceptable risk profile and that it is profitable, after any losses, in the long-term perspective.

Historical data are part of the basis for the bank's projections of what would constitute a normal loss level for its lending portfolio. Other factors taken into account are the portfolio's distribution across various sectors and industries, the customers' ability to service their loans, and the value of collateral securities on deposits. Decisions on credit and pricing must take into account that normal losses are to be covered by the bank's ordinary operating profits.

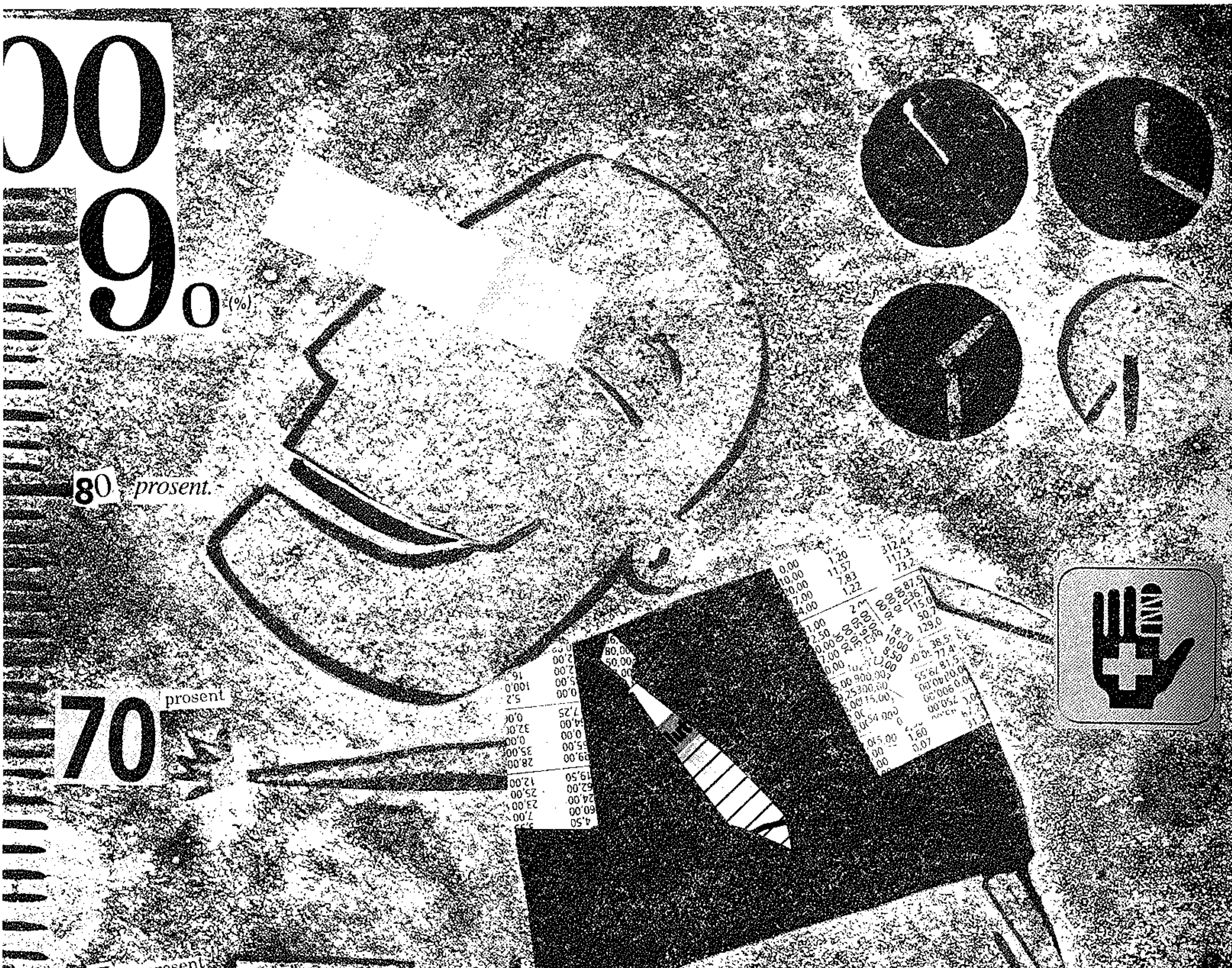
Experience tells us that actual events are not always in line with normal projections. Consequently, a fundamental principle of the bank's risk management policy is that even abnormal losses incurred will be covered by our own earnings, reserves, and equity. Thus, the yield on our lending portfolio, in addition to covering projected normal losses, must also yield returns on that portion of the equity that must be set aside to cover extraordinary losses that the bank may be exposed to in future situations. The size of the equity that has to be reserved for this purpose must be proportionate to the risk of the lending portfolio, measured according to the criteria mentioned above.

MANAGING MARKET RISK

Market risk occurs because the bank holds investments or positions for which values are at any time determined by market prices. Market risks mainly relate to foreign currency positions; investments in real estate, shares and other equity capital instruments; fixed-interest securities; and other financial instruments whose values are affected by interest-rate fluctuations.

Market risk is measured by looking at the investments and positions that the bank holds at any time, and determining the fluctuations that would be "worst case scenarios" in the relevant market prices. Union Bank of Norway quantifies these risks in proportion to its equity capital.

The Group's system for determining and reporting market risk is used as a starting point for determining maximum risk limits for various financial instruments. The system focuses on the possible effects on the Group's profits, should all market rates swing simultaneously, within "normal" rate fluctuations, in an unfavorable direction. Provided that all maximum limits are fully utilised, Union Bank of Norway's market risk, exclusive of its real estate exposures, will affect our profit by approximately NOK 600 million, or around 10 per cent of the Group's equity (*see chart, page 60*).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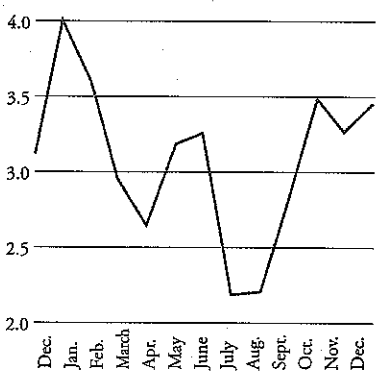
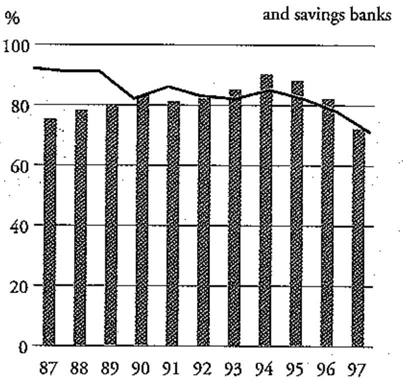
MARKET RISK IN % OF EQUITY



DEPOSIT COVERAGE IN NORWEGIAN BANKS



Interest rate risk

Interest rate risk arises in connection with the Group's business in the Norwegian and international capital markets. Risk exposure results from the existence of varying interest time periods for the Group's receivables and liabilities. Depending on the relationship between assets and debt, a change in the interest rate can result in either increased income or increased expense. To minimise the risk that comes with such changes, the Group Board has determined maximum limits for the bank's interest risk. Exposure is continuously monitored to ensure that the activity remains within the set limits. The limits are set so that, in the event of an unfavorable interest rate movement of 1 per cent, profit will not be reduced by more than NOK 300 million. In 1997, the bank maintained a low interest rate risk, with an average of 27 per cent utilisation of the limit during the year.

Liquidity risk

The sharp increase in bank lending in Norway continued in 1997, while growth in deposits stagnated. The chart (*left*) illustrates these developments and shows that Union Bank of Norway, like other banks, has to obtain an increasing share of its financing from money and capital markets – that is to say, from sources outside regular customer savings deposits. This structural development, which is due to fundamental changes in the saving habits of the Norwegian population, is expected to increase rather than subside.

Today, there is no internationally accepted method to unequivocally quantify how large of a liquidity risk a financial institution actually carries in its balance sheet. Three factors are, however, of special significance to a bank's liquidity risk. The first is the bank's *balance sheet structure.* Major differences in rates of circulation and in lock-in periods for assets and liabilities will result in a liquidity risk if the bank is consistently forced to place funds in or withdraw them from the market. The second factor is *liquidity in the market.* The third factor is the *bank's creditworthiness* and resulting access to this liquidity in the market. Institutions that are financially solid will be attractive borrowers and will, under normal circumstances, obtain financing according to their needs.

In 1997, the Group Board of Directors decided on a new liquidity strategy for the Group. It is intended to insure a defendable and controlled handling of liquidity management in Union Bank of Norway. The strategy keys into essential connections between the Group's market strategies and its liquidity management, as well as the importance of having a spread of maturity dates, financial instruments, markets, and investors, in funding.

Real estate risk

Through the activities of its wholly-owned subsidiary Linstow Eiendom, Union Bank of Norway has considerable exposure in real estate, amounting to NOK 2.6 billion at the end of 1997. Plans are underway to merge Linstow Eiendom with Nydalens Compagnie ASA. If this transaction is carried out, Union Bank of Norway's exposure will be reduced to approximately NOK 1 billion, which corresponds to the market value of the bank's shareholdings in the merged company Linstow ASA.

Foreign exchange risk

Foreign exchange risk arises from an imbalance, over time, of receivables and debt in a foreign currency. If there is an imbalance, the bank's profit will be affected by changes in foreign exchange rates. For Union Bank of Norway, foreign exchange risk is primarily associated with its foreign exchange trading positions.

Union Bank of Norway's maximum limits for total foreign exchange positions have been set at NOK 1,400 million – well below the maximum limits set by the Norwegian authorities, which would amount to approximately NOK 2,100 million for the Group. The utilisation average was just under 20 per cent in 1997. The Group's limits for the largest position in a foreign currency is set at NOK 700 million; the maximum set by the authorities is approximately NOK 1,100 million for the Group. The degree of utilisation stayed well within the total framework of overall limits.

Equity risk
Equity risk is an exposure resulting from the bank's ownership of shares, primary capital certificates, or other equity capital instruments whose values are determined by market developments. In 1997, the Group Board passed a new Group strategy for equity capital investments that emphasizes yield, long-term investment horizons, a moderate risk profile, and diversification of risk. The Group's investment activities are to be developed over time.

Union Bank of Norway holds short-term share investments, primary capital certificates, and mutual fund shares, valued at a total of NOK 262 million in its balance sheet at 31 December 1997. The Group has very limited exposure to share-price risk.

Trading in financial instruments
Union Bank of Norway trades in a number of different financial instruments in order to cover foreign exchange and interest rate risks. These instruments are also offered to the bank's customers to help them manage their own risks.

The instruments fall into three main categories:

- **Contracts relating to foreign currency exchange rates.** This represents the bulk of the bank's portfolio.
- **Interest contracts.** The portfolio of interest contracts consists mainly of fixed-rate contracts and interest rate swaps.
- **Combined contracts.** In combined interest rate and currency swaps, the parties exchange currency positions and interest terms for a defined amount over an agreed-upon period of time.

ADMINISTRATIVE RISK

Administrative risk comprises the risks associated with carrying out the activities of the bank, other than market risk and credit risks. It is inherently problematic to quantify the probability of various occurrences taking place and what consequences they would carry. Important categories of administrative risk are:

Human factors
- human error
- financial crime

Technology-related factors
- technological failures
- computer viruses

Legal factors
- contract disputes, etc.
- procedural or administrative errors

Physical factors
- damage to buildings or offices
- damage to or loss of machinery and equipment
- damage to or loss of documents
- robbery and theft

Reputation
- risk of negative publicity that gives shareholders, public authorities, customers, and creditors a faulty or negative impression of the integrity and expertise of the bank

Expertise
- the risk that the employees of the company do not posses the necessary expertise and experience needed to satisfactorily carry out their assigned tasks.

In 1997, Union Bank of Norway carried out a sweeping project intended to pinpoint methods of identifying and measuring the various administrative risks facing the bank. The project, which encompassed the business lending and payments transmission services business areas, will be evaluated in early 1998; the results of the evaluation will form the basis for the bank's continued efforts to manage and control inherent administrative risks.

SENSITIVITY ANALYSIS
Sensitivity of the annual profit to changes in major categories is presented below:

Category	Change	Effect on profit in NOK million
Net interest, change in per cent of ATA	+/- 0.1%	+/- 132
Personnel costs, change in number of man-years	+/- 100	+/- 43
Salaries and holiday pay	+/- 1.0%	+/- 11
EDP, administration, and other operating expenses	+/- 1.0%	+/- 14
Losses, expressed as a per cent of gross loans	+/- 0.1%	+/- 111

These calculations provide a picture of the sensitivity of Union Bank of Norway's earnings to changes in important profit and loss account items. Changes in the price of loans and deposits coincide to a great extent. The average interest rate risk in 1997 was NOK 81 million, based on a general interest rate change of 1 percentage point.

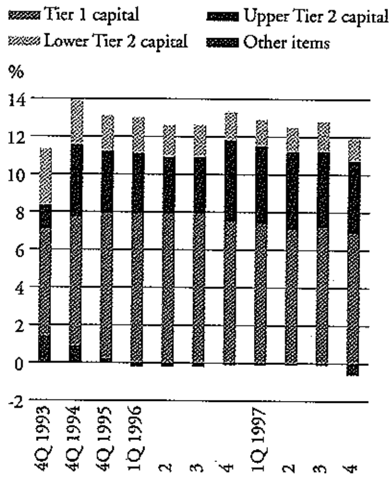
EQUITY AND OWNERSHIP

EQUITY AND FINANCIAL STRENGTH

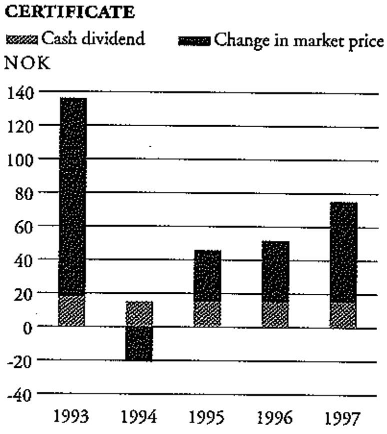
The capital adequacy of the Union Bank of Norway at year-end 1997 was 11.4 per cent, of which 6.9 per cent was Tier 1 (core) capital. One year earlier, the corresponding figures were 13.2 per cent and 7.5 per cent, respectively.

Strong growth in lending is the main reason for the decrease in the capital ratio to a level below the bank's objective of 12 per cent. In light of the current economic situation, the bank will consider issuing new subordinated loans in 1998.

CAPITAL ADEQUACY, GROUP



RETURN PER PRIMARY CAPITAL CERTIFICATE



In 1997, two subordinated loans were repaid (NOK 256 million and USD 27 million), and the bank entered into a new loan of USD 75 million.

At the end of 1997, all outstanding subordinated convertible bonds were converted into primary capital certificates. Investors held on to NOK 11 million of the bonds until the obligatory conversion date, 31 December 1997.

The bank's primary capital certificate equity now amounts to NOK 2,604,964,200, of which NOK 10,613,000 is not entitled to the 1997 annual dividend.

CREDIT RATING OF UNION BANK OF NORWAY

The Union Bank of Norway's credit rating is evaluated by three independent agencies: Moody's, Fitch IBCA, and Japan Credit Rating Agency (JCR). The bank has been rated by Fitch IBCA and JCR since 1987, and by Moody's since 1996.

Credit ratings of the bank, which were not changed during 1997, are:

- Moody's A2
- Fitch IBCA A+
- JCR AA-

During 1998, the bank will establish an EMTN (European Medium-Term Note) program for the financing of bank activities. Such international financing depends on satisfactory credit ratings. The present rating level, which is on a par with leading Norwegian banks such as Den norske Bank and Christiania Bank, is viewed as satisfactory in this respect.

OWNERSHIP

During 1997, the bank noticed a growth in interest among private investors in primary capital certificates. The number of primary capital certificate holders grew from 11,900 to 13,700. Twenty-three per cent of certificate holders are wage-earners and retirees.

Close to 50 per cent of the primary capital certificates are owned by the 30 largest investors – Norwegian and international. The largest holders are Chase Manhattan Bank (nominee accounts), the Norwegian National Insurance Fund, and Hafslund Invest.

At 31 December 1997, the market value of Union Bank of Norway's primary capital certificates was NOK 6.8 billion – ranking the Group as the 16th largest company listed on the Oslo Stock Exchange.

Throughout the year, trading volume for primary capital certificates was both high and stable. In December 1997, Union Bank of Norway was the ninth most actively traded stock/primary capital certificate on the Oslo Stock Exchange. Some 30 million primary capital certificates were traded in 1997, which translates into a market liquidity or turnover rate of 1.2.

INVESTOR POLICY

In 1997, Union Bank of Norway made major efforts to develop its relations with investors and stockbrokers. In connection with the publication of our quarterly accounts, we made presentations on the Group's financial performance and met with brokers in Oslo and London. We have also worked to develop financial reporting that gives the investment community an improved means of evaluation.

The bank recently upgraded the information provided on the Internet. Union Bank of Norway has its own Website, which has been specially designed to meet the information needs of investors, brokers, analysts, and the financial press.

Our in-house newsletter "Panorama" is sent to all Nordic primary certificate holders to help keep them informed.

Union Bank of Norway fosters ownership of a large portion of the primary capital certificates by major investors – in Norway and abroad – who are well informed about both the bank and its primary capital certificates. Building good relationships with these owners is the best way the bank can secure fresh equity capital, should the need arise. At the same time, the bank seeks to attract small Norwegian investors who have long-term investment horisons.

Union Bank of Norway will continue to encourage its employees to own primary capital certificates in the bank that employs them. Some 1,900 employees own primary capital certificates in Union Bank of Norway.

In May 1997, the bank established the "Union Bank of Norway Employee Fund" as part of our commemoration of the 175th anniversary of the bank's founding. The fund received two allocations in 1997, totalling NOK 45 million. The bulk of the fund's assets is, and will remain, invested in primary capital certificates issued by Union Bank of Norway.

RULES AND REGULATIONS GOVERNING THE PRIMARY CAPITAL CERTIFICATE AS AN EQUITY INSTRUMENT

Changes made in 1995 in Norwegian regulations governing primary capital certificates, along with favorable market conditions, have helped the certificates to work effectively as an equity security for investors, as well as for the issuing bank.

THE TWENTY LARGEST PRIMARY CAPITAL CERTIFICATE (PCC) HOLDERS IN UNION BANK OF NORWAY

PCC holders	Country	No. of PCCs	Share of PCCs (in %)
1. Chase Manhattan Bank *	England	2,989,010	11.52
2. National Insurance Fund	Norway	1,300,000	5.01
3. Hafslund Invest AS	Norway	657,200	2.53
4. Brown Brothers Harriman, Fidelity	USA	650,000	2.50
5. Vital Forsikring ASA	Norway	632,537	2.43
6. Orkla ASA	Norway	616,200	2.37
7. Norsk Hydros Pensjonskasse	Norway	470,550	1.81
8. Citibank, Principal Mutual Life Insurance	USA	450,700	1.73
9. Postbanken	Norway	425,550	1.64
10. State Street Bank *	USA	394,410	1.52
11. Morgan Guaranty Trust *	Belgium	379,766	1.46
12. Boston Safe Deposit & Trust *	USA	291,900	1.12
13. Avanse	Norway	250,000	0.96
14. Fidelity Funds	Luxembourg	248,291	0.95
15. Bank of New York	USA	232,000	0.89
16. Morgan Stanley Trust *	USA	205,815	0.79
17. Clydesdale Bank Plc	England	201,537	0.77
18. Bank of New York, Templeton	USA	199,000	0.76
19. Tonsenhagen Forretningssenter	Norway	195,810	0.75
20. Royal Trust *	England	184,200	0.71

* Customer accounts

Union Bank of Norway will continue to work for further improvements in the regulatory framework governing primary capital certificates. Moreover, the bank will work to change the law to allow savings banks to issue ordinary common stock. The commission revising the Norwegian Banking Act will be evaluating such an equity-conversion option for savings banks in 1998.

MARKET DEVELOPMENTS FOR PRIMARY CAPITAL CERTIFICATES

The trading price of Union Bank of Norway's primary capital certificates increased from NOK 200 at the beginning of 1997 to NOK 260 at year-end. Adding the payment of a NOK 15 cash dividend in April of 1997, the total return per certificate amounted to NOK 75, or approximately 38 per cent for the year. For Norwegian investors, an additional RISK evaluation of approximately NOK 6 is ascribed to each certificate by the tax authorities (reflecting taxed, retained earnings of the bank).

The per-certificate market price of NOK 260 at year-end 1997 means that the Union Bank of Norway's primary capital certificates doubled in value over the past three years. The dividend yield (cash dividend divided by certificate price) has generally been considerably above the level for Norwegian bank shares, although lately the gap has narrowed. We have seen a similar trend in comparative price/earnings ratios. Growth in the quoted price of primary capital certificates, compared with earnings per certificate has been substantial, especially in the last two years.

The annual cash dividend for 1997 has been set at NOK 15 per certificate. Allocations of NOK 161 million (NOK 6 per certificate) have been transferred to the bank's dividend equalisation reserves. This is in conformity with the bank's dividend policy.

Currently, the book value (including the dividend for 1997) per primary capital certificate is NOK 189.

UNION BANK OF NORWAY GOVERNING BODIES

GROUP COMMITTEE OF REPRESENTATIVES

Finn Mørch Andersen, Larvik, Chairman *(1,200)**
Anders Sølvberg, Førde, Deputy Chairman *(200)**

Representatives elected by holders of primary capital certificates
Nils Bastiansen, Bærum
Bjørn R. Berntsen, Bærum *(60)**
Jan-Erik Dyvi, Oslo *(50,000)**
Klara Eriksen, Bærum *(3,400)*
Morten Muus Falck, Trondheim
Esben Hanssen, Oslo
Hans A. Iversen, Sparebanken Sør *(20,500)**
Arnt Krane, Sparebanken Rana *(21,225)**
Erik Sture Larre Jr., Oslo
Bjørn Lundaas, Ullensaker
Trond Mohn, Bergen *(23,950)**
Anders Sølvberg, Sparebanken Sogn og Fjordane *(85,830)**
Else-Margrethe Wessel, Åsgårdstrand *(20,200)**
Per Sindre Aas, Oslo
Morten Aasheim, Bærum

Representatives elected by and among depositors
Finn Mørch Andersen, Larvik *(1,200)**
Dag Berggrav, Oslo
Tore Brønner, Asker
Hans P. Bye, Sigdal
Otto Gabestad, Sarpsborg *(256)**
John Grimstad, Råde *(290)**
Arne H. Grøv, Sør-Aurdal
Jan Holmen, Skien
Liv Johannson, Oslo
Sten Sture Larre, Oslo
Ola Robøle, Nedre Eiker *(200)**
Jørn Rødølen, Sel
Øyvind Sandholt, Nannestad *(450)**
Helge Storsveen, Rælingen *(150)**

Publicly appointed representatives
Sonja Adriansen, Ullensaker
Eldrid Barland, Tønsberg
Kjell Berge, Gjerdrum
Birgit Christenson, Edland
Turid Dankertsen, Oslo *(60)**
Odd Foss, Lillehammer *(100)**
Marianne Hagen, Asker
Solveig Lillian Hamre, Vestre Slidre
Tore Lindem, Lardal
Egil Nordengen, Varteig
May-Britt Nordli, Hole
Roger Ryberg, Hurum
Annette Smedshaug, Oslo
Terje Solberg, Hobøl
Anne Bjørg Thoen, Oslo

Employee representatives
Margrete Bekkedal, Ringebu *(112)**
Hellen T. Bjørnholdt, Tønsberg *(147)**
Erik Grøtting, Oslo *(447)**
Knut Arild Gundersen, Lillehammer *(25)**
Bernhard Hallingstad, Drammen *(438)**
Jon Sigurd Hjørnerød, Gressvik *(117)**
Vigdis Gardsteig Kaasa, Ytre Vinje
Unni Marianne Lilleng, Stokke
Nina Nordlie, Oslo *(147)**
Eli Rusdal, Oslo *(25)**
(Grethe Simonsen - resigned)
Hans-Kristian Sætrum, Oslo *(438)**
Gine Tangerud, Kongsberg *(150)**
Geir Erik Westgaard, Sarpsborg
Sigrunn Ballo, Vadsø (Deputy rep., has met as member) *(93)**

GROUP CONTROL COMMITTEE

Arne Meltvedt, Oslo, Chairman
Jan Torgersen, Drammen
Sjur Lohne, Gjøvik

INDEPENDENT AUDITORS

Coopers & Lybrand
Einar Westby, State-authorised Public Accountant

GROUP BOARD OF DIRECTORS

Hans Bø, Horten, Chairman *(7,060)**
Bjørn Sund, Lillehammer, Deputy Chairman
Hans O. Bjøntegård, Asker *(1,700)**
Finn Kr. Brevig, Gjøvik *(400)**
Vermund Lyngstad, Rakkestad
Per Myklebust, Sarpsborg
Per Otterdahl Møller, Skien
Berit Wenaas, Oslo
Torkel Wetterhus, Nore og Uvdal *(900)**
Kjell O. Kran, Oslo *(10,807)**
Tor Ivar Bråten, Nord-Odal (employee representative)
Ingjerd Skjeldrum, Drammen (employee representative) *(438)**

GROUP MANAGEMENT

Kjell O. Kran, President & CEO *(10,807)**
Olav Hytta, Deputy President & CEO *(203)**
Odd Aspaas, Managing Director *(2,692)**
Øyvind Birkeland, Group Director *(1,213)**
Egil Dalviken, Managing Director *(2,125)**
Trond D. Haukvik, Managing Director *(25)**
Karl-Olav Hovden, Group Director *(938)**
Tore Kjelsrud, Managing Director *(458)**
Tore V. Knudsen, Group Director *(4,798)**
Rolf B. Vedal, Managing Director *(4,547)**
Åsmund Skår, Managing Director *(147)**

**The figures in brackets refer to the representative's holdings of primary capital certificates at 31 December 1997. Certificates held by close family members and companies in which the representative has a decision-making position are included in the figures in accordance with section 1-2 of the Norwegian Companies Act.*

GROUP MANAGEMENT AND KEY CONTACTS

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Egil Blakstad, General Manager

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Bente A. Landsnes, General Manager

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Roar Lie, Accounting Director

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Erik Blekeli, Organisation Director

Staff Section/Personnel
Geir Nagel, Personnel Director

Staff Section/Security
John Egil Myhre, Security Director

Staff Section/Group Controller
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DESIGN: ANISDAHL, SAND & PARTNERE ILLUSTRATION: ELISABETH MOSENG PHOTO: MORTEN BRUN TRANSLATION: FLOM-JACOBSEN & FISH PRINT: GRØNLANDS GRAFISKE AS

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