ANNUAL REPORT 1998

NOR
union bank of norway

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Financial summary

	1998	1997	1996
Net interest income	2,959	2,602	2,559
Capital gains	222	124	176
Other operating income, net	1,387	1,642	1,326
Operating expenses	3,011	3,072	2,930
Operating profit before losses	1,557	1,296	1,131
Losses (gains)	(127)	46	(42)
Operating profit	1,684	1,250	1,173
Net profit	1,203	868	851
Return on equity	15.7%	13.1%	13.8%
Interest margin	2.1%	2.1%	2.4%
Operating profit before losses	1.1%	1.0%	1.1%
Effective yield on primary capital certificates	(18%)	38%	31%
Earnings per primary capital certificate (in NOK)	28.49	19.06	19.39
RISK amount (in NOK) as of 1 Jan of subsequent year; 1998 estimated	Ca. 13	20.84	21.98
Growth in lending	10.8%	18.9%	14.0%
Growth in deposits	6.1%	0.4%	8.3%
Total assets	147,471	132,429	114,540
Net defaults	0.4%	0.8%	1.0%
Losses (gains) on loans	0.1%	(0.04%)	(0.04%)
Capital base (eligible)	14,554	10,973	10,775
Capital ratio	13.1%	11.4%	13.2%
Of which Tier 1 (core) capital	8.5%	6.9%	7.5%

Amounts are in NOK million.
Further key figures and definitions are presented on pages 46-47 of this report.

1998 Highlights

RECORD PROFIT
In 1998, Union Bank of Norway had a pre-tax profit of NOK 1,684 million; the best result in the history of the bank. The Group Board of Directors has recommended paying a NOK 11.50 dividend per primary capital certificate, including newly issued PCCs.

NEW IT PLATFORM IN ALL OFFICES
All of Union Bank of Norway's 175 offices now have a common technological platform and a uniform design. Implementation of the IT platform completes the most comprehensive IT development project in the bank's history. The IT applications are is also being shared with the cooperating savings banks.

SALE OF LINSTOW EIENDOM
In January 1998, the bank sold 31.1% of the shares in Linstow Eiendom AS as part of the merger with Nydalens Eiendomscompagnie. A further sale of shares had been planned, but due to rising interest rates and a subsequent drop in stock prices, it was decided to hold on to 35% of the shares in the merged real estate company Linstow ASA.

FORMING A FINANCIAL GROUP WITH GJENSIDIGE
On 24 April, plans to combine Union Bank of Norway and Gjensidige were announced. A license application to form a new financial group was submitted in June.

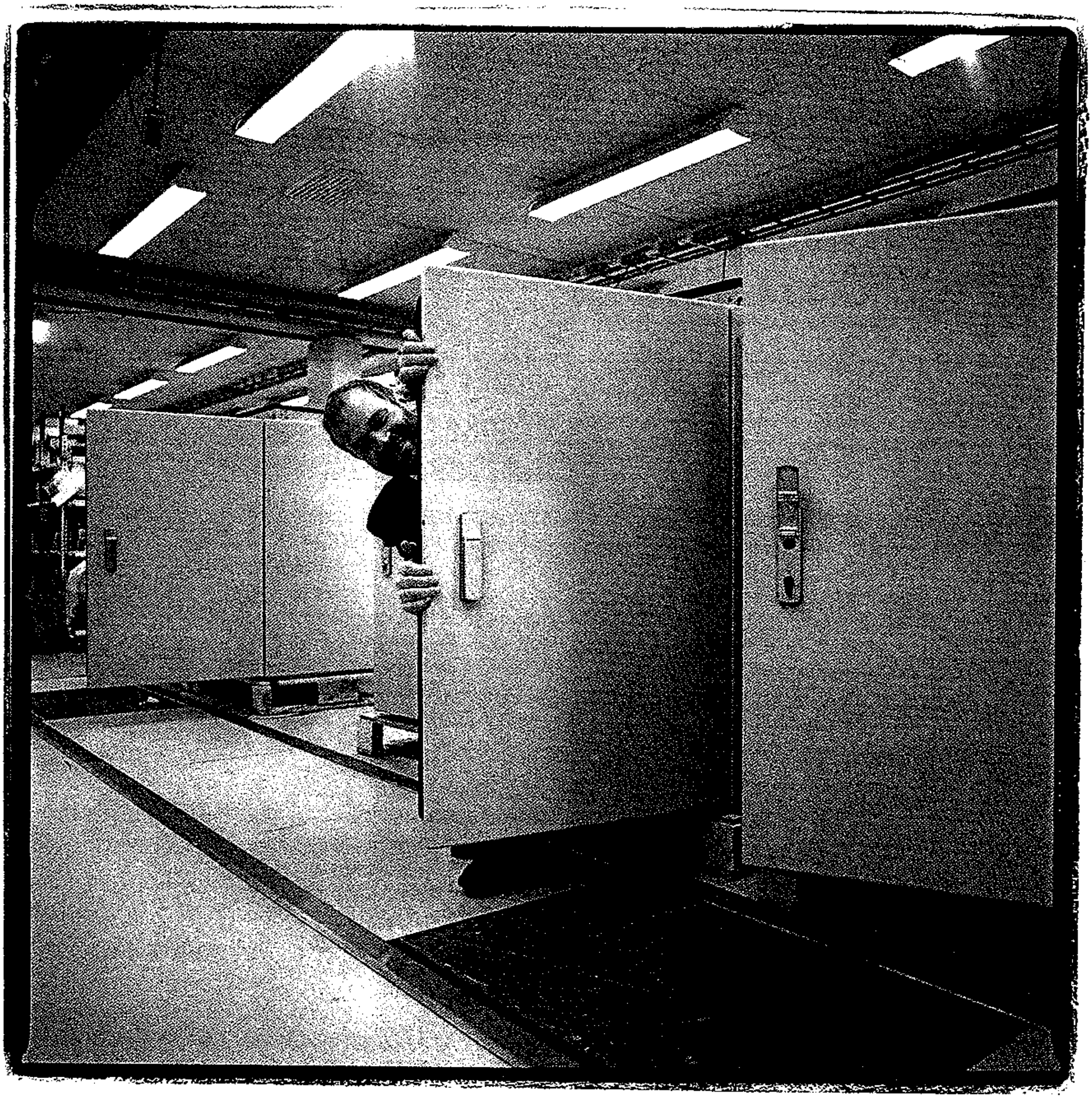
EXTENDED AGREEMENT WITH COOPERATING BANKS
In view of the plans to form a group with Gjensidige, Union Bank of Norway extended its cooperation agreements with Sparebanken Hedmark, Sparebanken Møre, Sparebanken Rana, Sparebanken Sogn og Fjordane and Sparebanken Sør.

NEW COOPERATING BANK
Sandnes Sparebank and Union Bank of Norway have entered into a strategic cooperation agreement similar to the agreements Union Bank of Norway has with the five other regional savings banks.

STOCK MARKET DECLINE AND INTEREST RATE UNREST
Despite a stock market decline, higher interest rates and instability in international financial markets, Union Bank of Norway continued to report excellent results in the third and fourth quarters of the year. The bank's customer base has a low risk profile and the bank takes on only limited market risk related to stocks and interest rates.

SUCCESSFUL PCC ISSUE AMID TURBULENCE
To finance its purchase of Gjensidige Bank, Union Bank of Norway directed an issue to existing primary capital certificate holders in the autumn of 1998. In a period of great turbulence in worldwide financial markets, the issue was fully subscribed for NOK 2,083,971,400.

SALE OF STRATEGIC HOLDING IN FOKUS BANK
At the beginning of 1998, Union Bank of Norway owned 10% of Fokus Bank shares. The shares were acquired during 1997 as part of an attempt to establish an alliance between the two banks. The shares were sold to Den Danske Bank in November at a per-share price of NOK 75.



Overall objectives for Union Bank of Norway

PROFITABILITY AND FINANCIAL SOUNDNESS

Union Bank of Norway is determined to be
Norway's leading financial group, and it will have a profitability that yields competitive returns for its primary capital certificate holders.

Achievement of this goal will depend on
• the bank's return on equity being at least 5% above risk free interest, and the bank having a Tier 1 (core) capital ratio of 8% and a capital ratio of 12%
• high efficiency in operations in all parts of the Group
• products and services that are cost-efficient for our customers as well as the bank
• management systems that measure current value added
• a responsible and proactive attitude to all types of risks

CUSTOMER SATISFACTION/MARKET POSITION

Union Bank of Norway is determined to be
the natural choice for private market customers, local business and industry in all parts of the country, as well as certain larger customers.

This will be achieved by
• building a nationwide network of offices through alliances, mergers, acquisitions and new establishments
• offering all regular financial products and services, based on in-house development and various forms of cooperation
• continually developing and adapting to the distribution channels demanded by the market
• our service quality being perceived as better than that of our competitors
• our customers perceiving us as "their bank"
• our operational quality living up to customers' high expectations
• competitive pricing of products and services
• actively using our expertise and technology to seek new ways to satisfy customers' needs.

EMPLOYEES AND ORGANIZATION

Union Bank of Norway is determined to be
the most attractive place to work in the Norwegian financial industry. We seek employees more competent and a corporate culture superior to those of our competitors.

This will be accomplished via
• maintaining a decentralised organisation
• consistently targeting expertise and leadership development
• giving employees a great deal of freedom to work within well-defined frameworks and guidelines
• facilitating more flexible working conditions
• demanding and facilitating cooperation and communication among the various units of the Group
• expecting ability and willingness to be flexible
• expecting each employee to assume personal responsibility for his or her own professional development and the development of the company
• demanding high ethical standards from all employees.

TO REACH OUR GOALS VIS-A-VIS OUR CUSTOMERS, OWNERS AND EMPLOYEES, WE WILL BUILD ON THE GROUP'S TWO CORE VALUES: SERVICE AND SKILL.

Jan Henrik Bryde is Managing Director of Powec, a manufacturer of power supplies to customers world-wide. Mr. Bryde set up Powec in 1985, and Union Bank of Norway has been a partner since the start.

Brisk navigation

For 11 years I have had the pleasure and the responsibility of being President and CEO of Union Bank of Norway and Union Bank of Norway's predecessor Sparebanken ABC. Fortunately, I had no idea of the headwinds and tail winds - the challenges and demands for change - that I was to encounter. It has been an exciting and challenging voyage.

I would like to summerise the development of Union Bank of Norway and its ABC years:
• We grew from a traditional local savings bank into a nationwide financial group that offers competitive services - even to the most demanding business customers.
• We adapted from working within a regulated regional market to competing nationwide against global participants.
• To thrive without external owners and meet requirements for equity capital, we - as a listed bank - had to learn to compete for the favour of investors on three continents.
• In an industry in which staff cutbacks were unheard of, we had to halve the number of our employees.
• Throughout my years with the bank, employees at bank offices and in operational, staff and management functions had to participate in major restructuring efforts and deal with new demands for expertise.
• Relying on our own resources, we developed the bank office of the future, which was enthusiastically received at trade shows on four continents. Our bank office concept is one of several important measures that will help consolidate and strengthen our position as a retail bank well into the next millennium.
• Perhaps most important of all is our long-term and extensive management development programme, which we have advanced throughout the past decade. Management development has contributed heavily to a corporate and leadership culture that received the 1996 "Manager of the year" award.

No doubt, the process of adjustment and reorientation has been demanding and required a great deal of personal effort from each one of us. One of the most trying times was the banking crisis, during which Union Bank of Norway turned in weak - even sometimes disastrous - results for several years, and during which we were not certain we could keep the bank out of bankruptcy and public control and management. I am proud that Union Bank of Norway was the only major Norwegian bank that managed to stay afloat on its own, and that in the past six years it has been able to present better results and returns than I ever thought possible.

Some decisions have had far-reaching effects. Establishing Union Bank of Norway in 1990 contributed to changing and strengthening the savings bank industry. I believe establishing the Gjensidige NOR financial group will prove no less important a milestone in the development of the Norwegian financial industry. Stock-exchange listing of the country's largest savings bank proved vital to Union Bank of Norway's survival of the banking crisis, and necessary for market acceptance of the primary capital certificate as an investment vehicle.

Without Union Bank of Norway's clout and our efforts to make the primary capital certificate better known in Norway and abroad, this equity instrument would not function as well as it does today. In so doing, Union Bank of Norway opened the way for a number of savings banks to gain access to the equity market in Norway and abroad, in turn a prerequisite for needed expansion in financially prosperous times. Systematic strengthening of the group's expertise in business and industry over a period of several years has also strongly contributed to the growth of the bank. Without this improvement, Euromoney would not have selected Union Bank of Norway as Norway's best bank in 1995.

Most important for me, as a manager and personally, is the loyalty and support I have received as President and CEO from my colleagues in all parts of the Group. As Group management affirms repeatedly, the expertise and personal qualities of employees are the only lasting competitive advantages in the banking and finance industry.

Our employees' ability to meet the needs and demands of customers will only prove more important in the years to come - not the least when rough sailing returns.

1998 report of the Board of Directors

SIXTH CONSECUTIVE YEAR OF GOOD RESULTS

1998 was the best of six consecutive years of solid operating results for Union Bank of Norway. In 1998, Union Bank of Norway recorded a pre-tax profit of NOK 1,684 million, compared with NOK 1,250 million for 1997. After-tax profit was NOK 1,203 million (1997: NOK 868 million), which corresponds to a return on equity of 15.7% (1997: 13.1%).

These results are attributable to a solid customer portfolio, controlled growth, efficient operations, and a conservative risk profile both for extending credit and securities transactions. Far-reaching leadership development and expertise-building programmes have gradually made Union Bank of Norway a more effective and efficient organisation. A robust national economy has also contributed heavily to recent years' volume and profit growth.

During 1997 and 1998, Union Bank of Norway upgraded the service systems in its office network, using new, in-house-developed technological application. This wide-ranging project was implemented according to plan and completed in 1998. The technology was presented at trade shows worldwide in the past year.

Finn M. Vallersnes is the mayor of Haugesund. Union Bank of Norway and Haugesund Sparebank cooperate on delivering the banking services the municipality of 29,845 inhabitants needs for optimal management of its finances.

In June 1998, Gjensidige and Union Bank of Norway applied for a license to establish a financial group. A formal response from the authorities is expected this spring. Based on this application, Union Bank of Norway has renegotiated its cooperation agreements with Sparebanken Hedmark, Sparebanken Møre, Sparebanken Rana, Sparebanken Sogn og Fjordane and Sparebanken Sør. In 1998, Union Bank of Norway and Sandnes Sparebank entered into a cooperation agreement similar to the agreements with the above-mentioned banks.

A NOK 2,084 million issue of primary capital certificates (PCCs) was fully subscribed in the autumn of 1998. As a result, PCC capital now is NOK 4,689 million. The Board of Directors decided, prior to the capital increase and not withstanding completion of the offering in October only, that full-year dividends would be paid for 1998. The Group Board of Directors has recommended a NOK 11.50 dividend per primary capital certificate. This dividend amounts to NOK 539 million (1997: NOK 389 million.)

1998 PROFITS

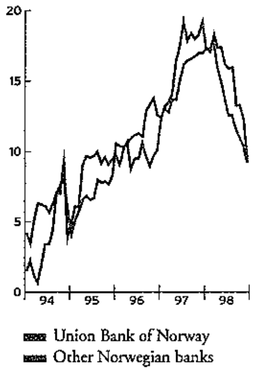
Union Bank of Norway's 1998 profits were favourably influenced by:
- The divestiture of our shareholding in Fokus Bank and sale of shares in Linstow ASA
- A somewhat higher average customer spread
- Continued lending growth, although at a slower pace than in 1997
- Increased use of cost-effective payment services
- Extremely low defaults and low net loan losses

Profits were negatively affected by:
- Higher salaries
- Higher depreciation and expense charges due to the sweeping renewal of the office network

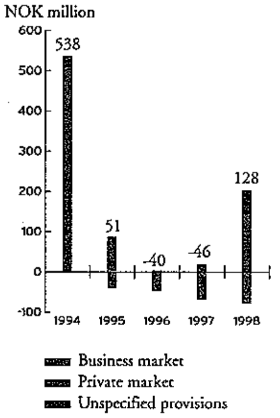
Customer spread

After having dropped steeply from 1993 to 1997, the average customer spread rose throughout 1998, from 2.8% to 3%. The improvement stems from turbulence in interest rates.

Growth in lending, parent bank
Annual growth



Losses on loans and guarantees



Other operating income
Linstow Eiendom is no longer a subsidiary of Union Bank of Norway. The loss of rental income previously received from Linstow Eiendom (1997: NOK 343 million) contributed to a decline in other operating income, from NOK 1,766 million in 1997 to NOK 1,609 million in 1998.

The stock market decline in 1998 has negatively affected income from several subsidiaries.

Income from payment services rose by NOK 53 million, to NOK 550 million in 1998.

High customer activity resulted in realised trading gains of NOK 222 million (1997: NOK 124 million). Throughout 1998, the bank chose to maintain low risk in currency and securities markets.

Increased operating expenses
Comparable figures show an increase in operating expenses for the Group of 3.9% (NOK 120 million) compared with 1997; for the parent bank, the rate was 2.3%. The increase in expenses is in part due to higher activity levels - as total assets increased 11.4% - and significant growth in the number of payment transactions. High pressure on salaries pushed up salary expenditures by NOK 49 million even though the number of Group man-years remained level. Substantial investments in the office network over the past few years have increased depreciation charges and expenses.

Losses
In 1998, net losses of NOK 128 million were charged against income, compared with a recorded profit in 1997 of NOK 46 million. Gross losses amounted to NOK 264 million (1997: NOK 204 million), which constitutes 0.2% of gross lending.

Net defaults on loans were NOK 499 million (1997: NOK 835 million), which constitutes 0.4% of the lending portfolio.

In addition to the specific loan-loss provisions, NOK 931 million (1997: NOK 870 million) was set aside for unspecified loan loss provisions. In the Board's view these provisions are adequate.

Special allocations
Due to the good results anticipated for 1998, the Board of Directors allocated NOK 30 million to Union Bank of Norway's employee fund in December. The fund's assets are largely invested in Union Bank of Norway's primary capital certificates.

Sale of shares
In the first quarter of 1998, Union Bank of Norway's wholly-owned subsidiary Linstow Eiendom, which was established to ensure professional management and development of real estate repossessed during the banking crisis, merged with Nydalens Eiendomscompagnie. Concurrently, Union Bank of Norway decreased its ownership to 35% of the merged company, Linstow ASA. The sale generated a profit of NOK 161 million.

At the beginning of 1998, Union Bank of Norway owned 10% of Fokus Bank shares. The investment was made during 1997 as a strategic purchase to establish an alliance between the two banks. The alliance did not materialize, and in 1998 Union Bank of Norway sold its shares to Den Danske Bank at a per-share price of NOK 75. The price was somewhat above the average purchase price, and significantly higher than the book value recorded for the shares at the beginning of 1998.

Tax
The Group is in full tax position and has allocated NOK 470 million (1997: 364 million) for tax.

Balance sheet
The Group's total assets increased from NOK 132 billion to NOK 147 billion (11.4%) during 1998.

ALLOCATION OF PROFIT FOR THE YEAR

The Board recommends that the parent bank's profit for the year, after transfer of Group contributions of NOK 19 million to subsidiaries, be allocated as follows:

Dividend on primary capital certificates, NOK 11.50 per PCC	NOK	539 million
Allocation to dividend adjustment fund	NOK	304 million
Allocation to Savings Bank's fund	NOK	340 million
	NOK	1,183 million

Through this profit allocation, PCC holders will receive a share of profits corresponding to their ownership share of equity capital. This accords with the bank's dividend policy.

CHANGES IN THE FINANCIAL INDUSTRY

The following 1998 events shaped the Norwegian finance industry:

• Gjensidige insurance group and Union Bank of Norway decided to establish a combined group.
• The owners of the Sparebank 1 group invited Sweden's Föreningssparbanken to become the largest owner in the holding company for the group's product companies.
• Following Swedish Handelsbanken's offer to acquire the shares of Fokus Bank, Den Danske Bank presented a better offer and gained the acceptance of more than 90% of Fokus Bank shareholders.
• Christiania Bank, Fokus Bank and the state-owned Postbanken agreed to merge and establish Norway's largest bank. The agreement was cancelled, however, when Postbanken and Posten (Norway Post) failed to agree on conditions for the merged bank's use of Norway's post offices.
• Preparations were made for the 1 January 1999 introduction of the new common European currency, the euro.

These events illustrate the internationalisation taking place in our industry, and the need for key participants in the Norwegian and Nordic financial industry to position themselves optimally to meet fiercer market competition.

Combining with Gjensidige

Establishing an integrated financial group with Gjensidige will accomplish two significant market-related goals that Union Bank of Norway has worked to achieve for several years:

• Union Bank of Norway will become a nationwide bank, and
• We will be able to offer customers a complete product range of financial services.

Moreover, both Gjensidige and Union Bank of Norway will have an opportunity to expand their markets by cross-selling products to the other's customers. Through combinations of Gjensidige Bank and Union Bank of Norway, of Gjensidige Livsforsikring (life insurance) and NOR Forsikring (life insurance), and of subsidiaries of the two Group companies, significant cost reductions will be achieved.

In the Board's view, the formation of the Gjensidige NOR group will strengthen Union Bank of Norway's market position in key areas.

License application process

Following submission of the license application in June 1998, the Norwegian Ministry of Finance determined that an amendment to the law would be required before the application could be assessed. The government has not yet proposed amending legislation to the Norwegian Parliament (Stortinget). The Central Bank of Norway supports the application, and the Board does not know of any negative views among key authorities opposing grant of a license. Consequently, the Board is optimistic that a license will be granted relatively soon after Stortinget completes deliberations on the government's bill.

Transactions

The following are the two most important transactions that will take place once regulatory approval has been granted:

• Union Bank of Norway will purchase Gjensidige Bank (excluding Creditreform) for NOK 2,170 million. Gjensidige Bank (excluding Creditreform) recorded 1998 pre-tax profits of NOK 365 million (1997: NOK 254 million).
• Gjensidige Livsforsikring will purchase NOR Forsikring for NOK 519 million. NOR Forsikring reported 1998 profits of NOK 12 million, a result negatively influenced by the Oslo Stock Exchange's overall decline in share prices.

The valuations followed a thorough process in which both parties drew on expert Norwegian and foreign advisors.

Cooperating savings banks

Union Bank of Norway's cooperating regional savings banks will be key alliance partners in the Gjensidige NOR group. New main agreements between Union Bank of Norway and six regional banks will strengthen the ongoing cooperation, and offer the six banks stronger direct influence in important policy choices concerning banking activities. There will be a joint management team composed of managing directors of the regional savings banks and Union Bank of Norway management.

Gjensidige NOR will actively promote close relations with other savings banks as well. Smaller banks will be able to enter into either cooperation agreements or less comprehensive business agreements with Union Bank of Norway.

For more detailed information on the Gjensidige NOR combination, please refer to the supplement to this annual report on the subject.

MARKET TRENDS

Growth in lending

At the beginning of 1998, growth in

lending was very steep. With an annual growth rate close to 20% at Union Bank of Norway, the Board "expected considerably lower growth in lending in 1998 than in 1997." Through a variety of measures taken by the Group, volume growth slowed significantly from the early summer on. Following interest rate increases, demand for corporate as well as private

expenses, Union Bank of Norway has developed a PC-based system for payment services, called NORnett, for business customers. By the end of 1998, the bank had sold NORnett installations to 10,000 business customers. With NORnett, Union Bank of Norway is well positioned in this market.

Union Bank of Norway, Board of Directors (from left): Bjørn Sund (Vice-Chairman), Berit Wenaas, Kjell O. Kran (President and CEO), Per Otterdahl Møller, Ingjerd Skjeldrum, Hans Bø (Chairman), Torkel Wetterhus, Per Myklebust, Vermund Lyngstad, Amund Skarholt, Arnt Moe and Tor Ivar Bråten.

market loans fell significantly. Through 1998, growth in lending slowed to 10.8%.

Interest rate turbulence led to significant growth in the number of customers requesting fixed-rate loans, though such loans still make up only 5.3% of the bank's total lending.

Savings

Low interest rates and steep appreciation in stock-market prices over several years have significantly altered savings patterns in Norway. In 1997, for example, net subscriptions to mutual funds were greater than the growth in bank deposits and bank certificates. Stock market turbulence contributed to lower 1998 subscriptions to funds than in 1997. Despite these developments, the Board expects long-term financial-market investments to experience considerable growth in the years ahead. The Board would like to emphasize that Gjensidige NOR will be able to offer customers an expanded savings product range, compared with what Union Bank of Norway would have been able to offer on its own.

Payment services, corporate customers

In order to improve the product range we offer customers and to reduce the bank's

The introduction of the euro will mean demands for additional services offered by clearing banks for international payment transfer services and settlement solutions. Throughout 1998, a considerable amount of work went into preparing to meet the requirements and expectations for technological solutions and user information generated by the euro. The bank's euro preparations are going according to plans.

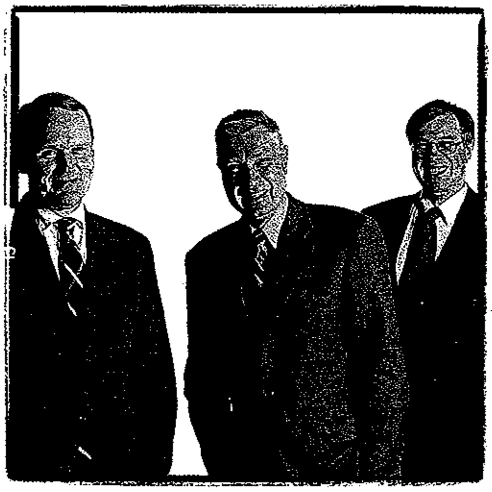
Payment services, private market customers

For a number of years, a major challenge facing Union Bank of Norway has been to develop cost-effective solutions for cash payments and payment of bills and invoices - and get customers to use them. The following three examples illustrate developments in 1998.

• Use of payment (debit) cards for cash payments: The number of yearly transactions increased by 25% from 1997 to 1998. The use of debit cards is so frequent now that withdrawals from automatic teller machines (ATMs) declined for the first time.

• AvtaleGiro: Payment orders using our fully automatized bill payment service increased from 37,000 to 168,000 per year. Union Bank of Norway will continue to encourage customers to use AvtaleGiro.

• Internet: Although the service was not advertised, 15,000 customers used the bank's system for paying bills via the Internet. The product is undergoing further development, and will be introduced in the market shortly.



CUSTOMER CHANNELS/ CUSTOMER PROGRAMMES

A few years ago, the bank office was the only link between customer and bank. In a short period of time, technological innovations have provided customers as well as financial groups with new alternatives for communication and order processing. Making the correct market choices in these areas is one of the most important strategic challenges facing a bank with a product range and office network as extensive as Union Bank of Norway's.

The office network

For the foreseeable future, an extensive office network will continue as the backbone of Union Bank of Norway's link with customers. Consequently, all our offices have been rebuilt and new technology installed. At the same time, their ability to advise customers has been strengthened. The goal of these considerable investments is to adapt the office network to today's customer needs while increasing customer satisfaction.

Telephone - NOR 24

More and more customers opt to use the telephone for day-to-day contact with the bank. Bank-by-phone NOR 24 reported a growth in lending of 39% in 1998. Use of the bank's customer service centres and bank-by-phone services continues to increase.

The Internet

This March, Union Bank of Norway will introduce significantly improved Internet services. Among them are the buying and selling of shares through Karl Johan Fonds and buying of stock mutual funds through Avanse. These will be presented along with a variety of regular banking services. Union Bank of Norway expects steep growth in the use of the Group's Internet services due to these improvements.

Loyalty programmes

Union Bank of Norway now operates a customer database which allows for far better marketing of services targeted to selected customer groups. Throughout 1998, special programmes directed at various target groups were developed further, and these loyalty programmes have contributed to greater customer satisfaction.

RISK MANAGEMENT

At year-end 1998, the Group had a capital ratio of 13.1%, of which Tier 1 (core) capital was 8.5%. In October, Union Bank of Norway carried out a NOK 2,084 million capital increase, which was fully subscribed despite a difficult market. The offering was made to secure financing for the bank's acquisition of Gjensidige Bank, as part of establishing the Gjensidige NOR group. Following completion of the planned transaction with Gjensidige, Tier 1 capital will be reduced to approximately 7.3%. The bank's risk policy, adopted in the first half of 1998, states that Union Bank of Norway's risk management emphasizes maintaining quality and moderate risk. In the Board's view, Union Bank of Norway's capital adequacy is entirely satisfactory.

Tier 1 capital was negatively affected by Norwegian authorities' institution of changes intended to cut down banks' lending volume growth. The changes included higher Tier 1 capital requirements for mortgages of 60% to 80% of a property's fair market value. For Union Bank of Norway, the effect is a lowering of capital adequacy by 0.3 percentage points.

PRIMARY CAPITAL CERTIFICATES

At year-end 1998, the bank's PCC capital was NOK 4,689 million. The market price per PCC fell from NOK 260 on 31 December 1997 to NOK 148 on 31 December 1998. Adjusted for the offering of PCCs, which was made at par value, this represents a 1998 yield of - 21.6%. Adjusted for dividends received in 1998, the decline was 18%. At the end of 1998, Union Bank of Norway had a market capitalization of NOK 6.9 billion, making it the 13th largest company listed on the Oslo Stock Exchange. The Board recommends a per-certificate dividend of NOK 11.50 for 1998.

Union Bank of Norway's primary capital certificates maintained good liquidity throughout 1998. The number of PCCs held by members of the Board of Directors, the Group Committee of Representatives, the 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 "equity and ownership" chapter of this report.

ORGANISATION AND ENVIRONMENT

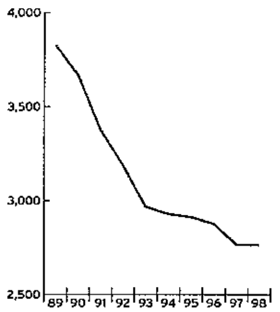
Leadership development continued to be a high priority in 1998, and activities in this area included initiation of a joint leadership programme with Gjensidige. The bank has also formed a committee dedicated to ensuring the ongoing transfer of valuable experience in use of the bank's new technological platform. Rapid dissemination of these skills throughout the various parts of the group is a key responsibility of the committee. Annual surveys of customer satisfaction, service quality, and employee satisfaction, together with training and close monitoring, also contribute greatly to improving the bank's operations.

Staffing at the parent bank was unchanged, at 2,768 man-years in 1998. At our subsidiaries (excluding Linstow Eiendom), staffing increased by 73 man-years.

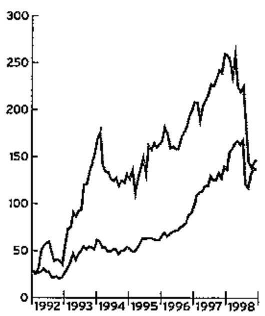
The business activities of Union Bank of Norway do not involve any illegal pollution of its external environment. As part of the installation of new technology, Sparebankgårdene carried out thorough inspections, documentation and upgrades of electrical installations at all bank offices. Throughout the office network, new technology has enabled a nearly paperless handling of customer services, which

Staffing

Number of man-years, parent bank



Market price development 1992-1998



Union Bank of Norway
Bank Index, Oslo Stock Exchange

in turn provides cost savings and environmental benefits.

No Union Bank of Norway offices were robbed in 1997. In 1998, regrettably, three offices suffered this sort of peril. In addition, three money transports from the bank, carried by Securitas, were robbed. Some of these robberies were violent. In 1998, Union Bank of Norway significantly increased the resources spent on preventing robberies and various forms of financial fraud.

THE BOARD AND GROUP MANAGEMENT

Arnt Mo and Amund Skarholt succeeded Finn Kr. Brevig and Hans O. Bjøntegaard as members of the Group Board of Directors.

Deputy President & CEO Olav Hytta will succeed President & CEO Kjell O. Kran when Mr. Kran reaches retirement age this coming August. As Managing Director of Region Vestfold, Bjørn Walle joined the Group Management on 1 April 1998 when Odd Aspaas reached retirement age.

SIGNIFICANT DISPUTES

Norway's Supreme Court ruled against Union Bank of Norway in its dispute with the city of Oslo over Galleri Oslo (a shopping mall in the centre of Oslo). Allocations to cover the financial consequences of the dispute were made in 1993 following the decision by the Oslo municipal court. The Supreme Court ruled in favour of Oslo Næringsselskap's estate in its suit against the bank over the same construction project. Funds had been allocated earlier to cover any possible compensation owed the developer. An additional allocation was made in the 1998 accounting year, which leaves no reason to expect further losses arising from this matter.

YEAR 2000

Meeting the challenges of the Year 2000 problem will continue to be important in 1999. The Group has prepared an overall plan for in-house measures and compliance by our IT suppliers, which will ensure that no significant unforeseen IT events will take place at year-end. Based on the far-reaching process we have implemented, we believe that the Y2K problems Union Bank of Norway must solve are under control.

OUTLOOK

The major new challenge in 1999 and the ensuing years will be to exploit the markets and cost-saving opportunities that the combination with Gjensidige is expected to provide. The process will pose wide-ranging demands on all parts of the organisation, including the institution of close cooperation on an equal footing with our alliance partner. The Board of Directors has high expectations for the Gjensidige NOR group and for the expanded cooperation between Union Bank of Norway and our cooperating banks. In the Board's view, the Gjensidige NOR group will be properly positioned for success in the heightened international competition in financial markets.

The merger of Union Bank of Norway and Gjensidige Bank represents a significant technological challenge. The Board is closely monitoring the ongoing process of adjustment. The merger will also require well thought-out and effective customer information to meet the needs of Gjensidige Bank's customers.

In 1998, the bank decided on a new and ambitious formulation of objectives. The picture that emerges, which is presented on page 2 with comments on page 48, illustrates the principal objectives, measures to achieve these objectives, and the types of opportunities and challenges the bank will face in the next few years. The Board of Directors deems the formulation of objectives to be realistic and the outcomes attainable. By following through on the outlined guidelines, Union Bank of Norway will continue to achieve good results.

Low oil prices, unrest in foreign currency markets and higher interest rates than in previous years are expected to increase credit risk - particularly in corporate market activities. Measures to lessen loan growth were implemented at the beginning of 1998. At year-end 1998, the growth in loan volume to corporate customers for the proceeding 12-month period was 11%.

In 1999 and thereafter, we will focus extensively on realising the sales and cost-efficiency benefits that the bank's new IT technologies are designed to provide.

Solid operations, a stable national economy and the new opportunities offered by the formation of a group with Gjensidige, all lead the Board to expect continued good results in 1999.

APPRECIATION

The year 1998 generated the highest annual operating profit ever for Union Bank of Norway. It also demanded adaptability from the entire organisation. In the office network, the introduction of a new technology platform and a more sales-oriented way of working affected working life. Group staff, in particular, undertook a series of cooperative projects with Gjensidige that entailed significant extra workloads. In December 1998, the Board decided to mark its appreciation of our employees' efforts and the good results achieved by allocating NOK 30 million to the fund for Union Bank of Norway employees.

The Board of Directors expresses its gratitude to all employees, and extends a hearty "thank you" to President & CEO Kjell O. Kran, who will retire in August upon reaching retirement age. Mr. Kran has led the bank since year-end 1987. The Board commends Mr. Kran for his outstanding leadership, demonstrated in no small measure throughout the banking crisis, and for his ability to meet the many challenges confronting the Group.

Oslo, 31 December 1998 / 4 March 1999
The Group Board of Directors of Union Bank of Norway

Hans Bø
Chairman

Bjørn Sund
Vice-Chairman

Tor Ivar Bråten

Vermund Lyngstad

Arnt Moe

Per Myklebust

Per Otterdahl Møller

Amund Skarholt

Sverre Finstad

Berit Wenaas

Torkel Wetterhus

Kjell O. Kran
President and CEO

Profit and loss account

in NOK million

PARENT BANK 1998	1997	1996		Note	GROUP 1998	1997	1996
8,100	5,906	6,052	Interest income	1	9,278	6,902	7,085
5,319	3,347	3,503	Interest expenses	1	6,319	4,300	4,526
2,781	2,559	2,549	**Net interest income**		2,959	2,602	2,559
183	228	193	Dividend and similar income	2	126	95	72
968	927	803	Commission income	2	1,263	1,248	982
287	312	268	Commission expenses	2	347	358	315
220	123	170	Capital gains	3	222	124	176
88	79	97	Additional operating income	2	345	657	587
1,172	1,045	995	**Other operating income, net**		1,609	1,766	1,502
3,953	3,604	3,544	**Operating income**		4,568	4,368	4,061
1,168	1,131	1,236	Personnel expenses	4, 5	1,442	1,413	1,440
286	302	287	IT and development costs	6	305	321	311
514	450	386	Other administrative expenses	6	619	556	468
1,968	1,883	1,909	**Personnel and administrative expenses**		2,366	2,290	2,219
162	133	105	**Depreciation and write-downs**		217	215	173
252	232	242	Properties and premises	6	212	285	274
132	178	200	Additional operating expenses	6	216	282	264
384	410	442	**Other operating expenses**		428	567	538
2,514	2,426	2,456	**Operating expenses**		3,011	3,072	2,930
1,439	1,178	1,088	**Operating profit before provisions and losses**		1,557	1,296	1,131
119	(43)	(6)	Losses (gains) on loans and guarantees	7	128	(46)	(40)
(270)	67	(2)	Losses (gains) on financial long-term holdings	7	(255)	92	(2)
1,590	1,154	1,096	**Operating profit**		1,684	1,250	1,173
388	305	274	Taxes and minority interests	8	481	382	322
1,202	849	822	**Net profit**		1,203	868	851
			Transfers				
0	0	82	Group contributions/dividends received	32			
			Allocation of profit				
539	389	385	Dividend on primary capital certificates				
19	68	77	Group contributions made	32			
304	160	212	Allocated to dividend adjustment reserve				
340	232	230	Allocated to Savings Bank's reserve				
1,202	849	822	**Total allocations**				
			Earnings per primary capital certificate (in NOK)	25, 26	28.49	19.06	19.39
			Diluted earnings per primary capital certificate (in NOK)	25, 26	28.49	19.01	19.25
Appr. 13	20.84	21.98	RISK amount (in NOK) at 1 Jan. in subsequent year				

Balance sheet

in NOK million

PARENT BANK 1998	1997	1996	Assets	Note	GROUP 1998	1997	1996
1,638	1,242	872	Cash and deposits with Central Bank of Norway		1,638	1,242	872
11,645	9,274	6,092	Deposits with and loans to credit institutions	11	9,300	7,174	5,339
103,293	95,509	80,730	**Gross loans to customers**	12, 13, 14	122,485	110,948	93,730
769	1,063	1,308	Specific loan loss provisions	13, 14, 15	797	1,087	1,340
835	785	785	Unspecified loan loss provisions	14, 15	931	870	867
101,689	93,661	78,637	**Net loans to customers**		120,757	108,991	91,523
42	75	77	Repossessed properties	18	47	79	81
8,718	5,079	7,433	Certificates and bond loans	33	8,503	6,051	8,933
409	755	212	Shares and equity interests	33, 36	452	793	267
786	230	230	Associated companies	16, 33, 36	1,058	447	432
1,656	2,484	2,538	Group companies	16, 33, 36	150	131	141
0	27	63	Goodwill		51	20	17
777	526	239	Fixed assets	17, 18	2,323	4,603	4,460
2,645	2,277	1,880	Other assets and accruals	19	3,192	2,898	2,475
130,005	115,630	98,273	**Total assets**		147,471	132,429	114,540
			Liabilities and equity				
24,295	21,063	12,331	Loans and deposits from credit institutions	20	29,037	24,448	14,943
70,250	66,285	66,148	Deposits from customers	21	70,514	66,484	66,224
17,999	14,112	7,091	Certificates and bond loans	22, 23	28,107	25,073	18,368
3,985	3,629	3,010	Other liabilities, accruals and allocations	24	5,067	4,598	4,111
951	1,234	1,109	Dated subordinated loan capital	23	1,006	1,329	1,206
4,409	3,859	3,528	Perpetual subordinated loan capital	23, 26	4,409	3,859	3,528
0	0	35	Convertible subordinated loan capital	23, 26	0	0	35
121,889	110,182	93,252	**Total liabilities**		138,140	125,791	108,415
4,689	2,605	2,570	Primary capital certificate capital	25, 26	4,689	2,605	2,570
2,071	1,731	1,499	Savings Bank's reserve	25, 26	2,071	1,731	1,499
1,356	1,112	952	Dividend adjustment reserve	25, 26	1,356	1,112	952
			Group's equity in subsidiaries	25, 26	1,215	1,190	1,104
8,116	5,448	5,021	**Total equity**		9,331	6,638	6,125
130,005	115,630	98,273	**Total liabilities and equity**		147,471	132,429	114,540
			Interest rate and liquidity risks, financial derivatives	27, 28, 29			
			Foreign exchange and off-balance sheet liabilities	30, 31			
			Closely related parties	32			

Accounting policy

INTRODUCTION

The accounts for 1998 are presented in accordance with the accounting principles in the bank's financial statements for 1997, 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. A new accounting act went into effect as of 1 January 1999. The effects of new accounting principles for 1999 are specified in Note 35.

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 long-term, and where the bank alone or together with subsidiaries owns more than 50% of the share capital and/or has a deciding influence on the company's operations. These companies are listed in Note 36. Associated companies are also included in the consolidated accounts. Subsidiaries and associated companies 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 a time-limited income periodised over five years. Minority interests are calculated on after-tax profit. Assets and liabilities, and all profit and loss items, are thus shown inclusive of minority interests' shares in the consolidated accounts. 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 currencies are translated at the currency exchange 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 percent, 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 16 and 36.

Associated companies are included in the Group accounts in accordance with the equity method of accounting if profits (losses) are viewed as significant for the Group. 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 as are 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 loans are recorded as income in their entirety in the year the loans are established, as they 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 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 currencies are translated at the 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 rate terms, foreign exchange rates, or stock prices. Such agreements include forward contracts, interest and currency swaps, interest options (caps, floors), foreign exchange options, future 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 for trading purposes, 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 jointly with the hedged item. Income or expenses linked to the agreements are recorded jointly 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. 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 values, and internal gains and losses are not eliminated.

BONDS, CERTIFICATES, SHARES, AND PARTNERSHIP INTERESTS

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

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

Bonds as hedging transactions

Bonds are classified as hedging transactions according to the following criteria:
• Items which are hedging transactions 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 congruously with the items they hedge.

Long-term shareholdings are recorded at acquisition 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% 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 unauthorized 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, 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 loss risk assessment 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 provision 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 patterns, open risk, etc.). Changes in the size of the loan portfolio are also taken into account.

Realised loan losses

Losses on facilities which are realised 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 realised losses.

Non-performing loans

Interest, commissions, and fees on a facility in default are no longer recorded as income if these are expected to be lost. Concurrently, 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 delay from the date on which the facility is reclassified to the date it is returned to a current basis, as well as a requirement that the borrower continues is expected to follow the agreed-upon payment plan. When previous loss provisions are reversed in full, interest not previously recorded as income is booked to income.

LEASING AND FACTORING
Leasing contracts are treated as financial leasing, that is, 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 interest on loans in the profit and loss account. Ordinary depreciation includes accrued depreciation 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 customer accounts receivable and the margin.

FIXED ASSETS
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
Land, art work	0%
Buildings	2%
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. The need to make a write-down is assessed individually for each asset. In the case of real estate, however, any need for write-downs of bank premises is assessed on a portfolio basis, based on the close connection to the bank's activities and the fact that these premises are managed as a group of properties.

FIXED-RATE BOND LOANS/ OUTSTANDING OBLIGATIONS
Premiums/discounts on the disbursement of loans, on the issue of debt instruments, on the early redemption of loans, and on the repurchase of debt instruments, are recorded on the balance sheet. Items of 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 recorded as accruals and written down over the period to the next interest rate adjustment date, or maturity date.

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

Temporary differences are differences between tax and accounting balance sheet values that occur in one period and are reversed in a later period. Tax-reducing temporary differences and losses to be carried forward are offset against tax-increasing temporary differences that are reversed in the same period. Deferred tax in the balance sheet is calculated on the net amount. Tax-reducing differences and losses carried forward that remain after offsetting, are recorded on the balance sheet as deferred tax benefits in accordance with the upper limit rule. Deferred tax and deferred tax benefits are presented net in the balance sheet.Deferred tax/-deferred tax benefits are booked at nominal values.

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 through operations and pensions covered by a pension fund or insurance company, is compared to the value of the pension plan assets. The difference, adjusted for variances from estimates and the effects of changs in parameters, is recorded as debt on the balance sheet. These, and the effect of changes in pension plan terms, are amortised over the employees' expected remaining term of employment. The pension cost is recorded in the profit and loss account under personnel expenses.

Notes to the accounts

Amounts in NOK million

1 INTEREST INCOME AND EXPENSES

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
589	278	213	Interest on deposits with and loans to credit institutions		470	251	206
7,071	5,260	5,358	Interest on loans to customers	(*)	8,326	6,194	6,275
50	85	93	Net interest income on loans previously written off		50	85	93
390	283	388	Interest on certificates and bonds		432	372	511
8,100	5,906	6,052	**Interest income**		9,278	6,902	7,085
1 162	617	346	Interest on loans from credit institutions		1 340	740	470
2,833	1,925	2,551	Interest on customers' deposits		2,855	1,921	2,558
913	425	313	Interest on certificate and bond loans		1,711	1,248	1,189
411	380	293	Interest on subordinated loan capital		413	391	309
319	3,347	3,503	**Interest expenses**		6,319	4,300	4,526
2,781	2,559	2,549	**Net interest income**		2,959	2,602	2,559

(*) As part of the mutual transfer of ownership with Sparebanken Pluss, 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 10 million has been expensed in the 1998 accounts (1997: NOK 5 million). As of 1998, Linstow ASA is consolidated according to the equity method. The company's interest expenses are no longer eliminated against the Group's interest income (1997: NOK 93 million; 1996: NOK 111 million).

2 OTHER OPERATING INCOME, NET

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
152	197	166	Dividends		56	22	4
31	31	27	Income from ownership interests in associated companies		65	46	38
			Income from NOR Forsikring		5	27	30
183	228	193	**Dividends**		126	95	72
47	46	52	Guarantee commissions		47	46	52
58	56	53	Interbank fees		58	56	53
550	497	429	Money transfer fees		550	497	429
89	84	58	Asset management activities		280	269	177
49	73	55	Securities broking activities		136	205	106
28	26	25	Life insurance (NOR Forsikring)		28	26	25
147	145	131	Miscellaneous commissions and fees		164	149	140
968	927	803	**Commission income**		1,263	1,248	982
54	54	54	Interbank fees		54	54	54
188	198	177	Money transfer services, external costs		188	198	176
45	60	37	Other commissions and fees		105	106	85
287	312	268	**Commission expenses**		347	358	315
220	123	170	**Capital gains**		222	124	176
3	4	4	Operating income, real estate	(1)	46	354	320
8	5	4	Gains on sales of fixed assets		15	24	32
			Real estate brokering		170	148	96
77	70	89	Additional operating income		114	131	139
88	79	97	**Other operating income**		345	657	587
1,172	1,045	995	**Other operating income, net**		1,609	1,766	1,502

(1) The steep decline is due to the loss of income from Linstow ASA, which is consolidated according to the equity method as of 1998 (1997: NOK 328 million; 1996: NOK 308 million).

3 CAPITAL GAINS (LOSSES)

PARENT BANK				GROUP		
1998	1997	1996		1998	1997	1996
			Recorded to income			
35	21	21	Capital gains on bonds and certificates	33	20	23
0	(1)	41	Capital gains (losses) on shares and PCCs	0	(1)	43
151	120	112	Foreign currency gains	154	123	113
34	(17)	(4)	Gains (losses) on financial derivatives	35	(18)	(3)
220	123	170	Realised gains	222	124	176
			Unrealised gains, not recorded to income			
3	5	46	Bonds and certificates	3	6	48
24	56	18	Shares and PCCs	35	71	24
27	61	64	Unrealised gains not recorded to income	38	77	72
186	120	188	Value-adjusted capital gains	183	129	200

4 PERSONNEL COSTS

PARENT BANK					GROUP		
1998	1997	1996			1998	1997	1996
859	808	827	Salaries		1,114	1,070	994
83	79	72	Pensions		90	89	77
196	199	182	Social costs	(*)	208	209	214
30	45	0	Allocation to employee fund		30	45	0
0	0	155	Restructuring costs		0	0	155
1,168	1,131	1,236	Personnel costs		1,442	1,413	1,440

(*) In 1998, NOK 30 million (1997: NOK 45 million; 1996: none) was allocation to Union Bank of Norway employees' fund and expensed.

Remuneration of the Group Board of Directors totalled NOK 1,279,000 (1997: NOK 1,072,000, 1996: NOK 1,181,000). Salary for the Group President and CEO was NOK 1,761,000 (1997: NOK 1,666,000, 1996: 1,476,000); fees and the estimated value of benefits in kind amounted to NOK 137,000 (1997: NOK 160,000, 1996: NOK 105,000). In addition, the Group President and CEO received in 1998 a non-recurring payment of NOK 200,000.

Group President and CEO Kjell O. 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, and will retire on 10 August 1999, with a pension of 67% of his salary at that time. The Group President and CEO will receive a pension in the first two years of retirement equal to his salary at the time of retirement.

Fees paid to independent auditors are recorded at NOK 1,362,000 (1997: NOK 1,432,200, 1996: NOK 1,314,000) for the parent bank and NOK 3,732,000 (1997: NOK 3,712,000, 1996: NOK 3,507,000) for the Group. In addition, the parent bank purchased consulting services totaling NOK 2,585,500 (1997: NOK 776,108, 1996: NOK 852,875) from PricewaterhouseCoopers in Norway and abroad; the corresponding figures for the Group are: NOK 2,950,000 (1997: NOK 1,291,000, 1996: NOK 1,411,000).

Loans to employees and officers

PARENT BANK				GROUP		
1998	1997	1996		1998	1997	1996
1,727	1,651	1,595	Loans to employees	1,781	1,698	1,636
1	1	1	Loans to officers	1	1	1

Of total loans to employees as of 31 December 1998, loans to retirees from the parent bank amounted to nok 144 million (1997: NOK 139 million; 1996: NOK 130 million).

The interest subsidy on loans on favourable terms to employees of the parent bank amounted to NOK 1 million (1997: NOK 13 million; 1996: NOK 12 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 standard rate (for tax purposes) of 4% (1997: 5%; 1996: 5%) as set by the Norwegian Parliament.

Staffing

PARENT BANK				GROUP		
1998	1997	1996		1998	1997	1996
2,768	2,768	2,879	Total man-years at 31 Dec.	3,328	3,304	3,349
3,048	3,082	3,233	Employees at 31 Dec.	3,662	3,691	3,764

In 1998, the parent bank had, on average, 3,065 employees (1997: 3,098); the Group had 3,629 employees (1997: 3,634). When Linstow ceased to be a subsidiary, this alone led to a decrease in staffing of 52 employees (49 man-years). In 1998, 207 employees left the parent bank (1997: 338), whereas 202 new employees were hired (1997: 157). 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. As of 31 December 1998, NOK 47 million (1997: NOK 97 million) of this allocation remains. Incentive programmes have been used in cutting 52 (1997: 181) man-years.

5 PENSION COSTS AND PENSION OBLIGATIONS

Union Bank of Norway has its own pension fund for ordinary retirement and disability pensions, i.e. including salaries up to 12 times the basic-unit amount (called "G") set by the National Insurance Fund, and a 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. Also, allocations have been made for the bank's obligations related to the AFP (early retirement) programme.

Pension funds are valued at their market value at 31 December. The estimate of the obligations is also based on the parameters 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 24.

	1998	1997	1996
Discount rate	7%	7%	7%
Expected return	8%	8%	8%
Salary increases	4%	4%	4%

	1998	1997	1996
Increase in "G"	3%	3%	3%
Pension increases	2%	2%	2%
Voluntary resignation	Standard reductions		

Pension costs

PARENT BANK						GROUP				
1998			1997	1996		1998			1997	1996
Funded	Non-funded	Total	Total	Total		Funded	Non-funded	Total	Total	Total
52	15	67	65	59	Present value of pension obligations accrued	59	15	74	73	64
87	22	109	105	91	Interest costs on accrued pension obligations	89	23	112	108	93
(101)	-	(101)	(90)	(80)	Expected return on pension funds	(103)	0	(103)	(92)	(82)
(7)	8	1	(1)	2	Variance actual/projected values	(7)	8	1	0	2
31	45	76	79	72	Net pension expenses	38	46	84	89	77
3,446	184	3,630	3,828	3,880	Number of active members (*)	3,651	190	3,841	4,056	4,090
1,277	278	1,555	1,507	1,480	Number of retirees	1,286	280	1,566	1,518	1,489
4,723	462	5,185	5,335	5,360	Total number of persons covered	4,937	470	5,407	5,574	5,579

(*) Included in the parent bank figures are 329 disability retirees (1997: 309) and 159 early retirees (1997: 167). As of 31 December 1998, employees of subsidiaries were transferred to group pension plans outside the parent bank; at 31 December 1997, they numbered 112 members of the parent bank's pension fund.

Pension obligations

PARENT BANK						GROUP				
1998			1997	1996		1998			1997	1996
Funded	Non-funded	Total	Total	Total		Funded	Non-funded	Total	Total	Total
1,213	-	1,213	1,269	1,141	Pension funds at market value	1,259	-	1,259	1,314	1,178
1,352	336	1,688	1,627	1,412	Estimated pension obligations	1,388	343	1,731	1,671	1,447
139	336	475	358	271	Net pension obligations	129	343	472	357	269
(36)	(95)	(131)	(23)	56	Variance not booked to profit and loss account	(36)	(95)	(131)	(25)	57
103	241	344	335	327	Net pension obligations in balance sheet	93	248	341	332	326
					Pension obligations in balance sheet	104	249	353	343	334
					Excess funding in balance sheet	11	0	11	11	8
					Net pension obligations	93	249	342	332	326

The pension funds mainly comprise bonds, certificates, mutual funds, and bank deposits, and are valued at market. When calculating the market value of pension funds, held-to-maturity bonds are valued at their book value at 31 December 1998, in compliance 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 1,222 million (1997: NOK 1,292 million, 1996: NOK 1,163 million) for the parent bank.

From 1 January 1998, employees may request AFP (early retirement) from age 62; the previous minimum age for AFP was 64 years of age. The probability of accepting early retirement from age 62 was assumed to be 54% in calculations for 1997 and 1998. In calculations for 1996, the probability was assumed to be 27% from age 64. 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 1998	1997	1996			GROUP 1998	1997	1996
1,168	1,131	1,236	Personnel expenses		1,442	1,413	1,440
286	302	287	IT and development costs	(1)	305	321	311
41	38	41	Office supplies		47	44	48
90	71	66	Telecommunications, postage		110	89	84
172	161	123	Professional fees, substitute personnel, other services		191	187	136
69	60	45	Travel, staff training		82	73	55
142	120	111	Marketing		189	163	145
800	752	673	Administrative expenses		924	877	779
1,968	1,883	1,909	Personnel and administrative expenses		2,366	2,290	2,219
162	133	105	Depreciation and write-downs	(2)	217	215	173
1	1	1	Operating expenses, real estate		76	164	140
251	231	241	Rent and operating expenses, rented premises		136	121	134
252	232	242	Properties and premises		212	285	274
55	59	51	Operating assets, expensed		59	65	56
50	90	118	Levy to Savings Banks' Guarantee Fund	(3)	50	90	118
0	1	0	Losses on sales of fixed assets		9	48	15
27	28	31	Sundry operating expenses		98	79	75
132	178	200	Additional operating expenses		216	282	264
384	410	442	Other operating expenses		428	567	538
2,514	2,426	2,456	Operating expenses		3,011	3,072	2,930

(1) Cost reimbursements from cooperating banks for IT applications have been recorded as a deduction of NOK 48 million (1997: none, 1996: none).
(2) In the parent bank, this includes goodwill of NOK 27 million (1997: NOK 36 million; 1996: NOK 27 million) relating to acquiring the housing loan portfolio of SparebankKreditt.
(3) For 1998, the maximum fee has been estimated at NOK 99 million. Since the Savings Banks' Guarantee Fund was expected to meet the minimum requirement for capital in 1998, the Board decided that only half fee will be levied for 1998. For 1999 as well, a decision has been made to levy only half fee, NOK 55 million.

Union Bank of Norway operates its business through a large number of bank and service offices. Most of this office space is under tenancy contracts. The Group's total external payments for rented space at 31 December 1998 was NOK 103 million (1997: NOK 90 million, 1996: 67 million). The tenancy contracts vary in contract period; average remaining tenancy for the contracts is five years (1997: 5 years, 1996: 5 years). Approximately 2% of rented premises are not in use (1997: 2%, 1996: 5%).

7 LOSSES (GAINS) ON LOANS AND GUARANTEES

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
21	50	77	Realised losses exceeding previous years' specific loss provisions	22	51	78
75	21	114	Increase in specific loss provisions	79	23	115
155	122	95	New specific loss provisions	163	130	102
251	193	286	Gross losses	264	204	295
21	47	67	Reduction in specific loss provisions due to reduced risk	25	56	79
79	124	159	Reversal of specific loss provisions due to reclassification	82	125	159
100	171	226	Reductions in and reversals of specific loan loss provisions	107	181	238
82	65	66	Recovered on previously realised loan losses	90	72	76
50	0	0	Increase (reduction) in unspecified loss provisions	61	3	(21)
119	(43)	(6)	Losses (gains) on loans and guarantees	128	(46)	(40)
460	181	344	Realised losses (additional) covered by specific provisions from previous years	461	188	363

Of total losses on loans, the 20 largest losses amounted to NOK 181 million (1997: NOK 95 million, 1996: NOK 160 million).

Note 7 continued

Losses (gains) on financial fixed assets

Parent Bank 1998	Parent Bank 1997	Parent Bank 1996		Group 1998	Group 1997	Group 1996
			Write-down of shares in subsidiaries.			
	(12)		Hafjell Invest AS			
			Write-down, other long-term shareholdings			
(93)	93		Fokus Bank ASA	(93)	93	
3	(2)	3	Others	3	(2)	3
(90)	79	3	Total write-downs	(90)	91	3
			Losses (gains) on sales of shares in subsidiaries			
(176)			Linstow Eiendom AS	(161)		
	(14)		SPN Fonds AS			
			Losses (gains) on sales of other long-term shareholdings			
(4)	2		Fokus Bank ASA	(4)	2	
		(5)	Others		(1)	(5)
(180)	(12)	(5)	Net losses (gains)	(165)	1	(5)
(270)	67	(2)	Losses (gains) on financial fixed assets	(255)	92	(2)

8 TAX

Tax base and income tax charge	Parent Bank 1998	Parent Bank 1997	Parent Bank 1996
Pre-tax profit	1,590	1,154	1,096
Group contributions made	19	67	77
Permanent differences	(46)	59	8
Dividends received from subsidiaries	71	117	63
Changes in temporary differences			
Changes in write-downs of securities	(90)	79	(13)
Operating assets	(5)	(1)	(2)
Pension obligations	9	8	10
Other temporary differences and basis for this year's tax credit	(9)	(39)	22
Tax base	1,359	1,076	981
Income tax charge	381	302	274

Parent Bank 1998	Parent Bank 1997	Parent Bank 1996			Group 1998	Group 1997	Group 1996
			Tax charge				
376	301	271	Income tax	(*) (**)	470	368	365
12	4	3	Capital tax	(**)	12	4	3
0	0	0	Change in deferred tax		(12)	(8)	(50)
388	305	274	Total tax charge		470	364	318
			Positive temporary differences				
0	0	1	Fixed assets		234	270	296
0	0	0	Revaluation and premiums on acquisitions		136	152	164
37	52	61	Other positive differences		500	546	612
37	52	62	Total positive differences		870	968	1,072
			Negative differences and tax loss carry-forwards				
14	104	19	Securities		14	109	9
42	47	49	Fixed assets		49	120	204
344	335	327	Pension obligations		353	343	334
101	94	99	Other negative differences		289	293	374
0	0	0	Tax loss carry-forward		0	7	43
501	580	494	Total negative differences and tax loss carry-forward		705	872	964
(464)	(528)	(432)	Net positive (negative) differences and tax loss carry-forward		165	96	108
0	0	0	Deferred tax (net)		55	34	43

(*) Taking into account the previous year's insufficient/excess tax provision.
(**) From 1998, savings banks pay income tax and capital tax to the government (formerly paid to municipalities).

Deferred tax/deferred tax benefit

Negative temporary differences are offset against positive temporary differences, which are reversed in the same period. Deferred tax is calculated on the net amount. Negative differences that remain after offsetting, and which may not be recorded on the balance sheet as deferred tax benefit in the parent bank's accounts due to the upper limit rule, are recorded in the consolidated accounts. This is based on an assessment of future Group earnings. Deferred tax/deferred tax benefit are presented net in the balance sheet.

RISK adjustment

The RISK adjustment as of 1 January 1998 for the bank's primary capital certificates has been set at plus NOK 20.84. As of 1 January 1999, the RISK adjustment amount is expected to be set at approximately NOK 13.00 per primary capital certificate.

Dividend/Group contributions

As part of Union Bank of Norway's tax planning, the parent bank has allocated group contributions of NOK 19 million (1997: 67, 1996: 77) to subsidaries. The parent bank will receive NOK 96 million (1997: 176, 1996: 245) in divident/Group contributions from its group companies.

9 REGIONAL/DIVISIONAL KEY FIGURES

		Region Buskerud	Region Oppland/ Hedmark	Region Oslo/ Akershus	Region Telemark	Region Vestfold	Region Østfold	District offices	Corporate Customer Division	Other (*)	Total parent bank
No. of bank offices	1998	27	30	52	9	24	21	6			169
Man-years		254	295	782	89	349	269	115	247	368	2,768
No. of customers		96,800	109,100	343,300	25,700	120,500	108,400	32,600	2,800	9,900	849,100
No. of accounts		173,100	204,800	607,800	47,300	230,700	196,900	72,400	8,500	27,200	1,568,700
(Amounts in NOK million)											
Deposits at 31 Dec.	1998	6,834	7,846	26,655	1,585	7,102	5,730	2,278	11,643	577	70,250
	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
Loans at 31 Dec.	1998	8,916	11,785	28,277	2,474	12,490	8,798	9,067	14,672	6,814	103,293
	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
Profit and loss account											
Operating income	1998	337	419	1 174	87	490	344	217	659	226	3,953
Operating expenses		206	240	602	62	274	205	88	250	587	2,514
Profit before losses		131	179	572	25	216	139	129	409	(361)	1,439
Losses		(5)	6	(49)	(4)	33	(19)	1	(13)	(101)	(151)
Profit after losses		136	173	621	29	183	158	128	422	(260)	1,590
Profit after losses	1997	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
Pre-tax ROE	1998	14%	14%	25%	8%	14%	18%	19%	22%		(***) 19%
Costs/income ratio		61%	57%	51%	71%	56%	60%	41%	38%		64%
Losses on loans		(0.1%)	0.1%	(0.2%)	(0.3%)	0.3%	(0.2%)	0.0%	(0.1%)	(1.5%)	(0.1%)

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

10 PROFIT ATTRIBUTABLE TO PARENT BANK AND GROUP COMPANIES

	Parent bank (1)	Sparebank Kreditt	UBNI Lux.	Avanse forvaltning	NOR Finans	NOR Eiendom	Sparebankgårdene	NOR Forsikr. (2)	Karl Johan Fonds	Other (3)	Union Bank of Norway Group
Net interest income	2,781	94	45	4	99	1	(46)		3	(22)	**2,959**
Net other operating income	1,076	1	22	121	12	170	304	5	103	(205)	**1,609**
Operating expenses	2,514	35	38	88	60	182	272		81	(259)	**3,011**
Operating profit before losses	1,343	60	29	37	51	(11)	(14)	5	25	32	1,557
Losses (gains)	(151)	(3)			12					15	(127)
Operating profit 1998	1,494	63	29	37	39	(11)	(14)	5	25	17	**1,684**
Operating profit 1997	978	53	24	47	33	5	(19)	27	52	50	1,250
Operating profit 1996	934	83	24	14	17	2	5	30	9	55	1,173
Total assets at 31 Dec.1998	130,005	14,760	6,296	15,537	2,848		1,571	7,043			172,405
Total assets at 31 Dec.1997	115,630	14,035	4,209	17,137	2,231		1,556	6,361			156,927
Total assets at 31 Dec. 1996	98,273	13,359	3,777	11,996	1,671		1,513	5,644			132,180

(1) Group contribution and dividends from Group companies are not included.
(2) Union Bank of Norway's share of profits.
(3) Includes other subsidiaries and Group eliminations.

11 DEPOSITS WITH AND LOANS TO CREDIT INSTITUTIONS

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
750	401	386	Deposits at call		768	708	854
10,929	8,895	5,733	Term deposits and fixed maturity loans	(*)	8,566	6,488	4,512
(34)	(22)	(27)	Specific loss provisions		(34)	(22)	(27)
11,645	9,274	6,092	Deposits with and loans to credit institutions		9,300	7,174	5,339

(*) Of which NOK 589 million (1997: NOK 290 million, 1996: NOK 290 million) are subordinated loans in the parent bank, and NOK 339 million (1997: NOK 40 million, 1996: NOK 40 million) are subordinated loans in the Group.

12 GROSS LOANS TO CUSTOMERS

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
96 845	89 558	76 067	Instalment loans		114 695	103 946	88 411
4 773	4 201	3 267	Overdraft facilities and working capital credits		4 784	4 206	3 233
1 675	1 750	1 396	Construction loans		1 675	1 750	1 396
0	0	0	Financial leasing		1 217	953	640
0	0	0	Factoring		114	93	50
103 293	95 509	80 730	Gross loans to customers	(*)	122 485	110 948	93 730

(*) Of which NOK 229 million (1997: NOK 140 million, 1996: NOK 136 million) are subordinated loans from the parent bank, and NOK 229 million (1997: NOK 139 million, 1996: NOK 136 million) are subordinated loans from the Group.

13 DEFAULTED, DOUBTFUL, AND NON-PERFORMING LOANS

Loss provisions, defaulted loans

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
			Private customer market				
462	546	641	Gross defaulted loans		486	583	673
152	211	275	Specific loss provisions		160	218	283
310	335	366	Net defaulted loans to private customers		326	365	390
33%	39%	43%	Level of provisions, private customer loans		33%	37%	42%
			Corporate customer market				
591	1,101	1,196	Gross defaulted loans		629	1,147	1,261
448	668	768	Specific loss provisions	(*)	456	677	773
143	433	428	Net defaulted loans to corporate customers		173	470	488
76%	61%	64%	Level of provisions, corporate customer loans		72%	59%	61%
			All loans				
1,053	1,647	1,837	Gross defaulted loans		1,115	1,730	1,934
600	879	1,043	Specific loss provisions		616	895	1,056
453	768	794	Net defaulted loans		499	835	878
57%	53%	57%	Level of provisions, all loans		55%	52%	55%

(*) Of which credit institutions: NOK 34 million (1997: NOK 22 million, 1996: NOK 27 million).

Loss provisions, non-defaulted loans

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
457	449	584	Non-defaulted loans with loss provisions	522	481	660
204	205	292	Specific loss provisions	216	215	311
253	244	292	Net non-defaulted loans with loss provisions	306	266	349
45%	46%	50%	Level of provisions	41%	45%	47%

Non-performing loans

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
142	182	211	Net non-performing loans, private customer market		154	217	224
75	385	359	Net non-performing loans, corporate customer market		100	411	386
217	567	570	Net non-performing loans	(*)	254	628	610
817	1,446	1,614	Gross non-performing loans	(*)	870	1,523	1,663

(*) Net and gross non-performing loans are included in the table "Loan loss provisions, defaulted loans."

For 1996 and 1997, *individual* defaulted loans with loss provisions are presented. According to the Norwegian Banking, Insurance and Securities Commission's regulations for recording losses, *total* figures for customers in default are now presented.

According to the former regulations, gross loans in default at 31 December 1998 would have been NOK 1,060 million; i.e. NOK 670 million less than at 31 December 1997.

The reduction in net loans in default for the same period would have amounted to NOK 391 million. The percentage of loans in default (net) according to the new regulations is 0.4% at 31 December 1998, a decline from 0.8% at 31 December 1997.

For 1998, interest not recorded to income for non-performing loans in the parent bank amounted to NOK 47 million (1997: NOK 72 million, 1996: NOK 65 million).

14 LOANS AND LOSSES (GAINS) BY CUSTOMER SECTOR AND INDUSTRY

	1998			1997		1996	
Sector/industry	Loans	Share (%)	Loss	Loan	Loss	Loan	Loss
Private customer market	59,137	47.8	(77)	53,823	(68)	46,641	(46)
Public sector	1,008	0.8	0	1,156	0	1,099	0
Agriculture, forestry, fishing and hunting	2,488	2.0	(3)	2,318	1	2,236	(9)
Mining and manufacturing	3,196	2.6	31	3,312	(6)	2,602	(13)
Construction and building, power and water supply	2,806	2.3	(2)	2,913	(7)	2,359	(6)
Retailing, hotel and restaurant business	7,593	6.1	18	7,672	(12)	6,182	0
Shipping	3,571	2.9	0	3,854	0	2,748	(4)
Real estate management	28,083	22.7	63	22,648	9	17,754	19
Financing	4,132	3.3	27	2,848	(2)	2,582	0
Transportation and other services	4,901	4.0	(6)	4,601	(2)	4,575	(2)
Foreign	5,570	4.5	3	5,803	(4)	4,952	39
Gross loans to customers	122,485	99.0	54	110,948	(91)	93,730	(22)
Credit institutions	1,234	1.0	11	431	(8)	1,245	1
Total loans	123,719	100.0	65	111,379	(99)	94,975	(21)
Losses on guarantees			2		50		2
Increase (reduction) in unspecified loan loss provisions			61		3		(21)
Losses (gains) on loans and guarantees			128		(46)		(40)

See Note 9 for the geographic distribution of the parent bank's loan portfolio.

15 LOSS PROVISIONS

Specific loss provisions

PARENT BANK					GROUP	
1998	1997	1996		1998	1997	1996
1,139	1,339	1,700	Provisions at 1 January	1,163	1,371	1,756
460	181	344	Reversals on realisation of losses	461	188	363
0	8	0	Additions related to exchange with Sparebanken Pluss	0	8	0
130	(27)	(17)	Allocations (net)	135	(28)	(22)
809	1,139	1,339	Provisions as of 31 December (*)	837	1,163	1,371

(*) Of which NOK 34 million (1997: NOK 22 million; 1996: NOK 27 million) is on loans to credit institutions; on guarantees NOK 5 million (1997: NOK 54 million, 1996: NOK 4 million).

Unspecified loss provisions

PARENT BANK					GROUP	
1998	1997	1996		1998	1997	1996
785	785	785	Provisions at 1 January	870	867	888
50	-	-	Additions (reductions)	61	3	(21)
835	785	785	Provisions as of 31 December	931	870	867

16 ASSOCIATED AND GROUP COMPANIES

Values and profits in associated companies

		Linstow ASA	Eksport-finans ASA (*)	Felles-data AS	Total assoc. companies
PARENT BANK	Book value as of 1 January	-	209	21	230
	Book value as of 31 December	533	231	22	786
	Bank's receivables from associated companies	1,121	-	153	1,274
	Bank's debt to associated companies	9	19	19	47
GROUP	Book value as of 1 January	-	377	70	447
	Additions	555	22		577
	Share of profit	32	41	2	75
	Share of tax	0	9	1	10
	Dividends received		26	5	31
	Book value as of 31 December	587	405	66	1,058
	Ownership interest	34.9%	20.0%	33.0%	

(*) See Note 31 concerning funding guarantee.

Group companies - Linstow
In the first quarter of 1998, Union Bank of Norway realised a gain of NOK 161 million on the sale of shares in Linstow; the bank's shareholding is now 34.9%.

From 1998, Linstow ASA (formerly Linstow Eiendom AS) ceased being a consolidated, wholly owned subsidiary and became an associated company, which is consolidated according to the equity method.

Group Companies - NOR Forsikring
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 policyholders 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 1998 was NOK 150 million.

Main items of NOR Forsikring's accounts			1998	1997	1996
PROFIT AND LOSS ACCOUNT	Premium income		1,031	1,035	723
	Net financial income		403	491	442
	Insurance benefit payments		691	621	599
	Change in insurance allocations		459	513	240
	Additional provisions allocated to customers		46	95	42
	Operating expenses, taxes		174	164	165
	Profit allocated to customers		52	87	79
	Profit	(*)	12	46	40
BALANCE SHEET	Assets				
	Financial assets	(**)	6,576	5,887	5,227
	Other assets		467	474	417
	Total assets		7,043	6,361	5,644
	Liabilities and equity				
	Insurance reserves		6,532	5,908	5,169
	Other liabilities		323	289	298
	Equity		188	164	177
	Total liabilities and equity		7,043	6,361	5,644

(*) In addition, NOK 6 million (1997: NOK 13 million; 1996: NOK 3 million) has been allocated to customers from equity. This refers to costs relating to group pension plans that are covered by the owners.

(**) At 31 December 1997, NOR Forsikring had a bond portfolio of NOK 1,603 million (1996: NOK 1,628 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). In 1998, this portfolio was reclassified; it now is included in the portfolio of current assets that at 31 December 1998 had an unrealised gain of NOK 88 million (1997: NOK 365 million; 1996: NOK 211 million). The portfolio that was reclassified had an unrealised gain of NOK 151 million at the time of reclassification.

17 TANGIBLE FIXED ASSETS

PARENT BANK Machinery, equipment, vehicles	PARENT BANK Buildings and other real estate		GROUP Machinery, equipment, vehicles	GROUP Buildings and other real estate
1,125	15	Acquisition cost at 1 January	1,314	4,575
392	2	Additions during the year	411	93
		Disposal at sale of shares in Linstow ASA	58	2,716
221	1	Disposals during the year	230	39
1,296	16	Acquisition costs at 31 December	1,437	1,913
609	5	Ordinary depreciation at 1 January	726	560
134	0	Ordinary depreciation, this year	152	46
0	0	Write-downs, this year	0	6
		Disposals, accumulated write-downs on sale of shares	35	205
212	1	Accumulated depreciation on disposals	217	6
531	4	Ordinary depreciation at 31 December	626	401
765	12	Book value at 31 December	811	1,512

Investments in and sales of fixed assets, most recent five years

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
392	2	Investments	1998	411	93
9	3	Sales		11	32

18 REAL ESTATE AND REPOSSESSED PROPERTIES

Property category		1998 Annual rent (*)	1998 1,000 sq.m.	1998 Price per sq.m.	1998 Book value	1997 Book value	1996 Book value
Bank premises		138	178	7,416	1,320	1,253	1,165
Commercial properties		5	9	3,778	34	2,162	2,414
Total commercial properties	(1)	143	187	7,241	1,354	3,415	3,579
Sites					49	293	296
Homes, holiday homes, etc.					14	17	24
Miscellaneous properties	(2)				142	369	369
Total					1,559	4,094	4,268

(*) Rent paid in the accounting year, excluding share of collective overhead expenses.
(1) Of which NOK 115 million (1997: NOK 154 million, 1996: NOK 147 million) was intra-group rent.
(2) Properties unsuited for evaluation based on the number of square meters, etc. Includes repossessed properties, mainly ski resorts, and other real estate.

Occupancy rates for rental properties

Property category *(All areas in 1,000 sq.m.)*	1998 Group internal rentals	1998 Group external rentals	1998 Vacancies	1998 Vacancy in %	1997 Vacancy in %	1996 Vacancy in %
Bank premises	114	45	19	11%	10%	8%
Commercial properties	1	5	3	33%	8%	10%
Total commercial properties	115	50	22	12%	9%	9%

19 OTHER ASSETS AND ACCRUALS

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
581	557	375	Forward-dated assets		581	557	375
941	932	794	Other receivables and assets		1,075	1,112	898
1,522	1,489	1,169	Other assets		1,656	1,669	1,273
1,104	771	699	Earned income and prepaid expenses		1,506	1,039	1,011
0	0	0	Excess funding of pension obligations		11	11	8
19	16	11	Capitalised costs on long-term loans		19	16	11
0	0	0	Deferred tax benefit	(*)	0	160	170
0	1	1	Other accruals		0	3	2
1,123	788	711	Accruals		1,536	1,229	1,202
2,645	2,277	1,880	Other assets and accruals		3,192	2,898	2,475

(*) From 1998, deferred tax benefit/deferred tax are recorded net. See Note 24.

20 CALL ACCOUNTS AND TERM DEPOSITS FROM CREDIT INSTITUTIONS

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
2,745	2,097	3,250	Call accounts	2,623	2,526	3,225
21,550	18,966	9,081	Term deposits	26,414	21,922	11,718
24,295	21,063	12,331	Call accounts and term deposits from credit institutions	29,037	24,448	14,943

21 DEPOSITS FROM CUSTOMERS

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
50,754	47,088	43,177	Call accounts	50,570	46,923	42,877
19,496	19,197	22,971	Term deposits	19,944	19,561	23,347
70,250	66,285	66,148	Deposits from customers	70,514	66,484	66,224

Customer deposits, by sector

Sector/industry	1998 Amount	1998 Share (%)	1997 Amount	1996 Amount
Private customer market	33,713	47.8	30,641	29,563
Public sector	4,279	6.1	5,506	7,257
Agriculture, forestry, fishing and hunting	1,430	2.0	1,368	1,469
Mining and manufacturing	2,098	3.0	1,902	1,853
Construction and building, power and water supply	3,808	5.4	2,896	3,026
Retailing, hotel and restaurant business	4,532	6.4	4,192	4,311
Shipping	637	0.9	976	377
Real estate management	3,105	4.4	3,417	2,531
Financing	7,980	11.3	6,921	6,619
Transportation and other services	7,530	10.7	7,221	7,797
Foreign	1,402	2.0	1,444	1,421
Customer deposits	70,514	100.0	66,484	66,224

See Note 9 for a table showing the geographic distribution of deposits in the parent bank.

22 COMMERCIAL PAPERS (CP) AND BOND ISSUES

PARENT BANK				GROUP		
1998	1997	1996		1998	1997	1996
1,745	4,612	4,361	Commercial papers and other short-term borrowings	2,560	6,080	5,246
0	0	0	Repurchased unamortised commercial papers	0	0	130
18,880	9,823	3,700	Bond issues and other long-term borrowings	30,759	22,140	16,316
2,626	323	970	Repurchased unamortised bonds	5,212	3,147	3,064
17,999	14,112	7,091	Commercial papers and loans	28,107	25,073	18,368

23 MATURITY STRUCTURE OF BOND ISSUES AND SUBORDINATED LOAN CAPITAL

Bond loans

PARENT BANK			GROUP	
NOK	Currency	Maturity	NOK	Currency
4,843	2,283	1999	5,766	2,283
2,090		2000	5,061	
200	2,664	2001	202	2,664
332		2002	1,897	
304	1,903	2003	1,823	1,903
500	1,135	2004 and later	2,813	1,135
8,269	7,985	Book value as of 31 December 1998	17,562	7,985

The bank's repurchased bonds have been deducted from the figures. The face value of the bond debt (including subordinated loans) amounted to (gross) NOK 37,452 million (1997: NOK 26,892 million, 1996: NOK 20,654 million) at 31 December 1998. The face value of the repurchased bonds totalled NOK 5,390 million (1997: NOK 3,147 million, 1996: NOK 3,064 million), whereas the market value of the repurchased bonds was NOK 5,385 million (1997: NOK 3,234 million, 1996: NOK 3,145 million). The book value of the repurchased bonds amounted to NOK 5,379 million (1997: 3,147 million, 1996: 3,064 million).

Subordinated loan capital

Year raised	Currency	Amount	Interest terms (1)	Maturity	Borrower	Call date		Book value
Time-limited								
1997	USD	75	3-month LIBOR + 0.30% p.a.	2007	Parent bank	2002	571	
1998	USD	50	3-month LIBOR + 0.35% p.a.	2008	Parent bank	2003	380	951
					UBNI			55
Perpetual								
1994	JPY	7,000	4.27% p.a.		Parent bank	1999	468	
1994	JPY	(2,500)	4.27% p.a. own portfolio		Parent bank	1999	(167)	
1994	USD	75	9.10% p.a.		Parent bank	2000	571	
1994	JPY	5,000	5.85% p.a.		Parent bank	2000	334	
1994	USD	78	9.12% p.a.		Parent bank	2001	594	
1996	USD	105	7.65% p.a.		Parent bank	2006	799	
1996	JPY	10,000	4.00% p.a.		Parent bank	2011	668	
1998	USD	150	7.35% p.a.		Parent bank	2003	1,142	4,409
					Total			5,415

(1) For all loans, varying FRN terms apply after call date.

In addition, the parent bank has granted subordinated loans to Sparebank Kreditt and NOR Finans of NOK 200 million and NOK 50 million, respectively. All 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.

24 OTHER LIABILITIES AND ACCRUALS

PARENT BANK 1998	1997	1996			GROUP 1998	1997	1996
1,179	1,236	978	Cheques, giros, etc. under clearing		1,179	1,236	978
393	306	277	Allocated tax		488	363	371
558	457	462	Allocated dividend, Group contributions		551	408	395
736	612	349	Miscellaneous liabilities		904	824	714
2,866	2,611	2,066	Other liabilities		3,122	2,831	2,458
770	629	613	Accrued costs and unearned interest		1,494	1,120	1,041
344	335	327	Pension obligations		353	343	334
0	0	0	Deferred tax	(*)	55	194	212
5	54	4	Specific loss provisions for guarantee liabilities		5	54	4
0	0	0	Other provisions for liabilities		19	13	20
349	389	331	Provisions for liabilities		432	604	570
			Minority interests		19	43	42
3,985	3,629	3,010	Other liabilities, accruals, and provisions for liabilities		5,067	4,598	4,111

(*) From 1998, deferred tax benefit/deferred tax are recorded net. See Note 19.

25 TOTAL EQUITY AND EARNINGS PER PCC

Change in equity

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
5,448	5,021	4,472	Equity as of 1 January	6,638	6,125	5,562
			Change in primary capital certificate capital:			
2,084			Addition from offering, gross	2,084		
	35	107	Additions on conversion of subordinated loan capital		35	107
			Change in dividend adjustment reserve:			
(60)			Costs of offering	(60)		
304	160	212	Addition on allocation of profit for the year	304	160	212
			Change in other equity:			
340	232	230	Addition, Savings Bank's reserve, on allocation of profit for the year	340	232	230
			Implementation of new pension standard in associated companies			(6)
			Addition on allocation of profit for the year	20	87	24
			Translation difference	5	(1)	(4)
8,116	5,448	5,021	Equity at 31 December	9,331	6,638	6,125
			which is allocated as shown below:			
4,689	2,605	2,570	Primary capital certificate capital	4,689	2,605	2,570
1,356	1,112	952	Dividend adjustment reserve	1,356	1,112	952
			Group equity in subsidiaries	1,215	1,190	1,104
2,071	1,731	1,499	Savings Bank's reserve	2,071	1,731	1,499
8,116	5,448	5,021	Equity	9,331	6,638	6,125

In the fourth quarter of 1998, Union Bank of Norway's primary capital certificate capital increased from NOK 2,605 million to NOK 4,689 million through an offering and private placement by way of rights of 20,839,714 primary capital certificates, of NOK 100 par value each, at a subscription price of NOK 100, which corresponds to NOK 2,083,971,400, with payment due 21 October. NOK 60 million in costs related to the offering were charged to the dividend adjustment reserve in the fourth quarter of 1998. The average number of primary capital certificates outstanding in 1998 was 30,103,395; the new primary capital certificate capital is included in these calculations for 71 days. A listing of the twenty largest holders of primary capital certificates in Union Bank of Norway is presented on page 51 of this report.

Note 25 continued

Earnings per PCC

The purpose of calculating earnings per 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 compliance with the "Preliminary Norwegian Accounting Standard for per-share profit."

Earnings per PCC 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.

On allocation of profit in the parent bank, the PCC ownership share at 1 January (68.2%) has been applied to the profit for the first three quarters of the year. For the fourth quarter, the PCC ownership share at 21 October 1998 (76.83%) was used. This gives a weighted PCC ownership share for 1998 of 71.3%.

		1998 4th quarter	1998 1st-3rd quarter
A	PCC capital at 1 January	2,605	2,605
	PCC offering 21 October 1998	2,084	
a	New PCC capital	4,689	
B	Dividend adjustment reserve as of 1 January	1,112	1,112
	Costs of offering	(60)	
b	Dividend adjustment reserve at 21 October 1998	1,052	
C	Adjusted PCC holders' capital (a+b) (A+B)	5,741	3,717
D	Savings Bank's reserve at 1 January	1,731	1,731
E	Adjusted equity, parent bank (C+D)	7,472	5,448
F	Adjusted PCC ownership share (C/E)	76.8%	68.2%
G	Profit, parent bank	424	778
g	- Group contributions made	(19)	
H	PCC share (F*G)	326	531
h	- PCC holders' share of Group contributions made (19*71.3%)	(14)	
I	PCC share 1998 (total [H+h]/total [G+g])	71.3%	
J	Number of primary capital certificates at 1 January 1998		26,049,642
K	Number of primary capital certificates at 21 October 1998	46,889,356	
L	Average number of outstanding PCCs [J+(K-J)*71/365]	30,103,395	
M	Net profit	1,203	
	Per-certificate profit (M*I/L	28.49	

In the calculations presented below, the number of outstanding PCCs is equal to the adjusted PCC capital at 1 January, 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 a similar ratio, where all potential primary capital certificates (non-converted CSBLs) outstanding in the period (having a potential diluting effect) are taken into account. The numerator is adjusted for 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 resulting from full conversion of the remaining CSBL capital.

			1997	1996
	PCC capital at 1 January		2,570	2,463
	CSBL conversions in the year	(*)	24	107
A	Adjusted PCC capital at 1 January		2,594	2,570
B	Dividend adjustment reserve as of 1 January		952	739
C	Adjusted PCC holders' capital as of 1 January (A+B)		3,546	3,309
D	Savings Bank's reserve as of 1 January		1,499	1,270
E	Adjusted equity, parent bank at 1 January (C+D)		5,045	4,579
F	Remaining CSBL loan as of 31 December	(*)	11	35
G	PCC holders' capital, fully diluted (C+F)		3,557	3,344
H	Total equity parent bank, fully diluted (E+F)		5,056	4,614
I	Adjusted PCC ownership share at 1 January (C/E)		70.3%	72.3%
J	PCC ownership share, fully diluted (G/H)		70.4%	72.5%
K	Number of primary capital certificates entitled to dividend		25,943,512	25,698,372
L	Number of primary capital certificates at full conversion		26,049,642	26,049,642
M	Net profit		868	851
	Interest expenses for CSBL loans (less 28% tax)		1	3
N	Net profit, fully diluted		869	854
	Per-certificate profit (M*I/K) in NOK	(**)	19.06	19.39
	Per-certificate profit, fully diluted (N*J/L)	(**)	19.01	19.25

(*) 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.

(**) To make the figures comparable, the figures are adjusted by a factor of 0.8103 as a result of the par emission (below market value) in October 1998.

26 CAPITAL ADEQUACY

GROUP	1998		1997		1996	
Tier 1 capital	9,434	8.5%	6,669	6.9%	6,166	7.5%
Upper Tier 2 capital	4,054	3.7%	3,670	3.8%	3,534	4.3%
Lower Tier 2 capital	1,261	1.1%	1,213	1.3%	1,189	1.5%
Other items, net	(195)	(0.2%)	(579)	(0.6%)	(114)	(0.1%)
Capital base	14,554	13.1%	10,973	11.4%	10,775	13.2%
Calculation base	110,799		96,672		81,856	

PARENT BANK						
Tier 1 capital	8,116	9.0%	5,448	6.9%	5,056	7.6%
Upper Tier 2 capital	4,053	4.5%	3,669	4.7%	3,528	5.3%
Lower Tier 2 capital	931	1.0%	849	1.1%	784	1.2%
Other items, net	(130)	(0.1%)	(558)	(0.7%)	(155)	(0.2%)
Capital base	12,970	14.4%	9,408	12.0%	9,213	13.9%
Calculation base	90,257		78,491		66,227	

Specification of the calculation base

	Nominal amount by risk class 0 %	10 %	20 %	50 %	100 %	1998 Risk-weighted	1997 Risk-weighted	1996 Risk-weighted
Banking portfolio								
Cash and bank deposits	1,638		8,089			1,618	1,204	1,097
Short-term investments in securities	3,577	561	10,245		855	2,960	2,852	2,530
Loans	1,610		9,840	54,169	64,427	93,480	82,801	69,082
Other receivables	75		1,734	585	1,161	1,800	1,448	1,508
Fixed assets	292	5	993		4,884	5,083	5,488	5,188
Total assets	7,192	566	30,901	54,754	71,327	104,941	93,793	79,405
Interest and foreign exchange rate instruments						404	349	344
Other off-balance-sheet items						4,438	3,440	2,695
Total off-balance-sheet items						4,842	3,789	3,039
Total banking portfolio						109,783	97,582	82,444
Trading portfolio including currency exchange risk						2,901	1,663	1,743
Deductions for:								
Loss provisions and subordinated capital in other financial institutions						1,885	2,573	2,331
Total calculation base						110,799	96,672	81,856

Deductions from subordinated 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 the bank's share of such capital is less than 20% of the total subordinated loan capital of these institutions, as determined according to detailed rules. 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 capital adequacy.

Subordinated loans' contribution to meeting equity requirements, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Current subordinated loans	5,373	5,373	5,373	5,227	5,227	5,227	5,227
20% reduction	58	87	116	0	111	298	484
Eligible as equity	5,315	5,286	5,257	5,227	5,116	4,929	4,743

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 1998; profit from 1999 onwards is nil; and no change in the other equity items that are not affected by the 20% reductions.

Capital, excluding calls

	1998	1999	2000	2001	2002	2003	2004
Subordinated capital	14,554	14,534	14,514	14,493	14,391	14,213	14,032
Capital ration (%)	13.1	13.1	13.1	13.1	13.0	12.8	12.7

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, the change will be as shown below. Call is also an option for the bank's perpetual subordinated loans (See Note 23).

Capital, including calls

	1998	1999	2000	2001	2002	2003	2004
Subordinated capital	14,554	14,233	13,393	12,840	12,291	10,785	10,791
Capital ratio (%)	13.1	12.8	12.1	11.6	11.1	9.7	9.7

27 LIQUIDITY RISK/REMAINING MATURITY

Liquidity risk

In 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 yardstick in this respect is the bank's net lending/deposit situation, which is an indicative 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. The deposit/lending ratio in the parent bank at year-end 1998 was 68% (1997: 69%; 1996: 83%) which is in line with other major Norwegian banks. For the Group, the ratio at year-end 1998 was 58% (1997: 60%; 1996: 71%).

REMAINING MATURITY		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.		1,489	0	0	0	0	0	1,489
Deposits in and loans to credit institutions		522	3,000	367	359	135	0	4,383
Loans to customers	(*)	1,295	8,182	6,614	29,583	67,055	0	112,729
Loss provisions		0	0	0	0	0	(1,681)	(1,681)
Bonds, certificates, and other interestbearing securities		2,648	1,096	362	2,137	1,431	0	7,674
Other assets		938	395	623	42	0	4,459	6,457
Total assets		6,892	12,673	7,966	32,121	68,621	2,778	131,051
Liabilities to credit institutions		7,322	658	1,071	1	1	0	9,053
Deposits from customers		32,888	2,144	32,695	1,509	125	0	69,361
Liabilities from issuing securities		515	1,476	6,333	8,985	2,813	0	20,122
Other liabilities		402	460	1,671	0	363	1,393	4,289
Subordinated loan capital		0	0	0	0	0	0	0
Equity		0	0	0	0	0	9,102	9,102
Total liabilities and equity		41,127	4,738	41,770	10,495	3,302	10,495	111,927
Net liquidity exposure on balance sheet items		(34,235)	7,935	(33,804)	21,626	65,319	(7,717)	19,124
Payments in/out, off balance sheet financial derivatives		(3,116)	(8,184)	(2,200)	(1,653)	(500)	0	(15,653)
Net total, all items		(37,351)	(249)	(36,004)	19,973	64,819	(7,717)	3,471

REMAINING MATURITY		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.		149	0	0	0	0	0	149
Deposits in and loans to and credit institutions		3,237	958	415	308	33	0	4,951
Loans to customers	(*)	654	492	939	4,929	2,742	0	9,756
Loss provisions		0	0	0	0	0	(81)	(81)
Bonds, certificates, and other interestbearing securities		38	0	128	352	296	15	829
Other assets		58	117	388	0	0	253	816
Total assets		4,136	1,567	1,870	5,589	3,071	187	16,420
Liabilities to credit institutions		10,605	5,163	3,086	765	365	0	19,984
Deposits from customers		339	812	2	0	0	0	1,153
Liabilities from issuing securities		0	0	2,283	5,702	0	0	7,985
Other liabilities		589	137	18	0	0	33	777
Subordinated loan capital		0	0	301	55	5,059	0	5,415
Equity		0	0	0	0	0	229	229
Total liabilities and equity		11,533	6,112	5,690	6,522	5,424	262	35,543
Net liquidity exposure on balance sheet items		(7,397)	(4,545)	(3,820)	(933)	(2,353)	(75)	(19,123)
Payments in/out, off balance sheet financial derivatives		1 974	8,185	2,199	1,653	1,642	0	15,653
Net total, all items		(5,423)	3,640	(1,621)	720	(711)	(75)	(3,470)

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

The above tables have been prepared in compliance 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.

28 INTEREST RATE RISK/MATURITY 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 adhered to. 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 350 million (1997: NOK 300 million; 1996: NOK 300 million). The highest utilisation of the limit in 1998 was 55% (1997: 52%; 1996: 57%), the utilisation at year-end 1998 was 39% (1997: 22%; 1996: 47%). The average for the year was 25% (1997: 27%; 1996: 24%).

REMAINING TERM TO INTEREST MATURITY 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.		864	0	0	0	0	625	1,489
Deposits in and loans to credit institutions		393	3,554	307	94	35	0	4,383
Loans to customers	(*)	76,462	14,465	4,623	11,634	5,545	0	112,729
Loss provisions		0	0	0	0	0	(1,681)	(1,681)
Bonds, certificates, and other interestbearing securities		2,648	1,438	215	2,157	1,216	0	7,674
Other assets		0	0	0	42	0	6,415	6,457
Total assets		80,367	19,457	5,145	13,927	6,796	5,359	131,051
Liabilities to credit institutions		7,321	658	1,074	0	0	0	9,053
Deposits from customers		42,261	12,004	14,431	611	54	0	69,361
Liabilities from issuing securities		1,603	3,833	3,764	8,425	2,497	0	20,122
Other liabilities		1	4	44	0	0	4,240	4,289
Subordinated loan capital		0	0	0	0	0	0	0
Equity		0	0	0	0	0	9,102	9,102
Total liabilities and equity		51,186	16,499	19,313	9,036	2,551	13,342	111,927
Net interest rate exposure on balance sheet items		29,181	2,958	(14,168)	4,891	4,245	(7,983)	19,124
Off balance sheet financial derivatives		(4,437)	(3,704)	206	(6,815)	(802)	0	(15,552)
Net total interest rate exposure		24,744	(746)	(13,962)	(1,924)	3,443	(7,983)	3,572

REMAINING TERM TO INTEREST MATURITY 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	149	149
Deposits in and loans to credit institutions		3,237	983	448	283	0	0	4,951
Loans to customers	(*)	3,659	2,536	3,561	0	0	0	9,756
Loss provisions		0	0	0	0	0	(81)	(81)
Bonds, certificates, and other interestbearing securities		43	133	211	243	199	0	829
Other assets		0	0	0	0	0	816	816
Total assets		6,939	3,652	4,220	526	199	884	16,420
Liabilities to credit institutions		10,742	5,928	3,086	0	228	0	19,984
Deposits from customers		339	812	2	0	0	0	1,153
Liabilities from issuing securities		4,186	0	2,664	1,135	0	0	7,985
Other liabilities		134	133	0	0	0	510	777
Subordinated loan capital		380	571	301	1,554	2,609	0	5,415
Equity		0	0	0	0	0	229	229
Total liabilities and equity		15,781	7,444	6,053	2,689	2,837	739	35,543
Net interest rate exposure on balance sheet items		(8,842)	(3,792)	(1,833)	(2,163)	(2,638)	145	(19,123)
Off balance sheet financial derivatives		5,059	6,422	(842)	1,860	3,194	0	15,693
Net total interest rate exposure		(3,783)	2,630	(2,675)	(303)	556	145	(3,430)

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

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

29 FINANCIAL DERIVATIVES

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

Forward exchange contracts: Contracts between two parties to exchange foreign currencies on a specified future date at a fixed price.

FRAs: Agreements to hedge an 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 determined 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 reflects 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 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 Tradingportfolio 31.Dec. 98	Tradingportfolio Average	Bankportfolio 31.Dec. 98	Bankportfolio Average	Risk-weighted volume	Derivative	GROUP Tradingportfolio 31.Dec. 98	Tradingportfolio Average	Bankportfolio 31.Dec. 98	Bankportfolio Average	Risk-weighted volume
338,663	250,127	0	0	705	Forward exchange contracts	341,511	254,883	0	0	711
689,936	635,970	10,833	4,604	133	FRAs	690,164	636,257	10,833	4,604	133
552	372	0	0	1	Interest rate options	552	372	0	0	1
257	207	0	0	1	Currency options	257	207	0	0	1
148,195	107,644	30,735	22,687	260	Interest rate swaps	148,195	107,644	31,746	24,009	266
934	1,066	0	0	0	Interest rate futures	934	1,066	0	0	0
3,738	748	2,403	2,536	120	Interest rate and currency swaps	3,738	748	2,422	2,555	120

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 risks. 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 compliance 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 per 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.

30 FOREIGN CURRENCY POSITION AND RISK

Currency, assets and liabilities

PARENT BANK 1998	1997	1996		GROUP 1998	1997	1996
11,936	9,160	6,797	On balance sheet foreign currency assets	17,439	12,511	9,653
29,278	28,001	12,971	On balance sheet foreign currency liabilities	34,960	31,943	16,210
110,010	58,278	44,341	Forward exchange contracts, purchases	111,318	61,051	46,723
92,863	39,553	38,151	Forward exchange contracts, sales	93,833	41,539	40,844

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 (unchanged since 1997). 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 29) are used for hedging currency positions on the balance sheet and for other purposes.

The net aggregate currency position at 31 December 1998 was NOK 84 million (1997: NOK 106 million; 1996: NOK 158 million). The daily average in 1998 was NOK 142 million (1997: NOK 229 million; 1996: NOK 210 million). The highest foreign currency position in 1998 was NOK 611 million (1997: NOK 548 million; 1996: NOK 585 million), which represents 4.7% (1997: 5.8%; 1996: 6.3%) of the parent 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 3,900 million.

31 COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

PARENT BANK					GROUP		
1998	1997	1996			1998	1997	1996
9,499	8,563	8,124	Undrawn credit facilities		8,911	8,352	7,424
9,499	8,563	8,124	Commitments		8,911	8,352	7,424
606	726	511	Payment guarantees		606	726	511
1,937	1,793	1,394	Contract guarantees		1,937	1,793	1,394
1,296	1,681	2,914	Funding guarantee, Eksportfinans	(*)	1,296	1,681	2,914
2,149	1,282	1,114	Other funding guarantees		2,149	1,282	1,114
149	91	55	Guarantees for tax		149	91	55
1,022	1,374	990	Other guarantees for customers		941	1,150	837
7,159	6,947	6,978	Guarantee liabilities	(**)	7,078	6,723	6,825
4,592	3,985	1,157	Pledged certificates and bonds	(***)	4,592	3,985	1,157
0	0	0	Pledged real estate		11	12	19
11,751	10,932	8,135	Contingent liabilities		11,681	10,720	8,001

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

(**) Until the spring of 1998, savings banks were required to issue guarantees in favour of the Savings Banks' Guarantee Fund. Until the autumn of 1997, savings banks were required to deposit bonds in a separate account in the Norwegian Registry of Securities (VPS). The face value of the amounts at all times had to 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). This guarantee is in addition to the figures stated on this line.

(***) Pertains to the parent bank's access to D-loans with the Central Bank of Norway in 1996 and 1997, collateral (with the Banking, Insurance and Securities Commission as ultimate rights owner) relating to the parent bank's stock brokering and option trading, and for 1996 the guarantee in favour of the Savings Banks' Guarantee Fund (see previous item). The face value of the securities was NOK 4,568 million (1997: NOK 3,976 million; 1996: NOK 1,150 million). They have been pledged as collateral for a total of NOK 5,025 million (1997: NOK 4,366 million; 1996: NOK 1,206 million).

32 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 profits of associated companies in the Union Bank of Norway Group are shown in Note 16.

The subsidiaries consolidated in the Union Bank of Norway Group are listed in Note 36. Pursuant to the Financing Activities Act, all intra-group transactions are carried out as arms-length transactions.

Intra-group transactions and accounts with consolidated subsidiaries

	PARENT BANK		
Profit and loss account	1998	1997	1996
Income			
Interest on loans	54	114	139
Interest on deposits in credit inst.	207	93	93
Interest on bonds and certificates	32	0	2
Dividends received/ Group contributions (*)	95	176	163
Other income	96	98	67
Total income	484	481	464
Expenses			
Interest on customer deposits	11	10	13
Interest on loans from credit inst.	16	20	31
Rent/share of collect. overhead exp.	243	219	190
Other expenses	5	25	1
Total expenses	275	274	235
(*) Dividends and Group contributions from:			
Sparebank Kreditt	4	49	83
Karl Johan Fonds	21	14	6
Union Bank of Norway Inc.	20	30	1
Hafjell alpinsenter	1	20	
Linstow Eiendom		13	20
Sparebankgårdene		(6)	14
NOR Forsikring Holding	18	39	29
NOR Eiendomsmegling Holding		4	5
Avanse Forvaltning	29	12	4
Miscellaneous	2	1	1
Total	95	176	163

	PARENT BANK		
Balance sheet	1998	1997	1996
Assets			
Loans	940	2,303	2,225
Deposits in credit institutions (*)	4,409	3,359	1,915
Bonds and certificates	1,166	0	0
Other assets	123	262	289
Total assets	6,638	5,924	4,429
Liabilities			
Deposits from customers	245	266	426
Deposits from credit institutions	466	239	547
Other liabilities	19	69	95
Total liabilities	730	574	1,068
Commitments and guarantees	101	245	173

(*) Of which NOK 250 million (1997: NOK 250 million; 1996: NOK 250 million) was subordinated loan capital.

Group contributions paid to:	1998	1997	1996
Linstow Eiendom			40
Hafjell alpinsenter		39	
NOR Eiendomsmegling	17	1	3
NOR Finans		26	33
Miscellaneous	2	1	1
Total	19	67	77

Dividends received (included in transfers) from:	1998	1997	1996
Linstow Eiendom			82
Total			82

Note 32 continued

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 AS, on 1 July 1996. At 1 July 1998, the bank purchased the remaining 25% of the shares. As part of the purchase, goodwill amounting to NOK 42 million was recorded on the balance sheet, with straight-line amortisation of the goodwill over five years.

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. Subsequently, Fellesdata and Union Bank of Norway entered into an agreement which regulates the matter.

Based on the agreement, the parties have discussed compensation. The Board of Directors of Fellesdata has offered Union Bank of Norway NOK 6 million as settlement. The compensation is to be paid as a skewed distribution of the 1998 dividend, pending approval by Fellesdata's general meeting. In the event of approval, Union Bank of Norway will refrain from making any demands based on incorrect valuation in 1995.

Linstow ASA

In the first quarter of 1998, Union Bank of Norway realised a NOK 161 million gain on the sale of shares in Linstow. Consequently, Linstow ASA (formerly Linstow Eiendom AS) changed its accounting status from being a consolidated wholly-owned subsidiary to becoming an associated company, which is consolidated according the equity method. For 1998, a NOK 32 million share of Linstow ASA's annual profit has been booked.

Key figures for Linstow, as incorporated in the consolidated accounts for previous accounting years, are shown in the table below:

	1997	1996
Net interest expenses	93	111
Net other operating income	342	326
Operating expenses	218	195
Operating profit	31	20
Total assets	2,707	2,834
Loans, Union Bank of Norway Group	1,557	1,517
Real estate (book value)	2,567	2,715
Number of man-years	49	43

Sale of DA Stavanger

In December 1998, Union Bank of Norway entered into an agreement to sell the activities of the bank's district office in Stavanger for NOK 20 million to Sandnes Sparebank. The transfer is expected to occur before 1 April 1999. The Stavanger district office has a lending portfolio of NOK 780 million, customer deposits of NOK 168 million, and 14 employees. The sale is part of establishing a cooperation agreement with Sandnes Sparebank.

Sale of credit service department

Union Bank of Norway sold its sale of credit service department to Creditreform Norge AS effective 31 December 1998 at a purchase price of NOK 7.5 million. The agreement allows for an earnings-dependent additional sum of up to NOK 10 million, to be paid by year-end 1999. Creditreform Norge AS also took over systems, etc., as well as 20 employees associated with the department as of 1 January 1999.

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 the same date. The exchange added NOK 540 million to Union Bank of Norway's loans to private customers; loans to business customers increased by NOK 140 million; and customer deposits increased by NOK 1,040 million. Union Bank of Norway's 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 3.5 years. Other excess value is mainly related to the real estate that was part of the transaction.

33 INVESTMENTS IN SECURITIES

INVESTMENTS IN	Bank/ Trading	Risk-weighting	BOOK VALUE 1998	BOOK VALUE 1997	BOOK VALUE 1996	MARKET VALUE 1998	MARKET VALUE 1997	MARKET VALUE 1996	SHARE (%) 1998
Certificates									
Government and government guaranteed	B	0	1,100	2,840	345	1,100	2,841	346	
	T		0	75	4,064	0	75	4,080	
Other	B	20	1,828	220	735	1,828	220	736	
	B	100	11	0	51	11	0	51	
	T		63	145	149	63	145	149	
Total certificates			3,002	3,280	5,344	3,002	3,281	5,362	29.5%
Bonds (1)									
Government and government guaranteed	B	0	1,241	264	402	1 241	265	403	
	T		520	131	751	522	131	757	
Credit institutions	B	20	2,357	964	758	2,356	955	759	
	T		261	160	124	261	160	125	
Other Norwegian	B	10	20	18	19	21	19	20	
	B	100	81	45	111	81	45	112	
	T		115	91	46	116	92	46	
Foreign	B	0	2	2	2	2	2	2	
	B	20	192	371	449	192	371	450	
	B	100	167	175	524	169	185	525	
Subordinated loans	B	100	504	549	403	503	550	420	
Subordinated loans	T		41	1	0	40	1	0	
Total bonds			5,501	2,771	3,589	5,504	2,776	3,619	54.1%
Total certificates and bonds			8,503	6,051	8,933	8,506	6,057	8,981	83.7%
Shares (2)									
Norwegian, short-term	B	20	0	0	22	0	0	22	
	B	100	0	0	27	0	0	15	
	T		80	89	7	61	84	7	
Foreign, short-term	B	100	12	0	0	19	0	0	
Foreign, long-term	B	20	25	22	21				
Foreign, long-term	B	100	2	1	0				
Norwegian, long-term	B	20	21	426	23				
	B	100	58	50	83				
Units in mutual funds	B	100	120	120	72	134	135	106	
Units in mutual funds	T		99	73	0	130	130	0	
Primary capital certificates	B	100	0	0	10	0	0	12	
	T		35	12	2	37	16	2	
Total shares and units			452	793	267				4.4%
Associated companies	B	20	405	377	372				
	B	100	653	70	60				
Total associated companies			1,058	447	432				10.4%
Group companies (3)	B	20	150	131	141				1.5%
Total securities			10,163	7,422	9,773				100.0%

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

(1) Included in the portfolio are individual items that have a total historical cost that is NOK 4 million higher than booked value.

(2) See Note 36 for an overview of shareholdings.

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

34 GJENSIDIGE NOR

The Gjensidige NOR agreement

Gjensidige and Union Bank of Norway have agreed that the establishment of the financial group Gjensidige NOR will include the following main transactions: Union Bank of Norway will purchase 100% of the shares in Gjensidige Bank AS, exclusive of Creditreform Norge AS, at NOK 2,170 million, adjusted for changes in booked equity from 31 December 1997 to the last quarter before the purchase license is granted.

Gjensidige Livsforsikring will purchase 100% of the shares in NOR Forsikring AS at NOK 519,227,000, adjusted for changes in booked equity from 31 December 1997 to the last quarter before the purchase license is granted. Union Bank of Norway will be the guarantor for the seller's responsibility undertaken by NOR Forsikrings Holding AS (just as Gjensidige Skadeforsikring will back the seller's responsibility as to Gjensidige Holding AS in connection with the sale of shares in Gjensidige Bank AS).

Gjensidige Livsforsikring and Union Bank of Norway have agreed that Avanse Forvaltning AS (of which Union Bank of Norway owns 72.2%) and Gjensidige Fondsforvaltning AS (which is 100% owned by Gjensidige Livsforsikring) will merge to form a fund management company, in which Union Bank of Norway will own 53%, Gjensidige Liv 26.5% and present minority shareholders in Avanse the remaining 20.5%. This merger has been postponed at the request of one of the minority shareholders.

Union Bank of Norway and Gjensidige Skadeforsikring have agreed that Karl Johan Fonds ASA and Elcon Securities ASA will merge to form a single securities brokerage company in which Union Bank of Norway (through Vigar AS) will own one-third and Gjensidige Skadeforsikring (through Gjensidige Holding AS) will own two-thirds, and in which Union Bank of Norway will later acquire an ownership share of 50%. This is an alteration of the former agreement that the companies are to remain wholly owned subsidiaries.

A merger is planned of the discretionary asset management activities of Gjensidige Livsforsikring and Gjensidige Skadeforsikring with NOR Aktiv Forvaltning ASA.

Union Bank of Norway will purchase additional shares in Gjensidige Investeringsvalg AS, a unit linked company that is wholly owned by Gjensidige Livsforsikring; Union Bank of Norway will increase its ownership to 50%.

Pro forma accounts for Union Bank of Norway, including Gjensidige Bank at 31 December 1998

The pro forma accounts have been prepared on the basis of Union Bank of Norway's consolidated accounts and preliminary, unaudited figures for the Gjensidige Bank group, exclusive of Creditreform Norge. NOR Forsikring is not included in the pro forma figures.

FROM THE PROFIT AND LOSS ACCOUNT	Union Bank of Norway	Gjensidige Bank (1)	Pro forma
Net interest income	2,959	1,355	4,223
Net other operating income	1,609	18	1,622
Operating expenses	3,011	895	3,906
Operating profit before provisions and losses	1,557	478	1,939
Losses on loans and guarantees	128	113	241
Profit on financial fixed assets	255	0	255
Tax and minority interests	481	93	549
Net profit	1,203	272	1,404
FROM THE BALANCE SHEET			
Assets			
Net loans to customers	120,757	28,224	149,707
Other assets	26,714	2,301	26,793
Total assets	147,471	30,525	176,500
Liabilities and equity			
Customer deposits	70,514	10,889	81,403
Other liabilities	67,626	17,747	85,576
PCC capital	4,689		4,689
Other equity	4,642	1,889	4,832
Total liabilities and equity	147,471	30,525	176,500
Calculation base	110,799	25,117	131,286
Capital ratio	13.1%	8.9%	11.5%
Tier 1 (core) capital	8.5%	7.5%	7.3%

(1) Exclusive of Creditreform Norge AS

Note 34, continued

The following stipulations have formed the basis for the preparation of the pro forma accounts:

• Union Bank of Norway will purchase all shares in Gjensidige Bank, exclusive of Creditreform Norge AS, for the booked equity plus a gross premium of NOK 726 million, less deferred tax amounting to NOK 203 million. The premium, which is largely attributable to the lending portfolio, will be amortised over eight years, which corresponds to the portfolio's expected average term to maturity. The amortisation is presented as a NOK 91 million reduction in interest income annually, before an effect on deferred tax of NOK 25 million.

• On the sale of NOR Forsikring AS to Gjensidige Liv, Union Bank of Norway will realise a gain of NOK 278 million before tax (NOK 190 million after tax). This gain is not included in the profit and loss account, but is included in the balance sheet presentation.

• Income from NOR Forsikring AS and from Creditreform Norge AS are not included in the pro forma accounts.

• Other transactions related to the combination with Gjensidige are not included, as they are not of major significance to the pro forma accounts. Costs related to the combination process, expected to amount to approximately NOK 100 million, and cost and income synergies from integrating Union Bank of Norway and Gjensidige Bank, are not included.

35 NEW ACCOUNTING ACT 1 JANUARY 1999

The new accounting act, which went into force on 1 January 1999, introduces some changes in valuation rules. The effects of these changes are booked directly against equity at 1 January 1999.

The following changes in valuation rules will lead to changes in Union Bank of Norway's equity at 1 January 1999 compared with 31 December 1998:

• Stock-exchange-listed shares and bonds that are part of a trading portfolio are to be valued at their market value.

• Investments in subsidiaries and in associated companies must be valued in the parent bank according to the equity method. The difference between the investment's balance sheet value according to the equity method and the historical cost is transferred to Reserve for valuation differences.

• Deferred tax advantages are to be valued according to general valuation rules. This means that deferred tax recorded in the balance sheet no longer is an upper limit for balance sheet recording of deferred tax benefit.

In accordance with the new accounting act, minority interests must be included in the group's equity capital.

PARENT BANK			GROUP	
1 Jan.99	31 Dec.98		1 Jan.99	31 Dec.98
8,116	8,116	Equity as of 31 Dec. 1998	9,331	9,331
		Changes:		
12		Goodwill, trading portfolio	12	
1,085		Equity method in parent bank		
130		Deferred tax benefit		
		Minority interests	19	
9,343	8,116	Equity as of 1 January 1999	9,362	9,331

36 SHAREHOLDINGS

Amounts in NOK 1,000		Company's capital	No. of shares	Ownership (%)	Par value	Book value	Market value
Shares, etc., held by parent bank as current assets							
Vestfold Sparebank	(1)	50,000	1,000	0.2	100	100	139
Sparebanken Rana	(1)	50,935	9,500	1.9	950	1,045	1,487
Sparebanken Møre	(1)	552,615	145,938	2.6	14,594	21,046	22,912
Sandnes Sparebank	(1)	260,000	25,000	1.0	2,500	3,532	3,250
Sparebanken Pluss	(1)	125,000	31,500	2.5	3,150	4,095	4,237
Sparebanken Rogaland	(1)	744,000	20,000	0.3	2,000	3,707	3,800
Sparebanken Vest	(1)	250,000	9,000	0.4	900	1,127	1,129
Avanse Finans			162,734		16,273	14,111	31,591
Avanse Industri			11,267		1,127	2,022	3,389
Avanse Shipping			135,382		13,538	13,146	14,129
Avanse Norden			300,000		30,000	30,000	34,470
Avanse Markedsverdi			1,556		15,558	19,468	26,952
Avanse Pensjonspar			100,000		10,000	10,000	7,728
Avanse Vekst			100,000		10,000	10,000	11,727
Avanse Lange Obligasjoner			5,136		51,359	50,000	51,350
Avanse Lang Likviditet			5,036		50,355	50,000	51,953
Kongsberg Gruppen ASA		120,000	150,000	0.6	750	10,399	11,550
Norsk Hydro ASA		4,581,453	10,000	0.0	200	4,004	2,630
A-pressen AS, A shares		176,310	97,778	1.1	1,956	16,084	10,413
Dyno Industrier ASA		511,952	110,000	0.4	2,200	16,973	13,090
Frontline Ltd.			81,587			8,480	1,265
Misc. shares held as current assets						18,464	22,985
Total shares, etc., held by parent bank as current assets						307,803	332,176
Shares held by rest of Group as current assets							
Avanse Utland			25,000			2,852	9,533
Avanse Barnespar			150,000			15,000	17,636
Avanse Finans			18,488			2,000	3,589
Kongsberg Gruppen ASA		120,000	20,000	0.1	100	1,860	1,540
Schibsted ASA		69,250	10,000	0.0	10	1,330	975
Orkla ASA, A shares		987,224	19,200	0.0	120	3,418	2,208
Mindex ASA		21,742	486,980	1.1	243	5,150	3,263
A-pressen ASA, A shares		176,310	16,300	0.2	326	2,665	1,736
Misc. shares held as current assets						10,395	8,308
Value adjustment (Karl Johan Fonds ASA)						(6,787)	
Total shares held by the rest of the Group as current assets						37,883	48,788
Total shares held by Union Bank of Norway Group as current assets						345,686	380,964
Parent bank's shares, repossessed assets							
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		5,822	0	
Total shares, repossessed assets, parent bank						50	
Total shares, repossessed assets, Union Bank of Norway Group						50	
Shares held by parent bank as fixed assets							
Shares/interests in subsidiaries							Share of equity
Sparebankenes Kredittselskap A/S		708,000	7,080,000	100.0	708,000	835,552	1,083,053
NOR Forsikring Holding A/S		195,750	156,255	79.8	156,255	169,987	187,507
NOR Aktiv Forvaltning ASA		10,000	10,000	100.0	10,000	10,000	9,959
Sparebankgårdene A/S		204,920	204,920	100.0	204,920	204,920	465,825
Avanse Forvaltning as		2,400	1,732	72.2	1,732	11,536	38,498
NOR Eiendomsmegling Holding A/S		39,100	1,955	100.0	39,100	44,200	46,920
NOR Finans a.s		100,000	100,000	100.0	100,000	106,079	248,807
Hafjell Alpinsenter AS		26,330	2,633	100.0	26,330	12,400	59,397
Gran Eiendom A/S		3,900	3,900	100.0	3,900	3,900	6,192
Greåker Industripark A/S		3,000	3,000	100.0	3,000	3,000	7,811
Vigar A/S	(2)	1,015	10,150	100.0	1,015	92,600	24,184
UBN Reinsurance S.A., Luxembourg	(NOK 1,000)	11,000	11,000	100.0	11,000	11,000	25,672
Union Bank of Norway Int. S.A., Luxembourg	(LUF 1,000)	700,000	70,000	100.0	700,000	151,102	208,784
Total shares/interest in subsidiaries						1,656,276	2,412,609
Shares in associated companies							
Eksportfinans ASA		1,241,625	23,650	20.0	248,325	231,267	404,436
Fellesdata AS		60,000	495,000	33.0	19,800	21,530	65,930
Linstow ASA		449,923	15,713,320	34.9	157,133	533,378	587,330
Total shares in associated companies						786,175	1,057,696

(1) Primary capital certificate
(2) Goodwill: NOK 43,685

Profits for the most important subsidiaries are presented in Note 10. Business offices are shown on page 69.

Note 36, continued

Amounts in NOK 1,000		Company's capital	No. of shares	Ownership (%)	Par value	Book value	Share of equity
Other shares, etc., held as fixed assets							
Sikon Øst ASA		50,500	53,750	10.6	5,375	10,475	
Four Seasons Venture A/S	(*)	256	62,000	24.2	62	62	
Four Seasons Venture II A/S		100,000	1,000	1.0	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 Oppgjørssentral ASA - NOS		14,903	236,510	15.9	2,365	21,286	
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	11,657	
Finanzierungsgesellschaft Viking	(CHF 1,000)	30,000	9,000	9.0	2,700	12,540	
Miscellaneous shares held as fixed assets						8,088	
Total misc. shares held as fixed assets						101,280	
Total shares/units held as fixed assets by the parent bank						2,543,731	
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		169,990	1,910,000	100.0	169,990	209,120	187,849
Vigar AS							
Karl Johan Fonds ASA		13,400	134,000	100.0	13,400	11,100	37,272
NOR Eiendomsmegling Holding A/S							
NOR Eiendomsmegling Oslo Akershus A/S		11,000	11,000	100.0	11,000	13,000	14,026
NOR Eiendomsmegling Follo A/S		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	2,459
NOR Eiendomsmegling Buskerud A/S		1,000	1,000	100.0	1,000	6,868	751
NOR Eiendomsmegling Ringerike A/S		50	50	100.0	50	760	760
NOR Eiendomsmegling Rogaland A/S		950	950	100.0	950	1,234	(608)
NOR Eiendomsmegling Bergen A/S		200	200	100.0	200	1,220	801
NOR Eiendomsmegling Telemark A/S		2,000	2,000	100.0	2,000	2,000	2,037
Total shares in subsidiaries						257,887	257,553
Other shares held as fixed assets							
A/S Bøndenes Hus	(*)	350	1 691	48.3	169	456	
Kirkegt. 74 A/S	(*)	500	250	50.0	250	250	
Miscellaneous shares held as fixed assets						3,591	
Total shares hold as fixed assets, rest of Group						4,297	

(*) 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 1998: NOR Eiendomsmegling Telemark A/S.
Linstow ASA (formerly Linstow Eiendom AS) has been partly divested by the Group, and is treated according to the equity method of accounting.
The following companies have been liquidated:
SPN Oppland/Hedmark Terminalutleie AS, Sparebanken NOR Dataservice Østfold A/S, and Terminalutleie AS.

Cash flow statement

PARENT BANK				GROUP		
1998	1997	1996		1998	1997	1996
7,746	5,866	6,194	Interest receipts	8,780	6,909	7,412
5,104	3,292	3,407	Interest payments	5,863	4,165	4,403
1,243	1,333	1,091	Other receipts	1,580	2,081	1,726
2,388	2,644	2,431	Operating expenses	2,810	3,312	2,848
82	65	66	Recovered on losses previously written off	90	72	76
301	276	130	Tax paid	357	380	136
1,278	1,052	1,383	**Net cash flow from operations**	1,420	1,205	1,827
(8,196)	(15,044)	(11,413)	(Increase) lending	(11,952)	(17,492)	(11,415)
(118)	(263)	703	Decrease (increase) in other receivables	12	(404)	760
(3,685)	2,182	(344)	Decrease (increase) in short-term securities	(2,506)	2,728	182
(2,371)	(3,182)	(3,656)	(Increase) deposits with and loans to credit institutions	(2,126)	(1,835)	(2,735)
(14,370)	(16,307)	(14,710)	**Net cash flow from current financial activities**	(16,572)	(17,003)	(13,208)
(394)	(398)	(63)	(Increase) tangible assets	(548)	(785)	(495)
(151)	(492)	(154)	(Increase) other fixed assets	(525)	(433)	(34)
1,098	120	36	Sales of fixed assets	3,126	339	360
553	(770)	(181)	**Net cash flow from investments**	2,053	(879)	(169)
3,965	137	4,892	Increase in customer deposits	4,030	260	5,050
267	421	413	Increase in subordinated loan capital	227	419	352
2,024	35	107	Increase in equity	2,029	35	107
3,232	8,732	5,908	Increase in loans and deposits from credit institutions	4,589	9,505	5,271
3,447	7,070	2,442	Increase in other liabilities	2,620	6,828	1,023
12,935	16,395	13,762	**Net cash flow from long-term financing activities**	13,495	17,047	11,803
396	370	254	**Net changes in liquid assets**	396	370	253
1,242	872	618	Liquid assets at 1 January 1998	1,242	872	619
1,638	1,242	872	Liquid assets at 31 December 1998	1,638	1,242	872

Audit report for 1998

TO THE GROUP COMMITTEE OF REPRESENTATIVES OF UNION BANK OF NORWAY

We have audited the financial statements for Union Bank of Norway for 1998, showing a net profit of NOK 1,202 million for the Parent bank and a net profit of NOK 1,203 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 as of 31 December, 1998 and the result of the operations in the accounting year in compliance with generally accepted accounting principles.

Oslo, 4 March 1999
PricewaterhouseCoopers DA

Einar Westby
State Authorised Public Accountant

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 Committee has examined the financial statements and the auditors' report and recommends that the presented profit and loss account and the balance sheet are adopted as the 1998 financial statement of Union Bank of Norway.

Oslo, 8 March 1999

Arne Meltvedt Jan Torgersen Sjur Lohne

Key figures

Amounts in NOK million (unless otherwise specified)			1998	1997	1996	1995	1994
Profit and loss account							
Net interest income			2,959	2,602	2,559	2,781	2,934
Capital gains (losses)			222	124	176	215	(228)
Other operating income			1,387	1,642	1,326	1,045	978
Operating income			4,568	4,368	4,061	4,041	3,684
Operating expenses			3,011	3,072	2,930	2,616	2,406
Operating profit before losses			1,557	1,296	1,131	1,425	1,278
Losses			(127)	46	(42)	19	466
Operating profit			1,684	1,250	1,173	1,406	812
Net profit			1,203	868	851	1,071	704
Balance sheet							
Loans, private customer market			59,137	53,823	46,641	42,757	40,644
Loans, corporate customer market			63,348	57,125	47,089	40,044	35,685
Specific loan loss provisions			797	1,087	1,340	1,722	2,375
Unspecified loans loss provisions			931	870	867	888	941
Customer deposits			70,514	66,484	66,224	61,174	57,962
Total assets at 31 December			147,471	132,429	114,540	101,521	94,962
Average total assets	(ATA)		140,100	123,600	107,900	98,100	97,100
Total assets under management			172,405	156,927	134,543	122,380	*
Primary capital certificate capital			4,689	2,605	2,570	2,463	2,288
Savings Bank's reserve			2,071	1,732	1,499	1,270	1,089
Dividend adjustment reserve			1,356	1,112	951	739	599
Group's equity in subsidiaries			1,215	1,189	1,105	1,090	705
Total equity			9,331	6,638	6,125	5,562	4,681
Operations, profitability							
Interest income	(in % of ATA)		6.6%	5.6%	6.6%	7.3%	7.7%
Interest expenses	(in % of ATA)		4.5%	3.5%	4.2%	4.5%	4.7%
Interest spread	(in % of ATA)		2.1%	2.1%	2.4%	2.8%	3.0%
Operating income	(in % of ATA)		3.3%	3.5%	3.8%	4.1%	3.8%
Operating income (excluding capital gains), change from previous year			2.4%	9.2%	1.5%	(2.2%)	(5.7%)
Cost ratio	(in % of ATA)		2.1%	2.5%	2.7%	2.7%	2.5%
Costs per NOK earned		1	0.66	0.70	0.72	0.65	0.65
Costs per NOK earned excl. capital gains			0.69	0.72	0.75	0.68	0.62
Operating profit before losses and write-downs	(in % of ATA)		1.1%	1.0%	1.1%	1.4%	1.3%
Return on total assets	(operating profit after taxes in % of ATA)		0.9%	0.7%	0.8%	1.1%	0.7%
Return on equity		2	15.7%	13.1%	13.8%	19.9%	15.0%
Key figures, primary capital certificates							
Market price at 31 December (in NOK) - actual			147.50	260	200	163,50	133
Market price at 31 December (in NOK) - adjusted		‡	147.50	211	162	132	108
Equity per PCC (NOK, including allocation of dividend)		‡	160	153	148	143	133
Price/book value			0.92	1.38	1.10	0.93	0.81
Effective yield per PCC (in %)		3	(18%)	38%	31%	34%	(2%)
PCC ownership percentage		4	74.5%	68.2%	70.1%	71.6%	72.6%
Earnings per PCC (in NOK)		5,‡	28.49	19.06	19.39	25.99	21.48
Diluted yield per PCC		6,‡	28.49	19.01	19.25	25.18	20.26
Profit coverage per PCC, gross (in NOK)		7,‡	39.96	27.11	26.83	35.23	25.11
Dividend per PCC (in NOK) - actual			11.50	15.00	15.00	15.00	15.00
Dividend per PCC (in NOK) - adjusted		‡	11.50	12.15	12.15	12.15	12.15
Direct yield (allocated dividend as a % of market price at year-end)			7.8%	5.8%	7.5%	9.2%	11.3%
Allocated dividend, % of PCC holders' share of profit			63%	64%	63%	48%	
Pay-out ratio (gross)		8	45%	45%	45%	34%	48%
RISK amount, 1 January in subsequent year (in NOK)			Appr. 13	20.84	21.98	4.39	(2.31)
Balance sheet development							
Growth in lending			10.8%	18.9%	14.0%	9.6%	(3.0%)
Growth in deposits			6.1%	0.4%	8.3%	5.5%	1.9%
Deposit/lending ratio		9	58%	60%	71%	74%	76%
Growth in total assets			11.4%	15.6%	12.8%	6,.9%	(0.2%)
Defaults, provisions and loan losses							
Defaults, gross			0.9%	1.6%	2.1%	3.0%	4.7%
Defaults, net			0.4%	0.8%	1.0%	1.4%	2.3%
Provision ratio on defaulted loans			55%	52%	55%	54%	53%
Unspecified loan loss provisions in % of gross lending			0.8%	0.8%	0.9%	1.1%	1.2%
Losses on loans and guarantees in % of gross lending			0.1%	(0.04%)	(0.04%)	0.1%	0.7%
Capital adequacy							
Equity and subordinated loan capital (eligible)			14,554	10,973	10,775	9,615	9,848
Calculation base			110,799	96,672	81,856	72,480	66,340
Capital ratio (in %)			13.1%	11.4%	13.2%	13.3%	14.8%
Of which Tier 1 (core) capital (in %)			8.5%	6.9%	7.5%	7.9%	7.7%
No. of man-years at 31 December			3,328	3,304	3,349	3,325	3,312

For definitions, see bottom of next page.

Analysis of key figures

NET INTEREST INCOME

Net interest income is positively affected by increases in lending volume and improved spread, and negatively affected by reduced deposit/lending ratio.

Net interest income in 1998 amounted to NOK 2,959 million, or 2.1% of the average total assets of the bank. The corresponding figures for 1997 were NOK 2,602 million and 2%. Growth in lending and improved deposit spread have improved net interest income, while a decrease in the deposit/lending ratio has had a contrary effect.

The bank's average customer spread (the difference in average interest rates between loans and deposits to customers) increased from 2.8% in 1997 to 3.0% in 1998. The customer spread at year-end 1998 was 3.4%.

In 1998, the bank's lending increased by 11%, whereas customer deposits grew by 6%. This reduced the relative deposit coverage (deposits expressed as a percentage of loans) from 60% to 58%. 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

From 1998 on, income from Linstow's real estate portfolio, NOK 342 million in 1997, is gone. Other income increased in 1998; it represents 35% of total income. Over time, Union Bank of Norway's other operating income has grown from approximately 25% of total income to 35%. Growth is largely attributable to sales of subsidiaries' products, whose relative importance to the bank is increasing.

EXPENSES

Expenses were reduced by NOK 61 million in 1998. Adjusted for changes in the composition of the Group, however, expenses grew by NOK 120 million (39%). Due to strong volume growth, expenses fell from 2.5% of average total assets in 1997 to 2.1% in 1998. Higher salaries are the single most important factor contributing to increased expenses. In 1998, salaries at the parent bank grew by about 6%.

Expenses per NOK earned amounted to NOK 0.66 in 1998. In other words: for each NOK earned as net interest income and other operating income, NOK 0.66 was spent on expenses. The remaining NOK 0.34 covers losses, taxes, and return on equity.

LOSSES

In 1998, the bank had net losses of 0.1% of its gross lending volume. Over the past five years, losses have averaged 0.2% of gross lending.

Definitions

1 Ratio of operating expenses over 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 December.
‡ For purposes of comparison, previous years' figures are adjusted by a factor of 0.8103, due to the issue of PCCs at par value (below market value) in October 1998.

Products may be copied - not people and human relations

In the finance industry it never takes long for a successful product to be copied by several competitors. Since good ideas generally cannot be patented, lasting success in the financial industry depends on much more than a moment of genius. Nothing is more important to a corporate culture than the values that we convey to customers and colleagues. As part of the bank's portrayal of its goals for the coming years, we have tried to equip our employees with a compass to accurately stake out the course ahead and identify which values we need to build on to arrive at our destination.

In banking, as in other industries, we are customer-driven. Over time, we prosper if we have satisfied customers. For us, then, it was natural to identify which two values would permeate our work: Helpfulness and skill. If we are sufficiently skilled in providing advice, and in our credit evaluations, our product development, our leadership and our communications, we can feel confident that we are meeting customers' needs. If we are also able to understand our customers' needs and give that "little extra" when we provide service in our bank offices, over the telephone or wherever we encounter them, customers will be satisfied.

To reach these goals will require systematic and close follow-up. In recent years, Union Bank of Norway has employed three instruments to measure the quality of our organisation: We measure customer satisfaction and staff satisfaction, and we continually monitor the quality of the bank's loan portfolio. If undesirable results are identified, remedial measures and follow-up by management are implemented immediately. We believe this is the best way of guaranteeing quality in the contacts between bank and customers. It is at this contact point, specifically, that the earnings of Union Bank of Norway are secured.

Our strategic goals express the high level of ambition the Group has for the next two years vis-a-vis the three groups that Union Bank of Norway depends on - customers, owners and employees. In reaching our goals, we will also have strengthened our position in the Norwegian financial market considerably.

1999 will mark a new epoch for Union Bank of Norway, as we join forces with an equal partner to form the Gjensidige NOR financial group. In late summer, Kjell Kran will leave the group after 11 years as its President and CEO.
Kjell O. Kran has in many ways made his mark on the organisation. For those of us who have had the opportunity to work closely with him, there is one area where he had particularly great impact - management development. Management development has been his priority in

good times as in bad. We in Union Bank of Norway have never doubted that Kjell would at some time be appointed "Manager of the year," and the award was well deserved when he received it in 1996.

Thank you for what you have given each and every one of us. Thank you for what you have given of yourself to Union Bank of Norway. The rest of us will - to the best of our ability - try to carry on what you have built.

Equity and ownership

FINANCIAL STRENGTH

At year-end 1998, Union Bank of Norway's Tier 1 (core) capital was 8.5% (1997: 6.9%). This high level is owing to the primary capital certificate offering (see below) carried out in October 1998 to finance the purchase of Gjensidige Bank. Once the transactions for the formation of Gjensidige NOR have been completed, Tier 1 capital adequacy will be just over 7%.

Low interest rates and a robust economy resulted in strong growth in lending in 1997 and in parts of 1998. In the second half of 1998, lending growth shrank significantly; in part, this reduction is attributable to an increase in market interest rates, but it is also a result of the bank's own initiatives. Growth in the bank's capital ratio calculation base was 12% for the year as a whole. Prospects at the beginning of the year are for more moderate growth, and Tier 1 capital is expected to remain stable throughout 1999.

In 1998, two subordinated loans were redeemed (NOK 300 million and USD 100 million). Two new loans were raised of USD 50 million (dated) and USD 150 million (perpetual) to replace the two loans that had been redeemed and another loan of ¥ 7,000 million scheduled to be redeemed in 1999.

UNION BANK OF NORWAY'S CREDIT RATING

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 did not change during 1998. Union Bank of Norway's ratings for long-term borrowing are:

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

The ratings are in line with that of other major Norwegian banks.

In April 1998, the bank signed an agreement to establish European Medium Term Note programme. The EMTN programme provides standard loan documentation used in connection with new borrowing. Moody's and Fitch IBCA have credit-rated the programme, which has an upper limit of USD 1.5 billion. In 1998, four new loans totalling approximately USD 800 million were raised under the programme: two bond issues of five and three years maturity, and two subordinated loans.

During 1999, the bank will evaluate establishing a programme for borrowing in the U.S. commercial paper market for its financing needs with less than one year to maturity. This would provide Union Bank of Norway with direct access to the highly liquid U.S. money market.

PRIMARY CAPITAL CERTIFICATE OFFERING

To finance the planned purchase of Gjensidige Bank, it was necessary to raise capital from external sources in the form of primary capital certificates. Before a recommendation was presented to the Bank's decision-making bodies, the size of the PCC offering, its structure, and the timing of the capital expansion were duly considered.

To strengthen Tier 1 capital after a purchase of Gjensidige Bank, Union Bank of Norway chose a NOK 2.1 million offering. After weighing what would be most beneficial to Union Bank of Norway's PCC holders, it was also decided that the offering would be a private, preemptive placement at par value, with freely transferrable subscription rights.

The timing of the offering was discussed thoroughly in light of the difficult capital market situation at the time. Following careful consideration, during which advice from both the bank's facilitators and its major PCC holders was given decisive weight, the offering period was set for September/October 1998.

Marketing of the offering was extensive in Norway and abroad. A considerable number of meetings with interested investors were held throughout the country, in addition to individual meetings with the largest investors. Outside of Norway, five European and ten U.S. cities were visited in the course of a 10-day tour.

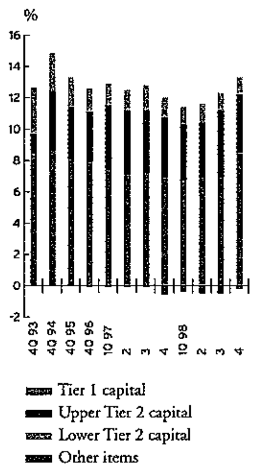
The bank certainly received no support from the market during the offering period. Difficulties in Asian markets and in Russia, profit warnings from key international and Norwegian companies and banks, and the bailout of the U.S. hedge fund Long Term Capital Management, hardly created a favourable environment for a new issue.

During the offering period there was significant turnover of rights at greatly varying prices. The offering of 20,839,714 new primary capital certificates was fully subscribed, which expanded the bank's PCC capital to NOK 4,688,935,600. The payment date for the capital increase was 21 October 1998. All primary capital certificates, including the newly issued PCCs, are entitled to a full-year 1998 dividend.

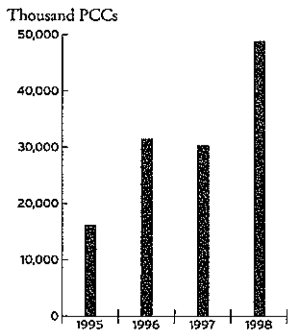
OWNERSHIP

Despite both the difficult capital market situation in 1998 and the new offering, investor interest in Union Bank of Norway's PCCs remained high. The number of PCC holders rose from 13,700 to 16,000 during the year. Wage earners or retirees hold 22% of the outstanding primary capital certificates, the same level as in 1997. Major international and Norwegian investors continue to hold the majority of PCCs. The 60 largest investors own 54% of PCC capital.

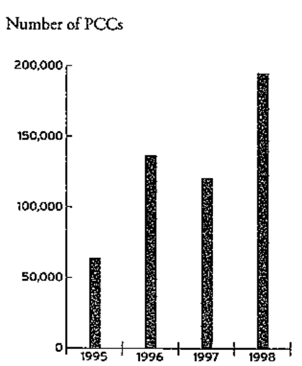
Capital adequacy, Group



Primary capital certificate (PCC) trades*



Daily PCC trading volume*



* Excluding 20 million PCCs (10 million PCCs sold by Government Bank Investment Fund)

The share of PCCs held by non-Norwegian interests was 31% at year-end 1998 (1997: 32.5%). The largest holders were Chase Manhattan Bank (nominee accounts), the Norwegian National Insurance Fund, State Street Bank (nominee accounts), Swedbank (Föreningssparbanken i Sverige) and Orkla ASA.

MARKET DEVELOPMENTS FOR PCCS

The trading price of Union Bank of Norway's primary capital certificates at the end of 1998 was NOK 148, compared with NOK 260 at year-end 1997. The decline, adjusted for the offering at par value, is 21.6%.

For 1998 as a whole, the Oslo Stock Exchange ended down 26.7%, which is its weakest performance since the all-share index was introduced. All sub-indexes fell. The finance index had the smallest drop, slipping 2.4%. This decline has been largely attributed to ongoing structural changes, reflected in investors' market price expectations. The PCC index fell 21%.

The market value of Union Bank of Norway's primary capital certificates at year-end 1998 was NOK 6,940 million, a market value which places the bank among the top 15 companies listed on the Oslo Stock Exchange.

Liquidity in the primary capital certificate has been excellent overall. A total of 48 million primary capital certificates were traded in 1998, which corresponds to a daily average of 195,000 PCCs.

RETURN ON PCCS

The 1998 cash dividend on Union Bank of Norway's primary capital certificates has been set at NOK 11.50 per PCC, and NOK 304 million (NOK 6.48 per PCC) has been transferred to the bank's dividend adjustment reserve. Through this profit allocation, PCC owners will receive a share of 1998 profits corresponding to their 71% ownership share of equity capital (calculated according to weighted average PCC ownership for the year). The remaining 29% of profit is allocated to the Savings Bank's reserve. As of early 1999, PCC holders' share of total equity had increased to 74%.

The distribution of profit accords with the bank's dividend policy (described on page 51). Book value per PCC (including 1998 dividend) is NOK 160.

PCC yield for 1998, adjusted for the new offering and the cash dividend for 1997 paid out in April 1998 and the RISK adjustment as of 1 January 1998, is about minus 17%.

RULES AND REGULATIONS GOVERNING PCCS

The committee revising the Norwegian Banking Act has proposed an amendment to the Financing Act that would allow individual savings banks more leeway regarding the composition of its committee of representatives. The bill opens the door to allowing PCC holders to elect up to 40% of the members of the committee of representatives.

In February 1999, the Norwegian Ministry of Financial Affairs modified the rules and regulations applicable to primary capital certificates; premiums paid in connection with PCC offerings are now to be included in determining PCC holders' share of profit. This change expands a savings bank's framework as to cash dividends and allocations to its dividend adjustment reserve. This will facilitate savings banks' issuance of PCCs at a price above par value.

A series of amendments have been made to the rules and regulations governing primary capital certificates in anticipation of the new companies act. Among the changes: allowing savings banks to acquire up to 10% of their own primary capital certificates, in line with the rule for public limited liability companies. Savings banks have also been permitted to issue PCCs bearing subscription rights, free-standing subscription rights and other instruments.

The majority of the Banking Act Commission's members have recommended allowing savings banks to reorganise as limited companies. Union Bank of Norway favours such amending legislation.

UNION BANK OF NORWAY'S DIVIDEND POLICY

Union Bank of Norway's goal is to generate a profit that forms the basis for a competitive return on the bank's equity capital.

Of the annual profit, Union Bank of Norway aims to distribute a cash dividend to PCC holders and allocate to the dividend adjustment reserve an amount that corresponds to their share of the equity capital.

Priority will be given to paying a solid annual cash dividend to secure a direct yield competitive with comparable investment alternatives.

The proportionate distribution of cash dividend and allocation to the dividend adjustment reserve can vary, should the bank's equity capital disposition require particular consideration.

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

PCC holders	Country	No. of PCCs	Share (in %)
1. Chase Manhattan Bank*	England	2,447,354	5.22%
2. National Insurance Fund	Norway	2,340,000	4.99%
3. State Street Bank & Trust Co.*	USA	2,085,660	4.45%
4. Swedbank Markets	Norway	1,663,667	3.55%
5. Orkla ASA	Norway	1,065,160	2.27%
6. Brown Brothers Harriman Group	USA	1,000,000	2.13%
7. Postbanken	Norway	871,118	1.86%
8. Norsk Hydros Pensjonskasse	Norway	846,990	1.81%
9. Avanse	Norway	784,944	1.67%
10. Principal Life Ins. Co.	USA	778,760	1.66%
11. Morgan Stanley Trust Company*	USA	714,877	1.52%
12. Storebrand	Norway	599,117	1.28%
13. Hafslund	Norway	574,010	1.22%
14. Bankers Trust Company*	England	565,740	1.21%
15. Mohn Gruppen	Norway	546,680	1.17%
16. Boston Safe Deposit & Trust*	USA	504,460	1.08%
17. Bank of New York, Brussels Branch	Belgium	477,000	1.02%
18. The Northern Trust Co. Group	England	475,418	1.01%
19. Vital Forsikring ASA	Norway	470,616	1.00%
20. Gjensidige Gruppen	Norway	462,100	0.99%

* *Nominee accounts*

Management at Union Bank of Norway

Overall, leadership and management at Union Bank of Norway is divided into *strategic* and *operational* management. These two levels of management build on certain basic leadership fundamentals and on elements of our corporate culture that have evolved over the years. The most important of these are the principles relating to management, operations and organisation that were instituted at the establishment of Union Bank of Norway, and which the bank largely continues to operate in accordance with.

Our leadership principles set forth the guidelines and overall philosophy for the bank's managers, and enumerate profit requirements and performance criteria for individuals in leadership positions.

Union Bank of Norway's operational and organisational principles describe, among other things, how individual units in the bank should function together. They also establish the most important prerequisites needed for the bank's operation and further growth. For example, they include the principle that Union Bank of Norway is to be run according to a decentralized model, with local expertise and wide-ranging delegation of authority in providing service to customers.

STRATEGIC MANAGEMENT

A key element in longer-term strategic development and management goals is the ongoing work on the bank's overall objectives. Prepared by top management, these objectives stress where we as a business intend to be in a few years. The objectives document is reviewed and approved by the Group Board of Directors. Circumstances under which course readjustments and new measures will be needed are set out, so that the bank can continue to meet the demands of customers, employees and owners.

A number of areas for strategic development - each rooted in the bank's management - branch out from the overall objectives. Plans of action are prepared for each strategic development area. Currently, the following have been defined as areas for strategic development:

- Business and industry
- Greater cost efficiency
- Operational quality
- Quality of service
- Risk management
- Expertise
- Distribution
- Cooperating banks

Policy documents, which are all prepared within individual business areas, represent another key aspect of strategic management. Among the most important policy documents are: credit policy, IT policy, risk policy, liquidity policy and shareholder policy.

"THE MOST IMPORTANT THING ISN'T THAT THEY LEND ME MONEY, BUT THAT THEY LISTEN."

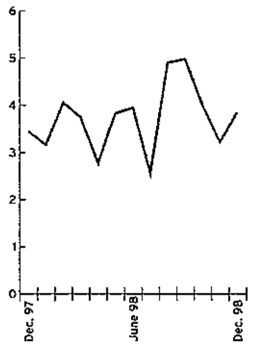
Sigrun Janøy lives in Skien. Union Bank of Norway lent her the money she needed to buy a house. The bank also provides her with the other services she needs to manage her finances.

OPERATIONAL MANAGEMENT

Planning process

Pivotal to operational management are the yearly action plans affecting every part of the Union Bank of Norway Group. During the planning process, concrete objectives are prepared for all units, including financial key figures and other quantifiable amounts that can be monitored - such as sales data, certain quality parameters, productivity and other factors. Areas of concentration are presented as part of the planning process. These consist of central topics that all leaders are required to focus on, and they must incorporate measures for resolving issues as part of their respective action plans. Examples of areas of concentration from the past few years include: management and organisational development, building expertise and operational quality.

Market risk
in % of equity



"Worst case" effect on profit following specified unfavourable rate movements in markets in which the Group holds positions.

Another key element of the annual planning process is the preparation of a financial plan, which provides the framework for the Group's overall strategic financial adaptation throughout the year. Issues such as liquidity, financial soundness, market positions and investor relations are discussed, and requirements are set.

Management Information System

In December 1998, the implementation of the bank's new IT platform was completed. All bank employees are now linked in a common network for in-house communication, administrative procedures and data retrieval. During the year, a new Management Information System (MIS) was developed. The system contains all key financial figures for each manager, as well as key data on customer portfolios. In early 1999, an expanded MIS will provide sales reporting and other features. Continual expansion of MIS tools is planned.

Employee job satisfaction

Banking is a personnel-intensive and personnel-dependent industry. Capable, efficient and satisfied employees are vital to good financial results. To measure and track key aspects of the work environment, job satisfaction and employee development, Union Bank of Norway holds an annual job satisfaction survey for all employees. With a 90% response rate, the survey provides an excellent picture of the state of individual organisational units. Survey results are intended first and foremost to be used in planning and implementation of local improvement measures. The findings are also used as input for follow-up meetings or individual employee job discussions.

Customer satisfaction and service quality

Since 1992, Union Bank of Norway has surveyed a representative sample of our customers annually as to service quality. The survey's purpose is to obtain immediate feedback on customer attitudes toward the bank. Survey results are used to improve customer satisfaction and loyalty.

Today, the customer satisfaction survey is also an operational management tool, providing important insights for resource allocation, operational measures at each office and the bank's strategic planning.

Management follow-up

One of the most distinctive features of Union Bank of Norway's management systems is the comprehensive and systematic programme for year-round management follow-up. All management levels, starting with the Group President, hold regularly scheduled meetings in which operations and developments are reviewed. Key financial figures and market developments provide important points of departure, but all topics from action plans and areas of concentration are discussed. The intention is to provide the clearest possible picture of the current situation, and the meetings are a platform for identifing any deviations from plans and possible measures for improvement.

RISK MANAGEMENT

In June 1998, the Group Board of Directors presented an overall risk policy for the bank. The document lays out the Group's goals and its philosophy concerning risk. The document sets up a unified framework for measuring and reporting risk, and describes the most important elements in overall management of the various areas of risk exposure. In all parts of the Group, risk is handled in accordance with this document.

Credit risk

The Group Board of Directors has decided on a common credit policy for the Group. The credit policy, guidelines for the credit process, appropriations structure and authorisations, and systems for follow-up have been established. The goal is to maintain a credit "culture" that ensures a profitable customer portfolio (after losses) in the long term. Lending activities carry inherent risks of default and losses, and normal losses are covered by the bank's ordinary operating profits. Consequently, the bank's earnings must increase commensurate with the risks in the lending portfolio. The bank's classification system for customer activities shows clear improvement in portfolio quality in recent years.

An important element of risk management is making certain that the portfolio spreads risk among various individual customers, industries, geographic areas and market segments. A new classification system is under development; the new system will improve the analysis of portfolio effects and offer greater precision in determining risk trends and identifying risk changes in each loan or guarantee.

Market risk

Market risk is the sum of all risks in the Group's positions and business volumes in interest, foreign exchange and securities markets. In these areas, market and product development are rapid. The bank focuses on staying ahead of developments, so that expertise, operational and oversight routines are in place before new business activities are implemented. In the last three or four years, the bank has maintained a cautious approach as to market risk exposure. The Group Board of Directors has determined the exposure limits for the various risk areas, and business activities are generally run well below these.

Liquidity risk

Over the past two or three years, there has been significant growth in bank lending, while growth in customers' bank deposits has stagnated. This trend has resulted in major changes in banks' balance sheet structure, with the proportion of financing from outside sources steadily replacing customers' savings deposits. Union Bank of Norway doubled its financing from money and capital markets since 1996. This sale financing at the most recent year-end tally amounted to a total of approximately NOK 45 billion. Ever greater capital market financing is expected in the future.

Sound financial institutions, under normal market conditions, will be attractive borrowers in money and capital markets. To preclude doubts about Union Bank of Norway's financial soundness, equity capital and profitability requirements have been set at high levels. Financial flexibility adds to the picture of soundness. To secure flexibility, diversity in financing is sought, using different markets, debt instruments and maturities. The premises on which the Group's liquidity strategy is founded were established in late 1997, in an overall management document containing a unified framework for managing the Group's liquidity risk. This document focuses on Union Bank of Norway's need for a financing structure that guarantees the Group freedom of action and flexibility in market objectives at all times.

Administrative risk

The term administrative or operational risk is defined as all sources of potential losses inherent in the activities of the bank. Examples of administrative risk are breakdowns in systems or routines; human error or lack of expertise; assaults on the bank, its customers or employees (robbery, cheque fraud, IT crimes); damage by fire; and so on. Technological developments and an increase in criminality in society at large have made limiting administrative risk more important than ever. Union Bank of Norway greatly emphasizes management responsibility for handling risk within each area. Systematic work to identify and quantify the most important risk areas is underway.

RISK POLICY FOR UNION BANK OF NORWAY

1. All Group activities are inherently associated with risk. All business areas must fully understand the risks involved in their own activities.
2. Risk management is a strategic measure for the Group.
3. The Group will operate with a risk profile perceived to be moderate for our industry.
4. For all the Group's significant risk areas, risk must be expressed in clearly quantifiable terms.
5. The risk for individual areas of activity will be measured based on a portfolio principle.
6. For particularly risk-exposed areas of activity, a framework for maximum risk exposure will be established.
7. The risk for individual areas of activity must be reported.
8. Group results must be measured in relation to risk. In-house profitability requirements must be set higher for businesses and areas of activity with higher risk levels.
9. In addition to fulfilling the necessary minimum requirements set by public authorities, the Group's total equity capital must be sufficient to cover the total calculated risk of the Group.

Loans and financing

Union Bank of Norway covers most of the financing needs of corporate and private market customers. At the beginning of 1998, growth in lending volume was very high, but this growth declined steeply through the year. The decline in growth was most pronounced for loans to corporate clients. Union Bank of Norway maintains a cautious risk profile, and in early 1998, the bank took measures to reduce the growth in lending. Loans to corporate customers rose by 11% during 1998, whereas loans to private market customers rose by 10%.

In 1998, Union Bank of Norway had net interest income of NOK 2,959 million (1997: NOK 2,602 million).

In 1998, net losses of NOK 128 million were charged against income, compared with a recorded profit of NOK 46 million in 1997. Gross losses amounted to NOK 264 million (1997: NOK 204 million), which corresponds to 0.22% of gross lending. Net defaults on loans were NOK 499 million (1997: NOK 835 million), which corresponds to 0.41% of loans.

THE MORTGAGE BANK

Union Bank of Norway is Norway's largest mortgage bank, and most loans in the private customer market are real-estate secured loans. The first half of 1998 was marked by real estate market pressure, high prices on residential properties and considerable sales of new mortgages. In the second half of the year, higher interest rates and the general unrest in Norwegian and international economies led to slower lending growth in this segment.

Union Bank of Norway wishes to be a solid mortgage bank even in turbulent times, so we emphasized finding solutions for customers experiencing liquidity challenges after the steep rise in interest rates in the second half of 1998. The bank's credit evaluations, however, do allow for relatively major fluctuations in interest rates, and there was no marked increase in the number of mortgage customers reported to have payment difficulties.

There were, however, greater-than-ever requests for fixed-interest loans. At year-end 1997, fixed-interest loans constituted 2.5% of mortgages; by the end of 1998, the proportion of fixed-interest mortgage loans had risen to 8%. Demand for fixed-interest loans has continued to grow in 1999.

LOANS AND FINANCING TO BUSINESS AND INDUSTRY

In 1997, Union Bank of Norway had 19% growth in lending to corporate customers. This growth rate slowed considerably through 1998, largely as the result of the bank's self-imposed measures, but also due to reduced demand for credit following the steep rise in interest rates in the second half of the year. The bank's lending to corporate customers increased from NOK 57.1 billion in 1997 to NOK 63.3 billion in 1998. Loans to corporate customers comprise approximately 52% of the bank's total lending.

Union Bank of Norway stresses that the authority to extend credit should remain as localized as possible. Clear principles govern the division of areas of responsibility, and well functioning management systems are in force, guaranteeing overall control of the bank's total lending portfolio. Both the customer and the bank benefit when decisions are made by employees familiar with local conditions, who have thorough knowledge of the businesses in their market area. Ample local authority also results in rapid processing, which is a competitive advantage that has been reinforced by improved administrative systems in the bank's new technological platform.

Through syndication, the bank achieves efficient relief for credit needs; Union Bank of Norway has established a syndication department that organises loans for customers. The bank is also active in trade financing for customers involved in international trade. The bank has a well developed network of contacts with foreign banks to provide credit risk services for customers' export sales.

NOR FINANS

NOR Finans offers financial products to businesses and individuals. The finance company has grown rapidly in all areas in the past five years, from assets of NOK 220 million in 1993 to NOK 2,800 million in 1998.

In the retail market, the main activity is secured consumer financing for car, motorcycle or camping trailer purchases. The company offers car and personal property leasing and factoring to corporate customers.

NOR Finans' products are sold through the offices of Union Bank of Norway, through car dealerships and directly to customers. Car dealerships, traditionally the company's most important sales channel for leasing and car loans, are responsible for some 44% of secured consumer loans and 52% of leasing contracts. NOR Finans has focused a great deal of attention on distribution through Union Bank of Norway, and its main strategy has been to be a product supplier to the bank and sell to the bank's customers.

In 1998, NOR Finans continued to capture market shares in a growing market. New sales of leasing products showed an overall increase of 7.2% in 1998, whereas NOR Finans had sales growth of 10.1%. For loans, the corresponding figures were 10.5% overall, and 13.8% for NOR Finans.

NOR Finans reported 1998 operating profits after losses of NOK 39 million (1997: NOK 33 million).

SPAREBANKKREDITT

SparebankKreditt was established in 1966. Since 1993, the company has been a wholly owned subsidiary of Union Bank of Norway, although it operates its lending activities independently of the bank. SparebankKreditt offers medium- and long-term low-interest, real-estate secured loans.

At the end of 1998, distribution of the company's lending portfolio was as follows: 87% to corporate customers, 5% to public sector customers and 8% to housing associations and similar organisations. Of the company's lending, 72% is fixed-interest loans. Developments in interest rates in 1998 led to greater demand for fixed-interest loans among SparebankKreditt's customers.

SparebankKreditt's bonds are listed on the Oslo Stock Exchange, and 73% of the company's lending is financed through issuing bonds.

In 1998, SparebankKreditt showed a profit after losses of NOK 63 million (1997: NOK 53 million).

NOR EIENDOM

NOR Eiendom is Norway's largest real estate brokerage: 37 local branch offices and 197 man-years. In 1998, the company sold 6,430 properties, which is in line with the activity level for 1997. In a market with fewer sales overall, this means that NOR Eiendom increased its market share. In Oslo and Akershus counties, which have more than 130 competing brokerages, NOR Eiendom had a market share of 13%. In several of the larger towns in Norway's southeastern regions, NOR Eiendom has more than 40% of the market.

Real estate brokering is an important element of the Group's product range, and it supports the further development of Union Bank of Norway's position as a leading residential property bank. Through close interaction among bank employees, NOR Eiendom and the Group's other subsidiaries, Union Bank of Norway is able to be a total supplier to customers who change homes: The banking group offers sales of residences, residential financing, and if need be investment of funds freed up through a sale. Through the planned cooperation with Gjensidige, non-life insurance will be added as an important part of this product range.

During 1998, NOR Eiendom established new businesses in Ås, Mysen, Skien, Porsgrunn, Lillestrøm and Otta, accompanied by thorough training. The company also implemented Internet presentations of real estate prospectuses. In 1998, NOR Eiendom introduced a new type of insurance, covering liabilities after the transfer of ownership, that was well received in the market. The high level of activity in the company required considerable resources, and NOR Eiendom reported 1998 operating results of NOK -11 million (1997: NOK 5.4 million).

UNION BANK OF NORWAY INTERNATIONAL S.A.

Union Bank of Norway International S.A. (UBNI) was established in 1985, and today it is the only Norwegian-owned bank operating in Luxembourg. UBNI is a wholly owned subsidiary of Union Bank of Norway.

The bank generates income largely through three departments. *Private Banking* provides private customer services to Scandinavians living abroad. *Corporate Credit* provides foreign currency, direct loan, project financing, and syndicate participation services to Scandinavian customers. *Treasury* mainly serves the two above-mentioned departments.

By adhering to a conservative strategy, Union Bank of Norway International S.A. has been able to record solid profits every year since its establishment. In 1998, the company had total assets of NOK 6.3 billion (1997: NOK 4.2 billion) and operating profits of NOK 35.3 million (1997: NOK 24 million).

Savings, investments and asset management

Mutual funds, 1998 market shares

- Avanse
- Gjensidige fondsforvaltning
- DnB Investor
- ODIN
- K-fondene
- Storebrand
- Others

Life insurance, 1998 market shares

- Storebrand
- KLP
- Vital (DnB)
- Gjensidige NOR Forsikring
- Vesta
- Others

The Norwegian market for financial savings vehicles is growing rapidly - nearly doubling over the past decade. Customers have become increasingly aware of savings and investment alternatives offered, as the economy thrives and individuals are more able and willing to save.

Among the bank's corporate market customers, the importance of the investment market is also steeply increasing, both in volume and significance.

Bank savings continues to dominate, though its share of overall savings is decreasing. Mutual funds continue their solid growth, and insurance savings is increasing for individual as well as group products, whereas other forms of savings such as bonds and other debt instruments have experienced a sharp decline.

EXPERTISE DEVELOPMENT

With a broader range of savings and investment products, more demanding customers and fiercer competition, the need for specialized expertise among bank employees has increased.

In 1998, savings and investments were focused on in all regions, and systematic and goal-oriented efforts were begun to strengthen expertise in the field. The expertise required of employees in contact with customers is now more clearly defined, and the bank has prepared and implemented training courses tailored to the needs of various employee functions. Further, trained financial professionals have been hired on regional and district levels.

BANK SAVINGS

In 1998, growth in the total volume of bank deposits at Union Bank of Norway was NOK 5.4 billion, from NOK 65 billion at the beginning of the year to NOK 70.4 billion at year-end. This corresponds to 8.3% growth for the year. A large part of deposit growth is probably attributable to stock market turbulence and relatively high interest on bank deposits during the second half of the year.

Deposits in corporate accounts increased by NOK 1.9 billion, or 8%, in 1998. Deposits in the various savings account options for private market customers increased by 13%. Most of this growth was attributable to the NOK 2.2 billion (or 27%) increase in deposits in investment accounts (accounts with the highest interest rate for bank deposits, with a minimum deposit of NOK 100,000 required).

RANGE OF PRODUCTS FOR CORPORATE CUSTOMERS

In the past few years, Union Bank of Norway has broadened and improved its offer of investment services for corporate customers. Our subsidiaries also play an important role in meeting the needs of these customers.

Union Bank of Norway Markets holds the group's state-of-the-art expertise on interest and foreign currency products, and it is one of the country's largest participants in these markets. Union Bank of Norway Markets is a market maker in all NOK products, and is the market leader in interest-bearing securities. Although 1998 was turbulent for interest and foreign currency markets, the unit maintained a low risk profile and succeeded in exploiting the market opportunities that arose. For the year as a whole, customer activity increased by more than 15%. The unit reported excellent earnings through 1998.

NOR Forsikring's main activity in the past has been personal life insurance, but in 1997 the company introduced group pension insurance. In 1998, group pensions contributed more than NOK 100 million in premium income.

Avanse Forvaltning has eight different large-customer funds in which customers can invest according to chosen time horizons, return requirements and liquidity of funds. The company has a separate unit for large customers who seek specially composed portfolios and close monitoring by a customer representative at Union Bank of Norway or Avanse. Avanse's large-customer department added three man-years in 1998. In 1999, the large customer segment will be developed further.

Largest clearing bank for Norwegian asset managers

Settlement for securities transactions involve a risk that the securities are not delivered or that the money isn't paid on time. Union Bank of Norway offers customers clearing of securities trades. This means that the bank, upon a sale, guarantees that securities will be delivered from the customer's securities account only if the money has been paid. And money is paid only if the securities are transferred to the customer's securities account. The company therefore reduces the risk inherent in settling securities transactions.

Union Bank of Norway undertakes settlement both of securities registered in the Norwegian Registry of Securities and of securities certificates. In addition, the bank has agreements with a series of foreign managers, which enable clearing of trades in most foreign markets, as well. Many leading Norwegian and international fund managers use Union Bank of Norway as their clearing and deposit bank for securities. Union Bank of Norway is the fund management market leader in Norway, with more than a 40% market share.

Other savings banks

Union Bank of Norway operates as a "wholesale" bank for approximately 120 savings banks. An important product in this connection is our function as a settlement bank. Credits and liquidity loans to banks are part of this product.

As to payment services in foreign currencies, Union Bank of Norway plays a key role for other savings banks. Through foreign currency commission agent agreements, Union Bank of Norway operates as de facto wholesale bank for these banks. Through the "Savings banks' exchange," an electronic information and order system linking each bank to Union Bank of Norway, the local savings bank can transfer foreign currency, manage liquidity, buy and sell securities and so forth.

AVANSE FORVALTNING

Avanse Forvaltning AS is Norway's oldest and largest mutual fund management company. Union Bank of Norway owns 72.2% of the company.

In 1998, the Avanse funds had gross subscriptions totalling NOK 5,700 million, compared with NOK 7,700 million in 1997. Stock mutual funds alone had subscriptions totalling NOK 2,800 million (1997: NOK 3,700 million).

In 1998, the Avanse funds had approximately 40,000 new holders, and at year-end 1998, the company had some 368,000 holders. Approximately 110,000 of them have set up automatic savings deduction agreements with Avanse, an increase of 25,000 new agreements in 1998. Targeting sales of these agreements has been a very successful strategy; the agreements secure stable addition of capital to the funds, even in periods when new sales are weak.

Despite the steep decline in the all-share index of the Oslo Stock Exchange, Avanse did not record significant redemptions by holders in 1998. Through the year, Avanse's market share increased from 17.8% to 18.3%. At year-end, the company managed assets totalling NOK 15,500 million, of which NOK 11,000 million was in stock mutual funds and NOK 4.5 billion in money market and bond funds. This corresponds to 22.7% and 13.6%, respectively, of the total market for these two types of funds. The corresponding figures for 1997 were 22% and 14%.

In 1999, international funds will have a broader place in the company's product range. In the spring, Avanse will introduce several new international funds, which will make the company a leader in offering international funds managed by a Norwegian company.

In 1998, Avanse Forvaltning reported an operating profit of NOK 36.6 million (1997: NOK 47.4 million).

AMS

Stock market savings offering tax credits (AMS) is a very popular savings vehicle among Norwegian private market customers. In 1998, total AMS sales in Norway amounted to NOK 2,600 million (1997: NOK 3,000 million). AMS sales represented 12.5% of the total 1998 sales of funds. Avanse was a clear market leader, and advanced its market share by 2.5 percentage points to 28.1%. Avanse's AMS subscriptions amounted to approximately NOK 709 million in 1998.

NOR AKTIV FORVALTNING

In step with the rise in wealth in Norway, demand for active management has increased significantly. At year-end 1998, approximately 30 participants were licensed for active management in the Norwegian market. NOR Aktiv Forvaltning ASA is a wholly owned subsidiary of Union Bank of Norway and a major participant in this market.

NOR Aktiv Forvaltning offers its customers an independent environment for active asset management. Each customer enters into an individually tailored agreement governing the investment strategy and extent of authority granted. This guarantees that the investor gets the asset management that accords with the desired risk profile, liquidity needs, and investment horizon. NOR Aktiv Forvaltning provides continual information on portfolio development and actions taken. The customer pays an agreed-to annual management fee according to service level and portfolio size.

NOR Aktiv Forvaltning began operations on 1 September 1997. At year-end 1998, the company managed assets totalling NOK 9.4 billion, and had 22 customers.

NOR FORSIKRING

In 1993, Union Bank of Norway formed Norway's first financial group, and NOR Forsikring was part of this group from the beginning. With a 79.8% ownership, Union Bank of Norway continues to be the dominant owner in the company. The rest of NOR Forsikring is owned by other savings banks that also distribute the company's insurance products.

Sale of NOR Forsikring's products in 1998 was on a par with 1997. Premium income amounted to NOK 1,031 million (1997: NOK 1,035 million). At year-end 1998, NOR Forsikring had total assets of NOK 7,043 million: it is among the Norwegian life insurance companies with the highest returns on assets in the past five years.

The steep decline in prices on the Oslo Stock Exchange in the third quarter of 1998 significantly affected NOR Forsikring's profit and loss account. At year-end 1997, its current assets portfolio of shares and bonds had unrealised gains of NOK 541 million. At year-end 1998, the unrealised gains on the securities held as current assets were NOK 88 million. NOR Forsikring showed 1998 profits from this year's activities of NOK 109.4 million. NOK 21.7 million (1997: NOK 46.6 million) was transferred to owners as dividend.

Unit Linked

Due to Union Bank of Norway's plans to form a group with Gjensidige, NOR Forsikring stopped development of its planned company for Unit Linked products. NOR Forsikring instead established an agency agreement with Gjensidige Investeringsvalg so that customers who wanted Unit Linked products received immediate access to products to be offered by the future group.

KARL JOHAN FONDS

The securities company Karl Johan Fonds ASA is the Group's competence centre in financial advice and brokering of equity capital instruments. The company brokers sales of securities such as shares, options and primary capital certificates. Activities are directed at a broad range of customers.

Karl Johan Fonds offers corporate customers a range of financial counselling services. The company provides assistance related to capital increases, valuations, stock-exchange listing, mergers, demerging and buying and selling companies. Businesses are also offered investment advice and broker services as to shares, options and primary capital certificates.

Karl Johan Fonds offers broker services to institutional and major private investors in Norway and abroad. The company also offers simple and cost-effective securities trading to smaller investors. In Union Bank of Norway offices and offices of other savings banks associated with SVPT (Norwegian savings banks' securities services), shares in many of the largest Norwegian companies can be traded over the counter through cash payments. It is also possible to enter other orders to be processed by Karl Johan Fonds' stock exchange office. It is in part this excellent system for broad distribution of shares that resulted in selection of Karl Johan Fonds as one of three securities businesses that are to be responsible for the Norwegian government's sale of shares in Christiania Bank to the private customer market.

In the spring of 1999, Karl Johan Fonds will begin offering stock trading via the Internet.

The profit and loss account for Karl Johan Fonds was negatively affected by developments in the securities market; the company reported 1998 operating profits of NOK 25 million (1997: NOK 52 million).

Account management and payment services

For a number of years, Union Bank of Norway has been in the vanguard in terms of promoting the use of self-service and automated services for transaction handling in Norway. Efforts have been geared to development of more automated products, a pricing policy that steers customers' demands toward more efficient solutions and goal-oriented sales and counselling efforts to change customer behaviour.

In the last few years, these long-term actions have consistently yielded better results. In early 1999, the bank expects to reach its goal of 90% automation of all payment transactions by the year 2000. At year-end 1998, this proportion was approximately 88%.

There was significant growth in the number of payment transactions in 1998. Income from payment transfer services increased by NOK 53 million to NOK 550 million.

AVTALEGIRO

AvtaleGiro is a highly cost-efficient and customer-friendly payment service. In 1998, Union Bank of Norway focused heavily on AvtaleGiro (automatic deduction services for bills paid at regular intervals), improving the product and marketing it to corporate as well as private market customers. Through the year, several large credirors joined the AvtaleGiro system.

In the autumn of 1998, a major marketing campaign generated excellent results. The sale of fixed payment orders increased from approximately 5,000 agreements per month prior to the campaign to 18,000 per week during the campaign period. In the beginning of 1998, the bank had recorded 36,700 fixed payment orders; at year-end this number had more than quadrupled. Using its customer database, the bank identified an additional half-million potential fixed payment transaction orders, and expects excellent AvtaleGiro sales growth in 1999 as well.

BANK CARD ACTIVITIES

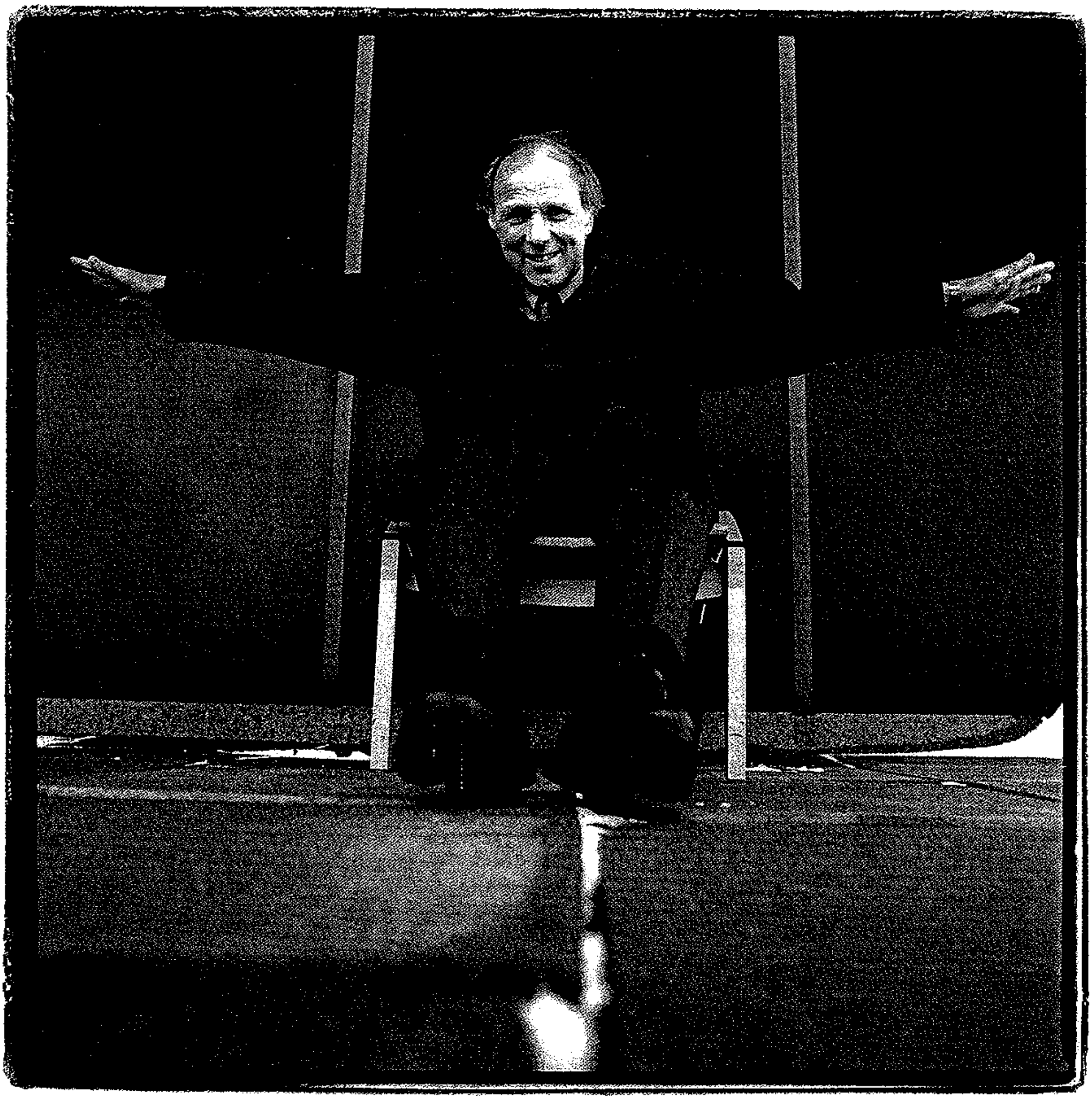
The bank card is a key component in the bank's overall offer of day-to-day banking services. Union Bank of Norway is the largest issuer of VISA cards in Norway, with wide coverage, increasing card usage and good earnings. The typical card customer of Union Bank of Norway uses the card approximately 150 times a year. Card payments at shops, in particular, increased in the past year, whereas ATM use levelled off. Union Bank of Norway card customers now have access to our 24-hour telephone service, which is used by more than 2,000 customers each month.

As to credit cards, the bank has a relatively modest market share. The quality of the customer base is good, however, and people who apply for credit cards are solid bank customers. Direct Marketing activities directed at potential credit card customers yielded good results in 1998. The combination with Gjensidige, which has a credit card market share of approximately 48%, is expected to generate very positive results in this area in 1999.

As mentioned, the use of automatic teller machines levelled off in 1998, while there was a sharp increase in the use of cards at payment terminals. Norway is currently the European country with the most frequent card usage; we project further growth due to greater dissemination of cards and more shops with payment terminals. The bank will promote this cost-effective trend. Union Bank of Norway sees significant potential for sales and earnings in future advances in card technology, and in 1999 we will focus on developing so-called smart cards, on secure card use on the Internet and on other products.

NORNETT

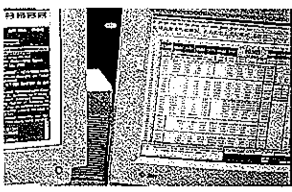
In 1998, the self-service product range offered to the bank's smaller business customers was significantly improved. With the introduction of NORnett, small- and medium-sized business customers have



a modern and user-friendly PC solution for handling many of their banking tasks; NORnett offers increased efficiency and significantly reduced costs for both customers and the bank.

NORnett is a Windows-based banking system developed by Union Bank of Norway. It provides payment transfer services and banking data via a company's computers. NORnett may be used by all types of businesses. With daily-updated account information at hand, firms can more easily manage liquidity and make reconciliations. NORnett customers can make all types of domestic and international payments, as individual transactions or through integration with their own accounting system. A registry of creditors provides efficient record-keeping and simple payment routines.

The first version of NORnett, introduced in 1997, was a simple concept intended for the smallest companies. The subsequent version, available in the spring of 1998, offers vastly improved functionality, and consequently has opened up opportunities for sales to medium-sized companies. A campaign in early 1998 resulted in approximately 10,000 companies having installed NORnett at year-end. Installation of NORnett by customers is a simple and cost-effective process.



"YES, I DID SAY A FEW MILLION TRANSACTIONS."

Harald Tyrdal is President and CEO of the retail and service group Narvesen ASA. Narvesen had 1998 sales of more than NOK 7,000 million. A large and well run corporation such as Narvesen demands a great deal from a bank. Union Bank of Norway's other customers benefit from that as well.

An expanded version of NORnett will be available in 1999. The latest version will make the product more attractive to medium-sized companies and expand its customer base to include larger companies as well. The most important improvements will be support for group account structures and full multi-user functionality.

ICM

Union Bank of Norway has far-reaching cooperation with international banks located abroad. The international banking cooperation provides customers with opportunities to manage foreign accounts and make payments on most continents.

EURO

During 1998, Union Bank of Norway made all necessary preparations for the 1 January 1999 introduction of the common European currency, the euro. A euro account was developed, corporate customers were kept informed of developments related to the introduction of the euro through several newsletters, and a number of employees received training, including all customer representatives working with corporate customers. Training courses were also held for key personnel from our cooperating banks and other savings banks.

The euro account is a foreign currency account with expanded functionality. The account may be used for transactions in euro or in euro-zone national currencies. In the euro account, all transactions in national EMU currencies will automatically be calculated into the euro equivalent. Naturally, NORnett has been readied so that corporate customers can handle their own euro account transactions. In addition, customers can view individual transaction amounts in national currencies.

Most private market customers will remain relatively unaffected by the euro until euro bills and coins enter circulation in 2002. Nevertheless, Union Bank of Norway began selling euro travellers' cheques in January 1999.

Business concepts, distribution channels and loyalty programmes

Until a few years ago, the bank office was the only contact point between customer and bank. In a short time span, technological advances have produced a series of new options for bank/customer communication and order handling.

Different business concepts and distribution channels are designed to give customers access to the expertise, service level and products they desire, in accordance with their willingness to pay and customer category. Some customers require a high degree of "tailoring", counselling and personal follow-up; others seek the simplest and cheapest services possible. The ability to satisfy such varying needs in the correct manner is an important competitive factor in our industry, where competitors deliver similar products and move quickly to copy new product ideas.

Union Bank of Norway has defined three different business concepts: The regional bank (office network) for private and corporate market customers; NOR24 for the private market; and the Corporate Customer Division for our largest business clients. All customers come under one of these concept headings. At the same time, all customers - regardless of which business concept they are associated with - have access to various distribution channels that carry out their banking services. For example, the Internet and the telephone are channels that both regional bank customers and NOR24 customers may use.

Loyalty programmes

Union Bank of Norway's customer database increasingly enables the bank to direct its marketing efforts to targeted groups and to build tailored loyalty programmes that will form the basis for long-term customer relations with private market clients. Union Bank of Norway currently has loyalty programmes for the following groups: Total customers (customers with a certain minimum lending or deposit volume, who also use bank cards and automated bill payment products), senior customers (more than 60 years of age), students and customers aged 19-35 who are getting more established and young people between 15 and 18. The bank also has follow-up programmes for new private customer accounts and for customers who are about to pay off their loans.

For several of these important customer groups, the bank recorded a significant improvement in customer satisfaction after implementing these loyalty programmes. In 1998, Union Bank of Norway's total customer programme won special recognition in a competition organised by the Norwegian Direct Marketing (DM) Association and the postal service of Norway's Postens DM. In competing against DM campaigns and loyalty programmes of leading businesses, our efforts received the Best Strategy prize in the consumer markets category.

"IF YOU'RE WAITING... YOU'RE IN THE WRONG BANK."

Jan-Erik Næss has selected Vika Bank as his bank. His contact at Vika Bank helps him keep track of his personal finances. As Managing Director of the Bates group, he is busy enough keeping track of 200 employees.

THE REGIONAL BANK

As a business concept, the regional bank focuses on counselling and sales to customers who value geographic proximity, familiarity with local conditions and personal service. Vika Bank is a special unit within the regional bank system (see below). Vika Bank offers specialized advanced expertise, services and tailoring to the Group's most demanding private customers.

For the foreseeable future, an extensive office network will continue to be the backbone of Union Bank of Norway's customer contact. But the office network is changing. Traditionally an arena primarily for manual disposition of transactions,

bank offices are fairly far along in becoming the sales counselling centres that Union Bank of Norway forecasts as their future. Integral to the vital upgrading of our office network completed during 1998, we spurred on this transformation by reducing the number of cashiers while giving more space and resources to counselling and sales.

The regional bank also maintains Union Bank of Norway's relations with small- and medium-sized corporate customers and larger local companies. The small- and medium-sized corporate customers make up the bulk of the bank's customer base in the corporate market, and the bank's approximately 30,000 customers in this segment are largely served locally via branch offices or regional corporate centres. Corporate customers also have access to the Group's state-of-the-art expertise in all types of financial services, offered through local customer representatives' contact with specialists in the bank's subsidiaries and centralized functions.

Vika Bank

Vika Bank was established in 1996 to serve private customers with extensive and complex needs for financial services, who demand top expertise and personal service. Many of Vika Bank's customers also have their personal finances closely interlinked with business interests. This is a market segment in rapid growth.

Vika Bank has specialized in offering tailor-made advice on investing financial assets, special financing, estate planning and taxation. Vika Bank cooperates closely with different departments in the parent bank and with the bank's subsidiaries.

In 1998, Vika Bank's product range included Vika Aksjeinnskudd (a deposit account with guaranteed principal and stock-exchange returns), and Vika Konto, which provides good returns on fluctuating liquidity as well as financing of share investments, and foreign currency loans. Vika Bank reports very high customer satisfaction and loyalty. Nearly 60% of its customers have actively recommended Vika Bank to their colleagues, family members or acquaintances. At year-end 1998, the bank had more than NOK 2 billion in customer assets, solid profitability and a customer team of 15 highly qualified employees.

Cooperation with savings banks

For Union Bank of Norway, the cooperation with the six regional savings banks - Møre, Sogn og Fjordane, Rana, Hedmark, Sør and Sandnes - works in many ways as an extension of our regional banking concept. The cooperation means an expansion of our geographic market and better utilization of the newly developed office technology. In turn, the cooperating banks' range of services is expanded.

The banks cooperate on offering banking services to larger corporate customers and retail chains, organised so that the local bank is in charge of local services. The market coverage of the local bank and its customer know-how meld with the large bank's specialty expertise, product range, liquidity and equity.

The agreements with the six cooperating banks were renegotiated toward the end of 1998, based on the new context - the decision to form Gjensidige NOR. The new agreements represent a particularly interesting strategic element in the future development of the group.

NOR24

NOR24 is a telephone- and Internet-based bank for customers seeking 24-hour a day, standardized and reasonably priced banking services. NOR24 was established in 1996 so that the Union Bank of Norway Group could attract customers who wanted a direct, self-service bank concept. NOR24 is an independent business unit that recruits customers from all over Norway, in competition with other low-cost market participants. The public associates NOR24 with Union Bank of Norway, which contributes positively to the Group's business profile.

The market for direct banking services has grown rapidly in recent years, and market participants grow first and foremost by drawing customers from traditional banks. Lending through NOR24 increased by 39% in 1998, to NOK 4.3 billion. Deposits grew by 19%. The unit showed an operating profit of NOK 4.8 million (1997: NOK 0.7 million).

CORPORATE CUSTOMER DIVISION

The Corporate Customer Division maintains customer responsibility for Union Bank of Norway's largest and most demanding corporate customers (with the exception of some customers in the Oslo/Akershus region), including those with extensive international activities. The bank has established itself as a competitive supplier to most industries, and in particular holds a leading position as a bank for energy and power companies, non-profit organisations and public sector organisations. Specialty functions such as cash management, syndication and settlement have been established to serve these large customers.

Our Markets Section has established a leading position in the Norwegian financial market and is an important cooperation partner for Norwegian business and industry regarding foreign exchange and interest products.

Many large international banks use Union Bank of Norway as their principal Norwegian bank. A separate department is in charge of contact with this customer group.

As of 31 December 1998, the Corporate Customer Division managed loans of NOK 14,672 million (1997: NOK 15,324 million), and deposits of NOK 11,643 million (1997: NOK 11,839 million). The strong growth in lending from 1997 was decelerated in 1998 through various measures, and the focus was kept on good relations with existing customers, rather than competing for new customers.

The Corporate Customer Division has 247 man-years. Since 1 February 1999, the division is organised in six sections: five customer units and one product development and operational section.

UNION BANK OF NORWAY ON THE INTERNET

The Internet is a rapidly growing distribution channel for financial services. Union Bank of Norway's Group management at year-end 1997 decided to intensify the Group's efforts involving the Internet as a sales and delivery channel for the parent bank and its subsidiaries. In the spring of 1998, a core Group project was launched with responsibility for using the Internet as a marketing and distribution channel for the entire Union Bank of Norway Group. The project is conducted in cooperation with existing professional and business units.

In 1998, the project focused on building infrastructure and further developing the bank's homepages so that they informatively portray the products and services that the Group offers. This work will continue in 1999, and several interactive Internet banking services will be developed. During the first six months of 1999, new Internet solutions will be introduced. They include buying and selling shares through Karl Johan Fonds and purchase of stock mutual funds through Avanse, and a series of account and payment services. In light of the steep growth in Internet usage in the market, Union Bank of Norway expects its product range to generate rapid expansion in the Group's Internet-based services volume in 1999.

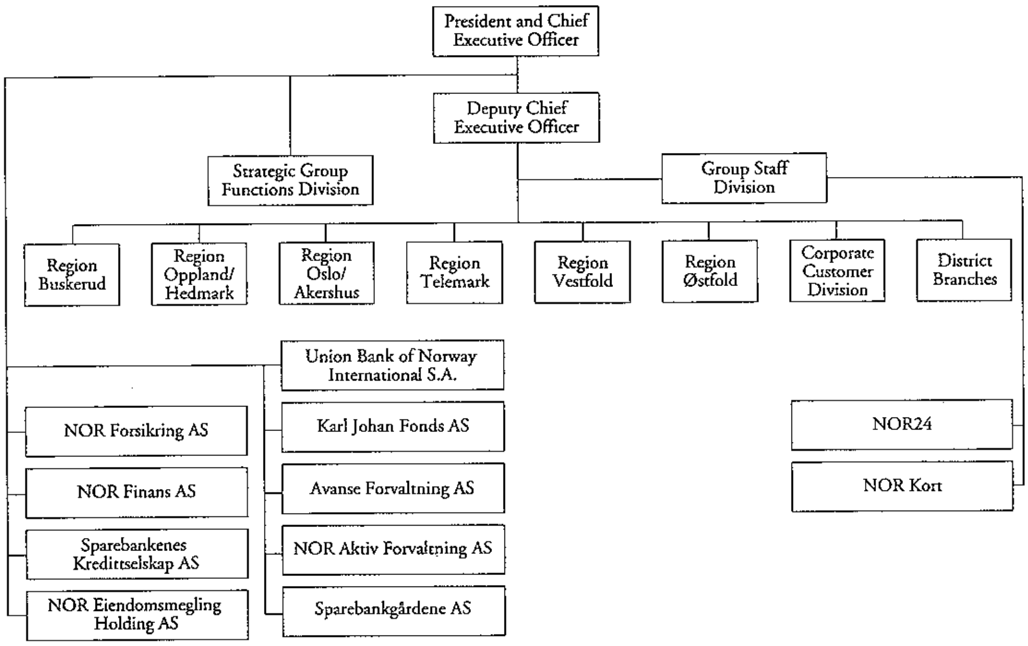
Reliance on the Internet is also expected to grow in the corporate customer market segment. In addition to providing purely informational services, the bank is developing Internet-based payment transaction services. Until now, concerns about electronic security have been prominent. Union Bank of Norway is participating in an important project on safe Internet trading, in order to establish an infrastructure for secure Internet payments. Other project participants are Christiania Bank, Den norske Bank, Gjensidige Bank, Europay Norge and Visa Norge credit card companies and the Banks' Central Clearing House.

SPAREBANKGÅRDENE AS

Union Bank of Norway's wholly owned subsidiary, Sparebankgårdene AS owns and manages a real estate portfolio encompassing approximately 186,000 square metres. The company is responsible for making sure that Union Bank of Norway always has the necessary office and customer service space available. To meet the needs of the Group, the company has rented an additional 70,000 square metres of floor space. Sparebankgårdene rebuilds, remodels and operates owned and leased properties, and rents out vacant space in these properties. At year-end 1998, Union Bank of Norway used slightly less than 70% of the total floor space, while roughly 25% was let to non-Group renters.

Throughout 1997 and 1998, Sparebankgårdene played a central role in the extensive rebuilding and remodelling of all Union Bank of Norway's bank offices and the introduction of new technology. The company has 58 employees. The company's total income for 1998 amounted to NOK 223 million. The NOK 14 million loss recorded is entirely attributable to the sale of properties.

Union Bank of Norway Group



PREPARATIONS FOR THE YEAR 2000

Since the spring of 1996, Union Bank of Norway and its subsidiaries have carried out a series of projects to ensure that operations function normally before, during and after the turn of the millennium. In the first four months of 1998, the Group undertook a far-reaching assessment of the work accomplished so far, in order to determine progress, to verify that all potential problem areas have been remedied and documented, and to identify areas needing further measures.

Our Year 2000 preparations have coincided with extensive investment in the Group's IT resources. Naturally, all upgrades over the past two to three years have included Y2K compatibility. Preparations have also included review and remediation of all in-house-developed IT systems. In addition, the bank has maintained close dialogues with all its external suppliers, and they have reviewed all IT systems, IT hardware and operational electronic equipment supplied. Fellesdata and NCR perform key and wide-ranging tasks associated with the bank's operations; consequently, cooperation with these two companies has been especially close.

By the end of December 1998, all preventive measures in the Group had either been completed or were nearing completion. In 1999, work will mainly focus on testing the work performed. An extensive, independent operational unit has been set up for the purpose of testing all key IT systems and all IT equipment, as well as performing integrated testing of all systems using Fellesdata network environments. Assessment, remediation, and testing are being conducted with our cooperating savings banks, as technology is a central aspect of the cooperation agreements. Union Bank of Norway also participates directly - or indirectly through Fellesdata - in extensive Y2K testing of the financial infrastructure in Norway and internationally.

Union Bank of Norway has achieved solid control over potential Y2K problems through its activities to date. By 30 June 1999, the bank will be prepared for the Year 2000, in accordance with the rules and regulations promulgated by the Norwegian Banking, Insurance and Securities Commission. The Group has minimized its risk related to Y2K problems in every reasonable fashion. The bank trusts that the same is true for its customers and cooperation partners.

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Design: Anisdahl, Sand & Partnere • Photography: Dag E. Thorenfeldt • Print: A.S. Joh. Nordahls Trykkeri • Translation: Flom-Jacobsen & Fish