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# Storebrand Group: Key figures

<i>NOK million</i>	<b>1998</b>	1997	1996	1995	1994
Operating profit	<b>2,238</b>	4,809	4,120	4,206	1,985
Group profit	<b>953</b>	1,012	1,254	1,451	522
Total assets	<b>123,072</b>	114,517	104,370	99,256	97,626
Equity capital	<b>5,566</b>	5,922	4,857	3,806	2,459
Solvency capital*)	<b>8,803</b>	8,984	7,924	6,912	5,921
No. of employees (full time equivalents)	<b>4,001</b>	3,736	4,029	4,042	4,100
Capital ratio	<b>13.4%</b>	14.4%	14.5%	15.8%	8.8%

\*) Consists of equity capital together with security, reinsurance and administration reserves, natural perils fund and the non-life guarantee reserve.

## Key figures per share

Average number of ordinary shares (1000's)	<b>277,079</b>	276,766	276,586	276,418	265,962
Earnings per ordinary share	<b>3.40</b>	3.57	3.98	4.82	1.20
Dividend per ordinary share	<b>0.00</b>	0.00	0.00	0.00	0.00
Dividend per preference share	<b>-</b>	0.50	0.70	0.70	0.90

## Life insurance

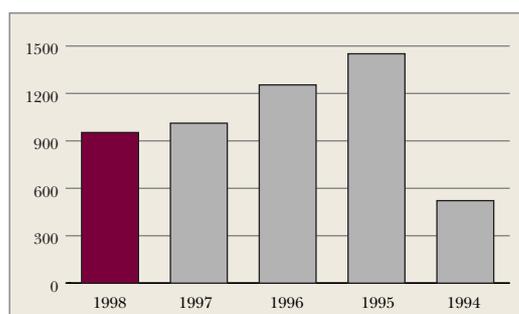
Operating profit	<b>1,786</b>	4,359	3,434	3,342	1,922
Book investment return	<b>5.85%</b>	9.96%	8.48%	8.50%	6.87%
Adjusted investment return exc. bonds held to maturity	<b>3.50%</b>	10.45%	10.01%	9.90%	2.44%
Cost ratio	<b>0.94%</b>	0.86%	0.90%	1.02%	1.10%

## Non-life insurance

Operating profit	<b>809</b>	684	1,043	1,184	712
Claims ratio for own account	<b>73.5%</b>	77.8%	74.9%	70.0%	73.7%
Cost ratio for own account	<b>26.9%</b>	26.9%	28.5%	28.1%	26.3%
Combined Ratio for own account	<b>100.4%</b>	104.7%	103.4%	98.1%	99.9%

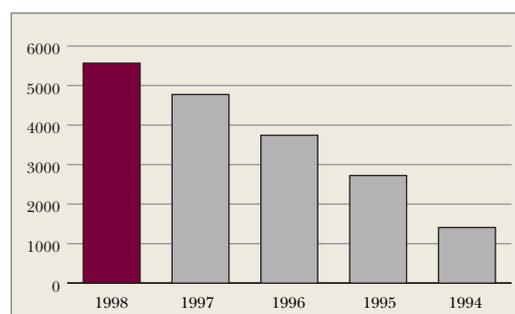
## Group profit

*NOK million*



## Group Equity capital\*)

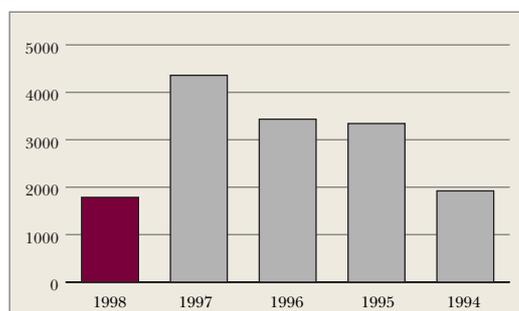
*NOK million*



\*) exclusive preference share capital

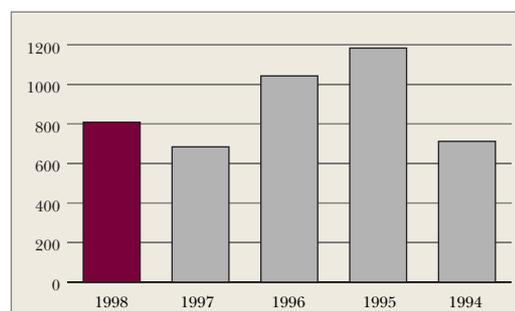
## Operating profit Life insurance

*NOK million*



## Operating profit Non-life insurance

*NOK million*



# Main events of 1998

## March:

- Storebrand moves into its new head office at Filipstad Brygge in Oslo.
- Updating of the group's non-life insurance computer systems for Year 2000 is completed.

## April:

- The Annual General Meeting of Storebrand ASA votes to redeem the preference shares which the Company issued as part of its refinancing in 1993.

## May:

- Aker Maritime signs a letter of intent to establish a defined contributions pension scheme with Storebrand, becoming the first Norwegian company to introduce this type of pension arrangement.
- A new information centre opens at the Hobøl safety centre with particular focus on safety at work and accident prevention.

## June:

- Storebrand Bank signs an agreement with Domino Norge to provide bank cards for Domino customers.
- A "radio wall" is set up in Drøbaksundet to circulate information on stolen boats.

## July:

- Storebrand promotes a major campaign against harassment and violence in Oslo's night spots and cafes.
- The number of car spray workshops to qualify for Storebrand's environmental approval reaches 100.

## September:

- The first of Storebrand's nine claims centres opens for business in Trondheim.
- Storebrand receives approval from the Ministry of Finance to set up its health insurance subsidiary Storebrand Helseforsikring, and starts sales of the health insurance product, Storebrand BehandlingsAvtale, during the Autumn.
- Storebrand establishes the Storebrand Finans & Forsikringssenter franchise operation as a new external sales channel, offering life insurance, banking and mutual funds products.

## October:

- The Total+ customer loyalty concept is launched, available to customers who have three non-life insurance policies, and a life or pension insurance policy or salary account with Storebrand.
- Storebrand launches a day and night emergency trauma counselling service.

## November:

- Storebrand opens a telephone and computer based insurance operation in Denmark under the name Fair Forsikring.
- The Norwegian central bank awards a mandate to Storebrand's investment management subsidiary, Storebrand Kapitalforvaltning, to manage European equities for the Norwegian Government Petroleum Fund.

## December:

- Storebrand joins forces with the Norwegian Rock Association to co-operate on fire prevention and insurance at rock music venues following a tragic discotheque fire in Gothenburg, Sweden.

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## Financial calendar 1999

28 april	Annual General Meeting
12 may	1st Quarter Results
25 august	2nd Quarter Results
10 november	3rd Quarter Results
Early March 2000	1999 Annual Results

## Storebrand's customers

- Customer base (non-life): 993,000
- Customer base (life and pensions): 326,000
- Life and pension insurance policyholders' fund: NOK 90 billion
- Customer base (banking and investments): 122,000
- Customer deposits (banking and investments): NOK 8.9 billion
- Number of borrowers: 25,000 borrowing NOK 15.1 billion



# Report of the Board of Directors

Storebrand recorded a satisfactory group profit for 1998 of NOK 953 million, as against NOK 1,012 million for the previous year. Operating profit amounted to NOK 2,238 million as against NOK 4,809 million in 1997. Net premium income was NOK 2,105 million higher at NOK 16,747 million. Earnings per share for 1998 amounted to NOK 3.40 as compared to NOK 3.57 for 1997. Operating profit was adversely affected by weakness in the financial markets, and this had an adverse effect on the results of the life insurance business in particular. Results from non-life insurance were satisfactory. Non-life insurance continued to produce weak gross profits, but the underlying claims ratio improved during the year. Reinsurance made a significant contribution to the operating profit of Storebrand Skadeforsikring AS for 1998.

## The group's results

The group's 1998 operating profit was weaker than in 1997 as a result of conditions in the financial markets, and the Norwegian market in particular. The life insurance company nonetheless continued to produce a competitive investment return, and also saw strong growth in sales in all markets. The group's non-life insurance company continues to experience downward pressure on premium rates in the corporate market as a result of vigorous competition for business. The technical result for non-life insurance, expressed as the sum of the claims and cost ratios, was 100.4 percent in 1998 as against 104.7 percent in 1997.

## US GAAP

As in previous years, Storebrand has produced a comparison between its results under United States Generally Accepted Accounting Principles (US GAAP) and Norwegian Accounting Principles (N GAAP). The group's result for the year under US GAAP would have been NOK 779 million, which is NOK 12 million lower than under N GAAP. The group's equity under US GAAP would be NOK 8.3 billion, which is NOK 2.7 billion higher than equity based on N GAAP. Figures presented on a US GAAP basis are to be found on page 74-75 of the Annual Report.

## New businesses

Storebrand Helseforsikring AS commenced operations on 1 October 1998. The company is a

50/50 joint venture with Deutsche Krankenversicherung AG, and its main product is a policy offering the guarantee of hospital treatment within 28 days. Sales in the Norwegian market have been in line with budget, and the company started sales to the Swedish market on 1 December 1998.

Fair Forsikring AS opened for business in Denmark on 26 November 1998. The company is a telephone based non-life insurance company targeted at the retail market. The company is a joint venture between Storebrand ASA and Head and Company L.L.C. Storebrand has a 5,3% interest. Application has been made to the appropriate authorities for a licence to increase this ownership to 50%. Market response to the new company has been very encouraging.

## Commentary on the insurance business results

The life insurance activities reported a competitive financial result, with a booked return on financial assets of 5.85 percent, or 3.50 percent after adjusting for unrealised gains. The company's policy of systematically building up its risk capital over the years made it possible to maintain a broadly based securities portfolio including a significant element of exposure to equity markets throughout the turbulent conditions experienced in financial markets during 1998. Whilst the cost ratio was largely unchanged in 1998 for group and collective policy lines, further investments in distribution capacity and in IT systems caused an increase in the cost ratio for policy lines sold to individual customers. The overall result was an increase in the total cost ratio to 0.94 percent of average customer funds.

The life insurance group's operating profit amounted to NOK 1,786 million, as against NOK 4,359 million in 1997. Of the total profit, NOK 1,285 million was allocated to customers, and NOK 501 million was allocated to equity and shareholders, as compared to NOK 3,797 million and NOK 562 million respectively in 1997. The value adjusted operating profit, which takes into account changes in unrealised gains, was a deficit of NOK 748 million, representing a reduction of NOK 6,219 million for 1998.

Storebrand Skadeforsikring saw an increase of NOK 125 million in operating profit to NOK 809 million in 1998. The technical result improved by NOK 275 million. Included in the

technical result are the effects of run-off gains and the accounting effect of the reduction in minimum claims reserves required by the Banking, Insurance and Securities Commission, which together amount to NOK 503 million. The equivalent figure for 1997 was 611 million. If these effects are excluded, the technical result improved by NOK 383 million in 1998. An improvement in results from reinsurance contributed to the improvement in profit.

### **Market conditions**

The statistics for market share published by the Association of Norwegian Insurance Companies show an increase in Storebrand's share of total premiums written in the life insurance market, including transferred policies, from 29.0 percent in 1997 to 30.0 percent in 1998. The equivalent figures for market share in collective pension and group life policy lines showed an increase from 27 percent in 1997 to 29 percent in 1998, whilst the market share for individual policy lines was unchanged at 36 percent. (Norske Liv is not included in the figures for the total market).

In the non-life market Storebrand maintained its market share of land based business in 1998 at 38.9 percent, following an increase of 0.1 of a percentage point in the fourth quarter.

International insurance business in marine lines, including energy and satellite/aircraft, continued to be affected by significant over-capacity, leading to continuing downward pressure on premiums. The company continues to prioritise profitability in the business it is prepared to accept, and this has led to some fall in volume.

### **Investment management**

The market value of securities held by Storebrand Livsforsikring AS fell during the course of the year from NOK 85.5 billion to NOK 84.3 billion. Exposure to equity markets was reduced in the summer of 1998 via the international derivatives market, and by the end of the year represented 24.3% of the market value of the total portfolio of yield bearing investment assets. International equities accounted for 65% of the total. The overall value adjusted investment return was 3.5%, as compared to 10.5% in 1997.

The market value of securities held by Storebrand Skadeforsikring AS fell over the course of the year by NOK 0.7 billion to NOK 11.5 billion. This was due to both a reduction in unrealised gains and transfers arising from the reinsurance of occupational injuries business in previous policy years.

The group received official approval during 1998 to combine the investment management activities it carries out for external and internal

customers in one securities company. This allows the better use of resources and creates synergies in the overall investment management activity. Funds under management for external customers, including pension funds, increased by NOK 3 billion in 1998 and now amount to NOK 5.2 billion. A more detailed account of the fund management results is provided on pages 34-36.

During the course of 1998 the company was awarded a mandate by Norges Bank, the Norwegian Central Bank, to manage part of the Norwegian Government Petroleum Fund. The mandate was awarded following strong competition from a number of Nordic and international players, and the assignment will commence in 1999.

### **Storebrand Bank**

1998 saw a further increase in the number of depositors from 15,000 to 30,000. The bank's total assets grew from NOK 2.8 billion to NOK 6.1 billion. The growth in balance sheet reflects increased residential mortgage lending. Storebrand Bank AS reported a loss for the year of NOK 27 million, representing a NOK 37 million improvement on 1997. The Storebrand Bank Group produced a profit of NOK 11 million including the profits of Storebrand Finans AS.

### **Storebrand Fondene**

The Norwegian market for mutual funds saving continues to grow. Storebrand Fondene, which is managed in Norway, increased its share of the Norwegian market by 0.1 of a percentage point to 6.3%. Customers are increasingly looking to save in funds which also invest in international markets, and Storebrand accordingly expanded its product range during 1998 with additional international funds. The group now offers a total of 28 different funds for its customers' savings, of which three are managed by a subsidiary company in Luxembourg. These funds represent total assets of NOK 9.5 billion. Further investment was made in 1998 to strengthen distribution capacity in order to win an increasing share of the future growth expected in this market. Storebrand Fondene AS (previously Storebrand Spar AS) recorded an operating profit of NOK 6 million in 1998, which was NOK 6 million below the result achieved in 1997.

### **Risk management**

The group's exposure to financial risk arises principally from insurance risk and investment risk in respect of the placement of assets. The Boards of the individual group companies determine, on an annual basis, investment policies which are structured to evaluate price, interest rate, credit and currency risks.



*The Board of Storebrand ASA. From the left: Peter Ruzicka, Dagfinn Lea, Jens Ulltveit-Moe, Leiv L. Nergaard, Tom Vidar Rygh, Jon R. Gundersen (chairman), Brit K.S. Rugland, Mathias B. Dannevig og Per-Olav Myrtrøen.*

The Board of Storebrand Skadeforsikring AS determines the reinsurance programme to manage insurance risk on an annual basis.

By the end of 1998 all of the group's IT systems, save for a few minor exceptions, were fully prepared for the Year 2000 transition. The systems have been thoroughly tested in their adapted form for both the transition to year 2000 and the leap year effect. The measures necessary to adapt to the introduction of the euro were fully in place by the end of the year.

In its insurance activities the company has found it necessary, in common with all other Norwegian insurance companies, to introduce specific clauses in its insurance terms to exclude losses which can be attributed to hardware and/or software which cannot cope with the transition from 1999 to 2000 or other date changes. These exclusions do not apply to fire claims, personal injuries, the legal requirement for third-party motor liability, or private lines.

### **Personnel and organisation**

Employment in the group, including its part-owned subsidiaries, totalled 4,001 full time equivalent positions at the end of the year as compared to 3,749 at the beginning of the year. The number of staff leaving the group's employment was equivalent to 232 full time equivalent positions, but new recruitment was equivalent to 439 full time equivalent positions. This reflects the changes taking place in the group, with some activities in a phase of consolidation whilst other activities are developing and growing. The average age of the group's employees at year end was 43, representing a drop of one year from 1997. The incidence of absence from work on grounds of sickness was slightly lower than in 1997 at

3.65 percent. The Board of Directors is satisfied that the level of sickness leave has stabilised following the increase seen in 1997, but will continue to take a close interest in the future trend of sickness leave.

### **Environmental policy**

Storebrand has established an environmental policy which places the concept of sustainable development at the heart of the group's endeavours to create value for its customers and owners. This is further demonstrated by the establishment of environmental programmes in a number of areas of activity. Storebrand does not pollute the external environment beyond the normal level for the activities in which the group is engaged.

### **Board of Representatives, Board of Directors and shareholder matters**

Storebrand ASA had 73,823 shareholders at the end of 1998, as against 75,305 a year earlier. The company's shareholder structure shows a disproportionate number of shareholders with small share holdings. Following a decision of the company in Extraordinary General Meeting on 27 January 1999 the company intends to take advantage of the provisions contained in the new Companies Act which came into force on 1 January 1999 to make an offer to all shareholders who own 8 or fewer shares to increase their holding up to a total of 100 shares. Shareholders holding 8 or fewer shares who do not wish to take up this offer will have their shares redeemed. This offer will apply to 39,000 shareholders. As at 31 December 1998 foreign shareholders accounted for 43.1 percent of the share capital. The proportion held by foreign shareholders a year ago was 42.1%. The

company's share price increased by 9% over the course of the year, from NOK 53.00 to NOK 57.50. The highest and lowest prices during the year were NOK 75.00 and NOK 38.50 respectively.

Lennart Jeansson and Per-Leon Selseth have retired from the Board of Directors, and Tom Vidar Rygh and Peter Ruzicka have been elected as new members. Jan Magne Heggelund, Kåre Gjønnnes, Per-Inge Sjøreng, Erik Dypedahl and Ivar Martinsen (alternate member) have retired from the Board of Representatives. Mille-Marie Treschow and Einar Sørensen have become full members of the Board of Representatives, whilst Stein Erik Hagen, Erik Berg (alternate member), Cecilie Frivold, Arild Thoresen and Rune Meier (alternate member) have been elected as new members. The Board of Directors would like to express its appreciation to the members retiring from the Board of Directors and the Board of Representatives for the valuable contribution they have made to the company.

Remuneration of the Chief Executive Officer of Storebrand ASA, the auditor and officers, and obligations in the event of termination or a change in management employment contracts are detailed in Notes 3 and 13 to the Accounts.

### **Capital situation**

The Annual General Meeting held on 1 April 1998 resolved to redeem the company's preference share capital in the amount of NOK 1,160 million, and the Ministry of Finance approved the redemption by letter dated 5 May 1998.

The group's capital ratio, expressed as the ratio of primary capital to the risk weighted asset base, was 13.4 percent at 31 December 1998. This represents a reduction of 1.0 percentage point since 31 December 1997. The lower ratio reflects both the redemption of the company's preference share capital and growth in total assets, of which a significant portion is invested in equities. The minimum legal requirement is 8 percent. The life insurance company raised a new perpetual subordinated loan which served to increase its capital ratio. The capital ratio of the life and non-life groups at year end were 12.1 and 23.3 percent respectively.

The international credit rating agency Standard & Poors maintained its rating of A+ for claims paying ability for both the life and non-life companies in 1998, and the international credit rating agency Moody's rated Storebrand Skadeforsikring AS for the first time with a rating of A2.

### **Acquisition of Finansbanken**

It was decided at a meeting of the Board of Directors of Storebrand ASA held on 5 January 1999 to

make an offer of NOK 40 per share for Finansbanken. This offer was conditional on Storebrand achieving a holding of more than 90% of the share capital of Finansbanken, and being granted the necessary licence on acceptable terms. In order to ensure the continuing strong solidity of Storebrand after the acquisition, an Extraordinary General Meeting of Storebrand ASA held on 27 January 1999 authorised the Board of Directors to increase Storebrand's share capital by up to 10%. The background for this transaction is the company's interest in strengthening its position in the attractive and rapidly growing private banking market, and it will complement Storebrand's existing product range. Storebrand had received acceptances from shareholders holding 96.25% of the shares and votes in Finansbanken by the end of the offer period.

### **Future prospects**

Mergers and acquisitions continue to play a major role in the restructuring of the finance industry, both in Norway and internationally, and there is every reason to expect this to continue. It is essential that Storebrand is well-positioned in relation to the changes taking place, and this makes it important that the company continues to be a competitive player in its domestic market. The effect which the current programmes of measures aimed at improving the core processes of the group's non-life insurance business will have on the underlying insurance result will determine the future profitability of this business. The very satisfactory results generated by reinsurance in 1998 cannot be expected to be repeated. The breakthrough the group has made in the market for public-sector pension schemes, and its new products for defined contribution pension schemes, will be similarly important for the group's competitive position in the pension market. In the retail savings market developments in securities markets and movements in interest rates will play a determining role in the choice customers make between the various products on offer. Storebrand places great importance on further developing the group's concept of product neutral advice for its customers.

Storebrand announced on 22 February 1999 that it had reached agreement with Försäkringsaktiebolaget Skandia for the establishment of a joint Nordic non-life insurance company. The combined company will be the leading company in its field in the Nordic countries with a market share of approximately 19%. Further information can be found in the article "From the Group Chief Executive Officer".

### **Consequences of the new Companies Act and changes in accounting regulations**

The new Companies Act comes into force with effect from the 1999 accounting year. New regulations have also been introduced for the annual reports of insurance companies and banks. The most important changes for the insurance industry are the transition to market valuation of financial assets, and the introduction of revaluations/write-downs of real estate for life insurance companies.

### **Application of profit**

Storebrand ASA recorded a profit for the year of NOK 326.1 million. It is proposed that the profit for the year be allocated to the free reserve. The

Board has decided not to recommend a dividend for the 1998 accounting year in view of the intention to increase the company's share capital in connection with the acquisition of Finansbanken. This will serve to reduce the scale of the planned increase in share capital. The Board of Directors has decided to give existing shareholders the right of pre-emption in this respect. As the company has previously stated, it intends to distribute dividends in future years. The Board of Directors attaches considerable importance to pursuing a dividend policy which seeks to ensure a stable growth in dividend per share.

Oslo, 2 March 1999

Translation – not to be signed

Jon R. Gundersen  
Chairman

Leiv L. Nergaard

Jens Ulltveit-Moe

Brit K.S. Rugland

Tom Vidar Rygh

Peter Ruzicka

Mathias B. Dannevig

Per-Olav Myrtrøen

Dagfinn Lea

Åge Korsvold  
Group Chief Executive Officer

you can ALWAYS pull out if you like it too much  
HENRY IS DYING



your MISERY

FORGET AN G. INDIANIST



IN DEEPLY



VERY IMPORTANT  
IMAGE

MYR BLACK PEARL

RECYCLED MISERY  
OSLO 1996  
OSLO 1997

Jan Mjølhus

# Change and improvement continues at Storebrand

1998 saw a turning point for the Norwegian economy. The annual wage settlement proved expensive, interest rates rose sharply, there was a significant fall in oil prices and the Oslo Stock Exchange fell by 27%. It is very pleasing to be able to report that Storebrand remained in good shape throughout the turbulence seen in financial markets in 1998. Over the last five years we have focused on building up the company's financial strength, partly in order to redeem the company's preference share capital in 1998. Strengthening the buffer capital available in the company has also made it possible for us to maintain a relatively high proportion of investments in equity markets despite falling prices.

## **Added value from improved operations**

The most important issue for the company is currently, and will continue to be, to improve its own operations. The first phase of programmes aimed at improving our core processes was completed in 1997. We have defined the core processes of insurance business as distribution, underwriting, and claims handling. The results from the first phase exceeded the targets which were set when the programmes were started in 1994. The second phase of the process of improving core processes started in 1998, and is expected to yield improvements in the order of NOK 400-600 million. The first phase has helped to build up a level of expertise which will make it possible to carry out the second phase more effectively. Storebrand attaches ever increasing importance to making innovative use of this expertise so that we can offer our customers real added value over and above the obligations which we have as an insurer.

In parallel with the work underway on core processes, we are also continuing to invest in increased distribution capacity for savings products. The number of financial advisers on our staff has been increased, we have opened new advice offices and we have extended our franchise chain. Storebrand Bank is growing very quickly. Storebrand has also invested in product development in the savings area. The decision by Aker Maritime to choose Storebrand as its pensions provider when it became the first Norwegian company to decide on a defined contribution pension scheme for its employees was an important development for us.



*Group Chief Executive Officer Åge Korsvold*

## **Success in the corporate market**

The success we achieved in parts of the corporate market in 1997 continued in 1998. Storebrand increased its market share across the entire corporate market for both life and non-life insurance. These results reflect the effect of a systematic programme of work and investment over the past few years to expand expertise and sales capacity for these markets.

## **A new platform for growth as a one-stop supplier**

The group's share of the market for non-life insurance in the private market remains stable, but competition continues to increase and certain banks are seeking to build up their volumes in this market. Storebrand intends to meet this competition by continually improving as a non-life insurance company and by offering one of the best one-stop product ranges in the market.

It is important for us to maintain our share of total value added in the non-life insurance market. This also makes it necessary for us to reduce costs. We did not reach our cost targets in 1998, not least because we implemented very comprehensive changes which represent an investment in the products and distribution channels of the future.

One of the group's principal goals has been to create a platform for future growth. Storebrand established two new businesses in the latter part of 1998 in co-operation with international partners: Storebrand Helseforsikring AS and Fair Forsikring AS, a Danish non-life insurance company. Early reports from these two new operations are promising. 1998 also saw us bring together all of our investment management activities into one

company, Storebrand Kapitalforvaltning AS, in part to provide a better basis for future growth. Storebrand Kapitalforvaltning was the only Nordic investment manager to be awarded a mandate by the Norwegian Petroleum Fund.

### **Structural challenges**

Structural changes have been much in evidence in both the Norwegian and international financial sectors in 1998. Storebrand is active in five separate market areas: Non-life insurance for the private and small corporate market, the Corporate market, the Private market for financial services, Investment management and Marine and Energy insurance. There are differences between these areas in terms of the group's current position, the challenges it faces and the framework in which it operates. It is accordingly the case that there is no single structural solution which offers the right response to all the challenges we face. By way of example the current acquisition of Finansbanken will strengthen our position at the higher end of the retail market for financial services, and will add to our financial advice expertise. However it will have no significant impact on our non-life insurance activities, where we have recently reached an agreement with Skandia which is described below. Storebrand is well-placed for further strategic repositioning.

### **Building the brand**

Storebrand has a strong position in the Norwegian market. This has been confirmed by the market research we have carried out on customer attitudes to Norwegian financial institutions. 1998 was the year in which we put in place the essential building blocks for transforming Storebrand from just an insurance company into a modern one-stop supplier of financial services. Storebrand's management and employees recognise that it is just as important for financial institutions to build on their brand name as it is for any other supplier. As competition increases it will be the large and well-known brands which prove most successful.

Storebrand has put a lot of effort into analysing which values are important for its customers, and the message on this is quite clear. What is most important for customers is that the company supplying them with financial services should be helpful in all its contacts with the customer, that they should be able to rely on us when we give advice and information, and last but not least they want to find it straightforward and easy to do business with Storebrand.

These values will be central to all the decisions on business priorities which we make in future

years. The short articles which follow illustrate a number of areas where Storebrand is working to realise these goals.

### **Creation of a Nordic non-life insurance company**

Storebrand and Skandia announced on 22 February 1999 that they intend to create a non-life insurance company which will be the leading player in the Nordic market. Storebrand will hold 44% of the capital and 50% of the votes in the new company, which has not yet been given a name. Skandia and Storebrand would like to bring both a Finnish and a Danish partner into this co-operation, and the partners also have ambitions beyond the Nordic market.

The establishment of this new non-life insurance company solves some important structural challenges for Storebrand. In the first place it allows Storebrand to participate actively and constructively in restructuring the Nordic insurance industry in a way which ensures a continuing Norwegian influence. Its second effect is to create a new structure which will be among the most capital efficient in its industry, as well as creating the financial and structural room for manoeuvre which will permit growth and development. The third advantage is that it allows us to participate in a significant ongoing process of value creation by making use of the potential for improvement in core processes in a larger insurance operation. Last but not least the new structure provides the basis for faster growth than is available in our existing non-life insurance structure.

The new company's head office will be in Stockholm. The Private market activities and Marine/Energy insurance will be run from Norway, whilst the Corporate market activities will be managed from Stockholm.

Storebrand will continue to be a leading integrated Norwegian financial concern once the new non-life insurance company is in place. Storebrand's activities in the retail market will be focused on savings and individual risk cover, including health insurance, mutual funds and banking products. The group's business concept is based on combining first rate product-neutral financial advice from local branch offices with cost-effective electronic transaction and distribution systems, including customer call centres and the Internet. The principal focus in corporate market activities will be on pensions, personal risk and health insurance, as well as investment management. Storebrand will maintain its competitive position by continuing to offer a high level of expertise, distribution channels matched to customer requirements and cost effective production.

# Listening to our customers

During the course of 1998 Storebrand carried out a number of extensive surveys in order to better understand which financial services its customers need and to establish how the Storebrand group stands in an increasingly competitive and integrated financial market. The surveys confirmed that

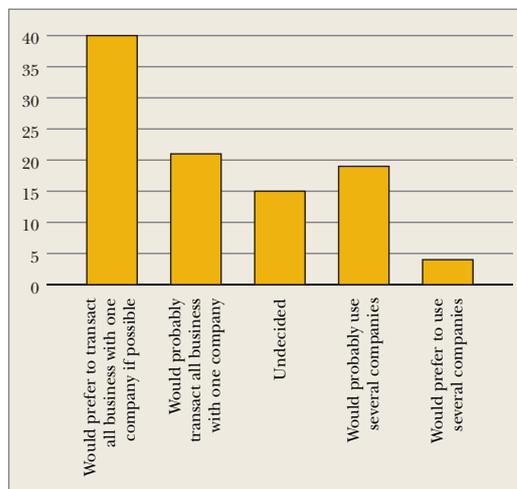
**Storebrand is a company which can be trusted, which it is easy to do business with, and which tries to help its customers.**

Storebrand has already established a sound position in its customers' estimation as a highly competent and financially safe leading player in its market. It also became clear that customers place

greater importance on receiving good advice and follow up from the company than on specific products and services. It was also clear that customers want to be able to rely on a name they know and trust for their day-to-day financial requirements.

Storebrand has used these results to identify three key values which will direct the group's priorities and help to strengthen its standing with its customers. The company will demonstrate through its actions and communications to its customers, that Storebrand is a company which can be trusted, which it is easy to do business with, and which tries to help its customers. The principal implications of this approach are that the company should offer straight-forward products which can be easily understood, a straight-forward and readily accessible level of service, and clear and concise information, as well as offer them advice and keep them advised of the

## Customer attitudes to using a single supplier for financial requirements



Source: ScanFact 1998



alternatives available to them from time to time. These key values indicate a new emphasis for the strategic position which the Storebrand' trade mark' should occupy in the market. It is these values which provide the foundation for the group's business objectives, and form the basis for how the company intends to serve its customers, namely by helping them to improve their financial standing, simplifying their everyday financial requirements and providing security against the unexpected. Important key concepts in this context are quality of service, new products and services and activities which encourage customer loyalty.

The market surveys also showed that customers want to remain customers of the traditional suppliers of banking, insurance and other financial services – even when asked to look two to three years into the future the majority of customers saw no need to change their current arrangements. However there was a definite interest in concentrating all their service requirements with one supplier, so long as the full range could be offered by a supplier which they already used. In other words a 'one stop' supplier must be firmly based in a recognised distribution channel if its broader range of products is to be of interest.

61 percent of all retail customers would like to arrange all their financial services with one supplier if this were possible. The market research also confirms that both the retail and corporate market are very confident that Storebrand will become a broadly based financial group over the next couple of years.

# The one-stop supplier of the future

Storebrand is the first financial group in Norway which can deliver what the majority of customers are looking for. On the one hand customers want a local office which can offer financial advice as and when it suits them, and on the other hand they expect reasonably priced and simple 'self-service' access to products by telephone or on the internet.

## **TOTAL+ is one of the best customer loyalty programmes in Norway.**

The new local offices offer the opportunity for customers to book an appointment with an advisor. The customer and advisor then review the customer's finances, and put together a total 'tailor made' package. The customer can withdraw cash in shops or mini-banks and pay bills over the internet, and will receive monthly statements which are the best and most useable in Norway, giving full details of the customer's current account, savings and loans on one



page. Storebrand's customer centres offer telephone access to an adviser late into the evening every day of the year.

Several thousand customers have already discovered that Storebrand's new and inviting local offices can help them with advice on their day-to-day financial requirements.

Attractive terms and conditions are high on many customers' lists of priorities. It can be taken for granted that Storebrand offers competitive terms, making the group one of the best for insurance, savings, current accounts, loans and mutual funds investments.

## **A reassuring feeling that everything is in order**

Customers mainly use banking, savings and insurance products to help fulfil their aspirations and to provide the security they need in their everyday life. From Storebrand's point of view this means that it must provide everything which the customer might need in terms of banking, savings and insurance. Customers should receive the best advice for their particular circumstances, honestly delivered and with no partiality to any particular product, and Storebrand will offer good products and services at the right price. Customers will also be offered help with monitoring and controlling their everyday finances and with planning their savings, and they will be provided with the best claims handling service in the country.

Making contact with Storebrand will be made easy, whether by telephone, internet, letter or in



person, and the group's products will be presented in a way which makes them readily understood. Everything about being a Storebrand customer will be as simple and easy as possible.

## **TOTAL+**

Storebrand launched a new customer loyalty programme, TOTAL+, in October 1998. TOTAL+ underlines Storebrand's role as a one-stop supplier of insurance and financial products. TOTAL+ rewards customers who place all of their business with Storebrand, and is one of the best customer loyalty programmes in Norway. Total+ offers financial advantages, whilst also contributing to



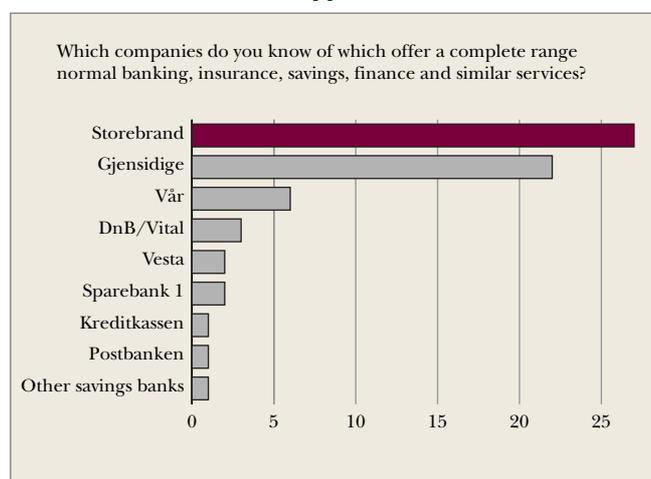
the customer's day to day sense of security. Some of the benefits of the new programme include: A 10% discount on non-life insurance, one of the most attractive banking packages in Norway with cheaper loans, higher deposit rates and no charges on payments made by telephone or over the internet, a security guarantee that Storebrand will always provide cover for the customer's insurance, lower insurance excesses, membership of Storebrand Home which offers assistance in the event of a break-in, discounts on burglar alarms and free legal help, free counselling in crisis situations and free hire of child car seats.

The TOTAL+ programme is Storebrand's way of taking care of its most important customers, making their everyday life as safe and secure as possible and ensuring that if they do have to make claims on their insurance, that these can be resolved as quickly as possible. The TOTAL+ concept is the subject of continuing development, and the programme will be extended during 1999 with benefits from other areas of Storebrand's services in order to ensure that it remains the best one-stop package on the market.

Storebrand is already seen to be one of the com-

panies which are most clearly distinguished as one-stop suppliers of financial services. Storebrand accordingly intends to be recognised for its entire and comprehensive range of products and services, and to be seen as the customer's natural partner for financial advice in the broadest sense.

#### First mentioned - Total supplier



Source: Norsk Gallup 1998

# NettBank – the bank of the future

Storebrand NettBank was voted the best internet bank in Norway by 'Din Side', a Norwegian web site, in Autumn 1998. The recommendation focused particularly on pricing. Since that time Storebrand has launched a new version of NettBank, with user-friendliness and improved functionality

**Storebrand Nett-Bank will be upgraded to an entirely new version in early 1999, with the current payment services function forming an integrated part of the package.**

as key features. Further upgrades are planned for 1999 which we believe will set new standards for internet banking in Norway. Storebrand Bank has offered an internet banking service for its customers since Autumn 1997. The bank has seen considerable growth in

both the number of customers using internet banking and in the business volumes transacted. Storebrand Bank had a total of approximately 9,200 customers for its NettBank service by the end of 1998, of which 62 percent (approximately 5,700 customers) are classified as active internet customers. This is equivalent to 28% of the bank's salary account customers. Actual usage figures for the internet banking service show that in December 1998, for example, 25% of all payments instructed by customers were made through the internet service.

Storebrand Bank aims to double the number of transactions carried out over the internet in 1999. This is in line with the bank's philosophy of making its banking services both simpler and more easily accessible for its customers.



## New services for 1999

Storebrand NettBank will be upgraded to an entirely new version in early 1999, with the current payment services function forming an integrated part of the package. This will be the first step towards offering an on-line service which will provide a total overview of a customer's business with a number of Storebrand group companies. In its first phase this will provide the customer with an overview of his bank accounts, borrowing and mutual funds investments with Storebrand. The system will also allow the direct purchase of mutual funds investments up to a limit of NOK 100,000 per transaction. The customer will also be able to access a complete report of all communications with Storebrand using the new service. This will make a customer's e-mail messages, order and application forms, and order confirmations readily available.

## A priority area

Storebrand has made the internet a priority area, representing a channel for delivering services, communicating with customers and for distributing information. This will be reflected in the launch of a number of new internet services over the course of the year.

# Simpler comparisons between different kinds of savings

Life insurance companies have been criticised because it is difficult to compare the return on life insurance saving with the return on other forms of saving. The reason for this is that the savings and insurance elements of traditional life insurance products are combined. This makes it difficult to

**Storebrand's average net yield for over the period 1992 – 1997 was the highest of all life insurance companies in Norway. This was the case for all product groups.**

know how much is being paid for the insurance cover, and what return is being produced on the savings element.

Storebrand has been working to encourage the production of comparable figures for life insurance saving for a number of years. Helping customers to compare all the types of savings which are available in the market is very much in line with Storebrand's new brand strategy, with its emphasis on a commitment to customer service.

Storebrand wants to see key figures made available for both yield and expenses which show comparable averages within each product group. One of the aims in producing these key figures is to improve the information available on both net yield and expenses for the savings element of selected life insurance products.

Storebrand accordingly welcomes the agreement which has now been reached within the insurance industry to introduce a new concept known as net yield, which excludes the cost of the insurance cover itself. Key figures calculated on this basis will represent an average, and will not be exactly the same as each individual customer sees on his account statement. However the net return on life insurance savings products will now be directly comparable with the yield on other forms of saving.

The first key figures have now been produced by the Association of Norwegian Insurance Companies. These show for the life insurance companies which participate that:

The first key figures have now been produced by the Association of Norwegian Insurance Companies. These show for the life insurance companies which participate that:

- Storebrand's average net yield for all product groups over the period 1992 – 1997 was the highest of all life insurance companies. This was the case for all product groups. Average net yield is the measure which best reflects the share of the company's surplus which is allocated to customers.
- Storebrand produced the second highest value adjusted yield over the same period.



Storebrand already reports the net yield on insurance policies to individual customers and to many members of group schemes on their annual accounts statement. This allows the customer to see what actual yield has been produced on the savings portion of the insurance policy. This yield can then be compared with the return on other kinds of saving.

It is important when making such comparisons to remember that there is one important difference between life insurance savings and other forms of savings such as bank accounts or mutual funds products: life insurance saving provides its policyholders with a guaranteed minimum annual rate of return, regardless of what might happen in the financial markets. This makes life insurance a competitive alternative to savings accounts, and for savers who prefer a safe return rather than wide fluctuations in value, life insurance saving can also be a good alternative to mutual funds.

The key figures show that in terms of the costs associated with the saving element, Storebrand had the lowest figures for the period for individual product groups. In the case of collective pension insurance Storebrand had the second lowest costs associated with the saving element.

## Net average yield 1992-1997 for two product groups

(Extracted from key figures produced by the Association of Norwegian Insurance Companies)

Company	Collective pensions insurance	Individual endowment insurance*)
Storebrand	8.4%	7.9%
Gjensidige	8.4%	7.7%
Vår	8.2%	7.7%
Vital	8.2%	6.4%
Nor	-	7.0%
KLP	7.9%	-

\*) Traditional products

# Help when a claim has to be made

**Claims handling functions will be done quickly and efficiently and with an assured level of quality, in order to ensure that the customer is satisfied.**

It is only when a claim has to be made that insurance customers receive the product which they have paid for. Helping customers when they make a claim is therefore one of Storebrand's most important tasks. Considerable resources are devoted to this every year, and the

majority of customers are satisfied with the assistance they receive.

Storebrand's customers suffer more than 400,000 losses every year. There is very wide variation in both the type and size of losses. The complexity and amounts involved vary

considerably from claim to claim. Many cases are relatively simple, and may involve simply roadside assistance, minor vehicle damage or water damage. Other instances are more serious, including natural catastrophes, personal injuries or death. Corporate customers may suffer losses which force them to close down their business in whole or part for some time. What is common to all losses, regardless of their scale or complexity, is that the customer has suffered an unexpected event which has caused a problem.

## **Ambitious objectives**

Storebrand has set itself the goal of having a claims handling function which is one of the best in the world. Storebrand's intention is to do everything possible to help the customer to restore the state which existed before the loss happened. This will be done quickly and efficiently, and with an assured level of quality, in order to ensure that the customer is satisfied.

Insurance has traditionally been associated with financial compensation for losses, and Storebrand pays out more than NOK 7 billion in claims annually to its non-life insurance customers. However, whilst financial compensation is an important factor in very many cases, Storebrand offers a wider range of help than the purely financial. This includes, for example, a 24-hour emergency telephone service, offering advice on appropriate insurance cover and renewals, arranging roadside assistance, counselling, rehabilitation, loss prevention advice and temporary assistance such as rental cars.

## **The new claims handling service**

Over the course of the last two years Storebrand has made significant improvements to its claims handling service. This has included the development and introduction of new systems for claims handling at the company's nine claims centres. The centres offer customers easy access to the staff handling their claims, with speedy and customer-friendly claims handling. Claims handling is no longer a bureaucratic process, and paper-work is kept to a minimum.



The group has also set up arrangements with a number of suppliers and business partners which are intended to provide the best possible assistance for customers. Important partners in this context include vehicle breakdown services, car repairers, cleaning companies, doctors and rehabilitation clinics. Storebrand sets high standards for the quality and performance it expects from these suppliers and partners.

The most important change has been to speed up the process of claims handling. One-third of all claims are now processed and finalised in less than 48 hours. This applies to cases where the customer can be assisted on the telephone, and where there is no need for written loss reports and the like. It is also the case that customers now find it much easier to contact Storebrand, since claims handling is now close to offering a 100% telephone response rate. The company's agreements with a number of car repairers throughout the country has also meant that an increasing number of customers experience a faster service

for car repairs, with a replacement hire car delivered to the car repair workshop and a joint guarantee of the work carried out from Storebrand and the workshop.

### **Increasing customer satisfaction**

All of this work has produced results. Customer surveys now show that as many as nine out of ten customers are satisfied with the help they receive from the company when they make a claim. Even though our past performance satisfied the major



ity of customers, the new results represent a significant improvement. The number of customers giving the company top marks has doubled, and now represents significantly more than half of all customers who make claims.

This can be illustrated by some examples of claims from 1998. One customer suffered a break-in to his car and his apartment keys were stolen. After one telephone call to Storebrand a locksmith was contacted and new locks were fitted to his apartment within 40 minutes of the theft being notified. Another customer suffered a minor collision and rang Storebrand from his car telephone. The Storebrand staff member who took the call arranged a telephone conference between the customer, a car repair workshop and Storebrand. An appointment was booked for the repair and a hire car arranged with the customer still sitting in his car, and the hire car was waiting when the customer delivered his car to the repair workshop 20 minutes later. A third customer was initially told by a car repair workshop that there would be a

three-week wait for the repairs to his car to be carried out. However the repair workshop proved to be one of Storebrand's preferred partners, and after a telephone call from Storebrand the car was repaired the same day.

More and more of Storebrand's customers are finding that the company provides them with appropriate assistance of a high quality. Further improving the company's ability to help customers when they need to make claims is something which Storebrand sees as one of its most



important tasks for the future. This also involves further developing and extending the company's relationships with suppliers and business partners. There will always be the odd case where the company could have done better in handling a claim, but more and more of Storebrand customers will find that they receive speedy, appropriate and high-quality assistance when they have to claim on their insurance. They will find that Storebrand staff help to lighten the load which a loss represents as much as possible, both in terms of financial loss and inconvenience. Storebrand's customers can be sure of receiving straight forward assistance when they suffer a loss.

**One-third of all claims are now processed and finalised in less than 48 hours.**

# *Business opportunities and public policy*

## **New challenges**

The traditional distinction between state provision of social security arrangements intended to satisfy public policy targets and private arrangements for savings and pensions is being challenged in a number of areas. Many people see private sector suppliers as a possible alternative

**Storebrand currently manages pension funds totalling some NOK 2 billion for Norwegian local authorities.**

for delivering state provision in a sound and reasonably priced manner. In addition it is now recognised that as society becomes increasingly prosperous there will be a demand for welfare and health services over and above those which can be financed through the national budget. Storebrand sees the opportunity for interesting new business opportunities in this new world of interplay between the public and private sectors. Storebrand already has experience of private sector competition in the area of industrial injuries insurance. More recent examples of developments where public and private sector meet, and where social objectives play a determining role include the management of the Petroleum Fund, occupational pension schemes for local authorities and the introduction of private health insurance. Local authorities, tax payers and consumers can rely on Storebrand to provide first class services in the emerging welfare market.

## **Competition for local authority pension schemes**

Kommunal Landspensjonkasse (KLP) has had a virtual monopoly in the arrangement of pension schemes for Norwegian local authorities. However in 1998 Storebrand challenged KLP's position in the local authority market. Competition in the local authority pension market represents a natural step in a process of modernisation in the local authority sector, offering local authorities the prospect of lower prices and better quality. This does not represent any kind of attempt to privatise local government activities, but is simply an attempt to introduce competition in one of the many areas where local authorities buy in external services. By way of comparison its clear that nobody would seriously expect all local authorities to buy, for example, banking or insurance from the same supplier.

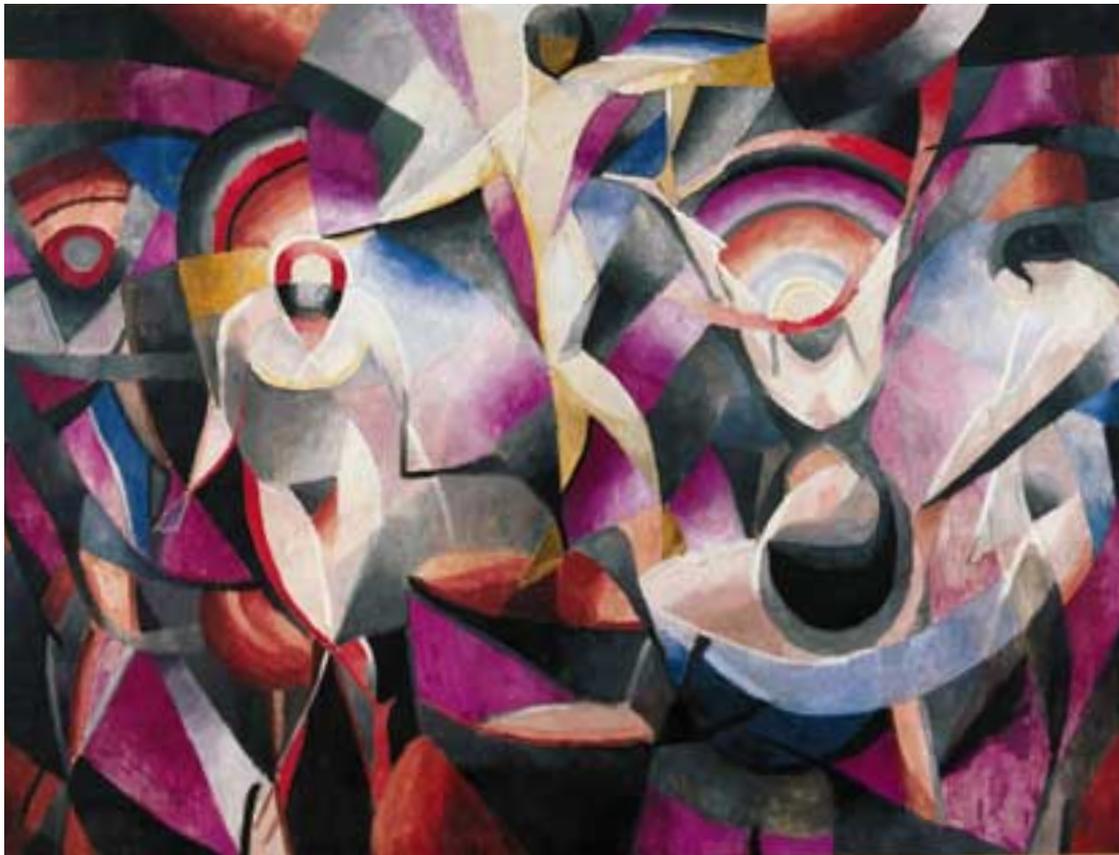
1998 saw seven local authorities decide to transfer their pension schemes to Storebrand, despite

the real obstacles which exist for free competition in local authority pension arrangements. Storebrand currently manages pension funds totalling some NOK 2 billion for Norwegian local authorities and public sector businesses. The competitive advantage which Storebrand offers is that our local authority customers can demonstrate that a competitive return on pension fund investments results in lower net pension costs. In addition Storebrand's pricing is individually tailored to each authority, and the premium arrangements give the authority greater understanding and control over the administration and investment of its pension scheme. As a result of the extensive scale of local authority employment and the collective agreements in this sector which guarantee every employee an occupational pension, local authority occupational pension schemes currently represent a larger market than private sector pension schemes.

## **Management of the Norwegian Government Petroleum Fund**

Storebrand was the only Nordic company chosen by Norges Bank, the Norwegian Central Bank, to participate in the management of the Government Petroleum Fund. This serves to confirm the high international standard of investment management which Storebrand has achieved. The agreement with Norges Bank plays an important part in reinforcing the presence of investment management expertise of the highest calibre in the Norwegian market. The growth of Norway's national reserves provides a unique opportunity to develop a Norwegian investment management and finance industry fully capable of competing in international markets.

The contractual arrangement for managing the Petroleum Fund is indicative of a trend for the private sector to take on other new tasks. The recent report by the Moland Commission indicated that it would be natural for the private sector to play a role in any change in the current state pension scheme in the direction of a funded arrangement. This could take the form of anything from managing pension funds on behalf of the public sector through to the full privatisation of pension provision, with individuals making their own decision as to which company to use for their compulsory pension saving. In Sweden, for example, tax payers are now entitled to save up to



2.5% of their taxable income in individual savings accounts and this has led to the growth of an extensive private sector market for these savings schemes.

### **Health Insurance**

Storebrand Helseforsikring AS launched a new health insurance product in Sweden and Norway in 1998. The company's first health insurance product, Storebrand BehandlingsAvtale, offers access to private medical care, both domestically and in other countries. In contrast to earlier products in this market the new product does not simply provide a cash payment in the event of illness, but also offers a guarantee of medical treatment. The new product also offers a "Help line" which provides advice and assistance with the selection of medical specialists and hospitals. Private health care has existed in our markets for many years, but this scheme makes private care available to a broader public. Sales of this new product in the Norwegian market have been in line with the targets Storebrand set for 1998. The product was first marketed in the late Autumn of 1998, and further significant sales in both Norway and Sweden are expected in 1999.

This new product is not intended to be a replacement for public sector provision of health care, and it does not cover some important areas such as accident and emergency or psychiatric medicine.

The public sector currently provides the fundamental health service provision in all European countries, and this is expected to continue to be the case. However there are reasons to expect growth in private health care in Norway as in other countries. This requires a growth in health insurance if private care is to be available to a much wider group than just those who are able to pay for private services directly as the costs are incurred.

### **Tomorrow's Opportunities**

It is Storebrand's belief that private sector alternatives will emerge over time for a number of other 'public' areas in order to help fulfil social policy objectives. Some countries are considering the introduction of compulsory insurance for nursing home care, with insurance provided by the private sector. It also seems likely that major elements of provision for early pensions will in the future be arranged on a money purchase basis and will be open to competition. Private sector suppliers of savings and insurance products will come to play a central role in achieving national public policy objectives, and this will place new demands on the suppliers of such services from knowledgeable and demanding consumers.

**Storebrand BehandlingsAvtale offers a guarantee of medical treatment to private medical care, both domestically and in other countries.**

# Storebrand's environmental activities

Storebrand drew up its first environmental plan three years ago. At that time the finance and insurance industry was not among the most active in environmental matters, but experience has shown that there is a relationship between environmental risk and economic risk. Storebrand is an active proponent of improving environmental understanding, and works with the appropriate authorities and society at large to further this aim. The group's work on environmental issues reflects both our corporate and social responsibilities. Insurance companies are often the first to recognise the economic consequences of damage to the environment.

Storebrand's Environmental Report, published in June 1998, describes the group's activities in respect of environmental matters, outlines what has been achieved so far and sets out the group's plans for the period 1998-2000.

Storebrand's direct action on environmental matters can be seen in its Purchasing and Property



Management activities. The group offers environmentally related products and services in the areas of Corporate Loss Prevention (Health, Safety and the Environment), Motor insurance, Home and Agricultural insurance, Marine insurance and Storebrand Scudder Environmental Value Fund. Storebrand is also an active participant in the United Nations' environmental programme and is a member of the World Business Council for Sustainable Development.

In addition to these activities Storebrand is introducing an environmental management programme which is intended to simplify the group's environmental activities and increase their effectiveness. The next environmental

report, due to be published in 2001, will provide further details on the results achieved.

Storebrand established an Environmental Forum in 1998. The Forum is made up of a cross section of Storebrand employees from all the group's business areas. The aim of the Environmental Forum is to ensure that there is broadly based understanding and support throughout the organisation for environmental issues and the group's environmental plan.

## Main developments in 1998

Storebrand has decided to prepare an environmental classification of all the buildings in its property portfolio, with the aim of reducing energy consumption by an aggregate 10% by the end of 1999. All properties have now been equipped to allow tenants to sort their waste into seven categories. The brake material used in all the company's lifts has now been replaced with asbestos-free alternatives. Storebrand moved into its new headquarters building at Filipstad in Oslo in March 1998. Environmental issues enjoy a high profile in the new building, and were taken into account in every aspect of the building. By 31 December 1998 the company had environmentally certified 130 car spray-shops. The Storebrand Scudder Environmental Value Fund has grown to over NOK 1 billion. The fund has performed well in relation to its benchmark index, the MSCI-WI, since it was established, and has accordingly achieved its goal of offering a good rate of return.

## Storebrand's Environmental Policy

Sustainable development plays a central role in Storebrand's efforts to deliver value to both customers and shareholders. Storebrand aims to utilise the opportunities afforded by sustainable development and to reduce the financial risks associated with environmental factors in accordance with the following principles:

- Storebrand co-operates with its customers and suppliers in order to be an active leader in the environmental field.
- Storebrand aims to achieve continual improvement in environmental issues in accordance with clear aims and timetables set out in an environmental plan, and reports the results achieved.
- Storebrand seeks to increase the general level of awareness of environmental issues through co-operation with the relevant authorities and with society at large.

# Higher returns for our customers

Storebrand has a long history of investment management. In recent years Storebrand has placed emphasis on the development of investment management as a separate business area in the expectation that investment management in the Norwegian market would face a more demanding market over time. This made it important that all aspects of the group's investment management expertise should be brought together in a single unit with its own management and profit accountability.

## Active investment philosophy

Storebrand Kapitalforvaltning intends to be recognised for its integrated investment culture.

The key features of its investment management

style are the quality of its fundamental analysis, a long-term approach, a global focus and its independence and high ethical standards. Storebrand Kapitalforvaltning employs an active investment philosophy. This means that the company seeks to create added value for its customers by achieving a higher rate of

return than the benchmark index in each market, whilst maintaining a moderate and controlled risk profile. The company does not speculate in short term market fluctuation, and the investment portfolio is made up of a wide range of securities in order to ensure a better spread of risk.

## Quality and consistency

Storebrand Kapitalforvaltning aims to recruit, develop and retain the best investment expertise available in the market. The company operates with an international investment management team, drawing on a broad range of experience and professional skills. Considerable importance is attached to ensuring that the key individuals in each area work well together as a team.

Storebrand's size makes it possible to support the individual managers with the best information and analysis systems which are available anywhere. This allows risk to be monitored by comparison with the relevant indices in a number of dimensions. International markets are of great importance for the Norwegian financial markets, and the expertise, quality and experience of the



international management activities accordingly make a major contribution to the Norwegian side of the company's investment activity.

## Control at all levels

Risk management and risk regulation take place at many levels of the organisation. The investment managers are themselves involved in managing their risk exposure, using what are known as risk models which allow them to control their risk exposure in both absolute and relative terms at all times. In addition to this a separate department has been built up over recent years to regulate investment and operational risk exposure. The regulation and monitoring function is independent of the operative portfolio management function.

## Simplified reporting

The investment returns generated by the company's investment management, and a comparison with overall market performance, are reported to customers on a frequent basis. Reporting is also intended to give a simple and straight-forward overview of how the funds managed are allocated between different investment types, and to provide a comparison with the reference portfolio which the customer has defined as part of his investment policy. Reports are made available to customers in electronic form.

## Investment advice

As the investment world becomes ever more complex, Storebrand believes that it is important to be able to provide its customers with highly competent advice. The group's advisers are there to help customers to select the type of investment which best suits their needs, taking into account factors such as the customer's preferred risk profile, yield targets, and the scale of the funds available for investment.

**Storebrand Investment Management produces higher returns for its customers through a combination of its extensive expertise and sound risk management and control.**



# Non-life insurance

## Main features of 1998

- Satisfactory results from non-life insurance in a market characterised by intense competition, a high level of claims payments and weak investment returns in the financial markets.
- Storebrand continues to implement measures to improve its core business processes of distribution, pricing and claims handling, and this is producing benefits for both customers and shareholders.

## Business developments

### Market conditions

The market for non-life insurance in Norway is characterised by a continuing increase in competition from both established players and new entrants. Increasing competition has been evident in the corporate market for some considerable time, but it is now becoming increasingly apparent in the retail market, where banks are playing a particularly competitive role. Supply is growing faster than demand, and this leads to increasing pressure on premium rates.

Non-life insurance has traditionally enjoyed a relatively high degree of customer loyalty. The current trend is for customers to become more demanding, and to expect better value for money.

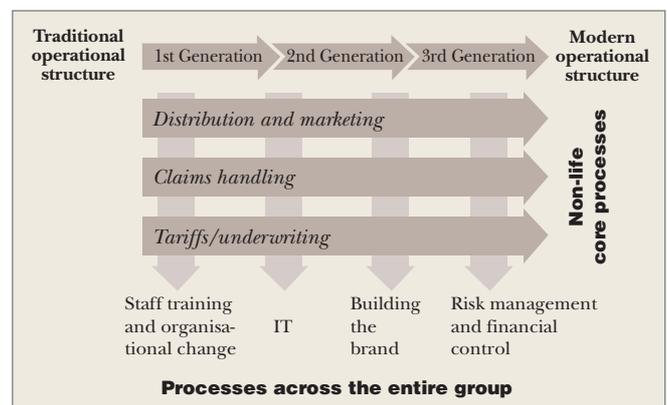
Gross non-marine claims have risen sharply over the past four years, following the historic relationship between the incidence of claims and increasing levels of economic activity. On the whole 1998 was another good year for the Norwegian economy, but there are now some signs of a slow down which is expected to lead to weaker growth in the near term. Experience suggests that this will have a positive effect on claims payments.

The reinsurance market is currently in a depressed state, and this offers the opportunity for its customers to negotiate favourable terms. Storebrand took full advantage of this opportunity in 1998, and this has helped to contain the scale of claims for own account.

Technological progress is creating new ways to improve both internal processes and the balance between costs and customer service. The role which Internet services will play is currently in the melting pot, but it is clear that the Internet will play an important role in all contacts with customers in the longer term.

## Core processes

The company's strategy for its operational functions continues to prioritise the development of first rate core processes. For the non-life company core processes embrace product distribution/marketing, claims handling and premium tariffs/underwriting. A first generation of measures aimed at strengthening these processes was initiated in 1994, and significant improvements have already been achieved. The goal set for annual savings of NOK 300-500 million at the end of 1997 was fulfilled. A second generation of measures was launched in 1998, with the target of producing further annual improvements in profit in the order of NOK 400 - 600 million from 2000 onwards.



### Distribution and marketing

A new distribution structure was introduced as part of the first generation of core process measures, and this brought about a change from independent local offices offering relatively little specialisation to the establishment of larger, more specialised centres for handling all incoming telephone enquiries (call centres), together with the introduction of pro-active sales of new business and a more active level of service for existing customers.

### Claims handling

During 1998 a total of nine claims centres were established in accordance with the company's new structure for claims handling. Experience from these new centres is very positive. Customers enjoy much improved access to the claims centre staff, and find that the whole process of making a claim is handled in an efficient and customer friendly manner. Customer surveys show a marked improvement in the level of customer satisfaction.

An important task for the claims handling function is to build partnerships with external suppliers. Storebrand is a major purchaser, accounting for example for 10% of the total turnover of car repair workshops in Norway. Storebrand seeks to use these partnership relationships to both improve service for customers and to reduce its purchasing costs.

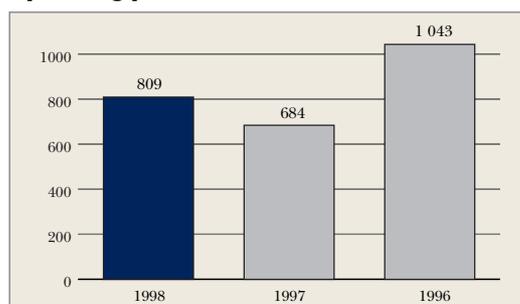
#### Pricing and underwriting

Premium tariffs have traditionally not been sufficiently differentiated in their recognition of variations in costs and actual market conditions. Storebrand has invested heavily in both systems and expertise in this area. As the market becomes increasingly price sensitive, the setting of premium tariffs is an important competitive factor.

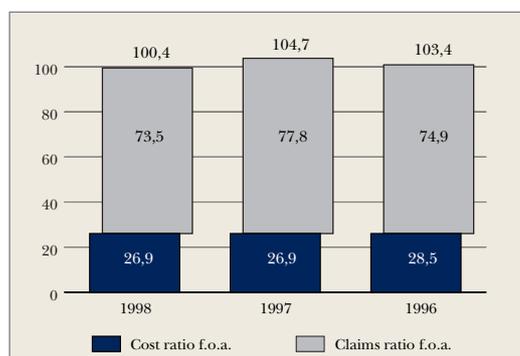
#### Financial review

- Strong operating profit of NOK 809 million, representing an increase of 18% from 1997.
- Weaker gross profitability for the 1998 underwriting year.
- Profitability is stronger after taking into account the effects of a reduction in the Banking, Insurance and Securities Commission requirements for claims reserves, run-off gains for previous years' claims, and favourable results from reinsurance.
- Cost level remains a challenge.
- Satisfactory investment yield.
- Financial condition of the non-life insurance company remains very strong.

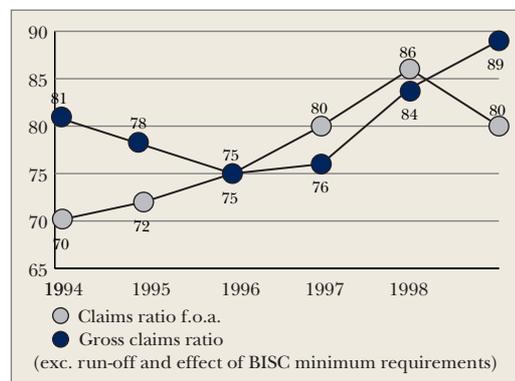
#### Operating profit



#### Combined ratio f.o.a.



#### Premiums and profitability



Gross premiums earned increased by 6% in 1998. The principal explanation for the higher level of premiums can be found in a sound increase in customer numbers in the corporate market and higher premium rates in the retail market. Claims payments increased by 28% between 1995 and 1997, causing a significant deterioration in profitability. In order to reverse this trend adjustments were made to premium tariffs, and these changes have produced increased premium income in the lines affected in 1998. In the Marine and Energy insurance lines premium rates continued to fall in 1998, with an average reduction of 16% in Marine and 18% in Energy. Storebrand has maintained its premium volume in Marine, but volumes fell by 8% in Energy.

Gross claims for the year, excluding the effects of the Banking, Insurance and Securities Commission minimum requirement and the effect of inflation, were 12% higher in 1998. The increase in claims outstripped the increase in premiums, leading to an equivalent increase in the gross claims ratio by five percentage points to 89.2% in 1998. This is due in part to a further increase during 1998 in both the number of claims and the average size of claims in the retail market. Storebrand's activities in the Swedish corporate market (Storebrand Sverige AB) experienced more extraordinary large claims in 1998 than in the previous year. Non-Marine insurance in Norway experienced a normal year in terms of large claims, and for the second year in a row there were unusually few claims arising from natural perils.

The total market for Motor insurance, measured in terms of premiums, grew by 9% in 1998. Of this growth, 3 percentage points can be attributed to an increase in the total number of private cars on the roads, and the remaining 6 percentage points reflect increases in the general level of premiums in this market. Motor insurance is an important line for Storebrand, accounting for 35% of total gross premiums earned in 1998. Effort is to be concentrated on strengthening the effectiveness of the channels used to sell motor insurance

during 1999. Claims experience was again poor in 1998. Both average claims amounts and the number of claims recorded increases. A combination of the relatively generous wage round and pressure on capacity in car repair workshops has led to an increase in repair costs. An important factor in the increase in business for car repair workshops has been the introduction of compulsory EU vehicle inspections. The increase in the total number of claims is a direct result of the increased number of cars on the roads and the greater density of traffic this causes.

Occupational injuries insurance was characterised by increasing claims in 1996 and 1997. The serious problems experienced with this line's profitability continued in 1998, and both Storebrand and the other Norwegian insurance companies introduced an extensive range of measures aimed at improving profitability in the future. The Association of Norwegian Insurance Companies reported in September 1998 that the Norwegian insurance industry incurs an annual loss in excess of NOK 1 billion on occupational injuries insurance. Further increases in claims payments are expected in the future, both as a result of under-reporting of accidents and discussions on the extent of occupational injuries insurance cover. Storebrand's share of this market, both in terms of premiums and number of individuals insured, was unchanged in 1998.

The overall claims ratio for own account for the non-life insurance business, taking into account run-off gains and including the effects of the Banking, Insurance and Securities Commission minimum requirements and inflation, amounted to 73.5%. This represents an improvement of 4.3 percentage points from 1997. The improvement in profitability is attributable to the positive effect of changes in the minimum claims reserves required by the Banking, Insurance and Securities Commission regulations, the performance of previous year's losses and the contribution made by reinsurance. The reduction in the claims reserves required by the Banking, Insurance and Securities Commission regulations was particularly marked for Motor in 1998. This produced an improvement in profit of NOK 200 million in 1998. Profit recognised from run-off gains accounted to NOK 397 million in 1998.

Reinsurance contributed a profit of NOK 565 million in 1998, having recorded a deficit of NOK 257 million in 1997. The reinsurance programme was subject to a number of larger single losses in 1998, and the number of medium sized single losses was also higher than in the previous year. The company manages its reinsurance on the basis of a long term strategy aimed at protecting the company's capital base and maintaining the necessary

risk taking capacity and freedom of manoeuvre. The majority of the company's long-term reinsurance has been arranged on a three-year term in order to ensure stability, not least in respect of the year 2000 transition. In addition to this the company purchased short-term reinsurance cover in 1998 for certain lines where the outlook for profitability was felt to be particularly uncertain. This cover was arranged in a market characterised by over-capacity, and produced a positive contribution to income.

The table shows the aggregate claims ratio by line of insurance, excluding the effect of changes in the Banking, Insurance and Securities Commission minimum requirements.

%	Gross			For own account		
	1998	1997	1996	1998	1997	1996
Private	70	93	81	69	91	82
Motor	87	75	52	79	72	52
Corporate	105	104	90	92	113	100
Marine	37	43	63	53	55	63
Other	87	35	47	44	17	55
- SB Sverige	199	70	63	108	66	62
<b>Total</b>	<b>82</b>	<b>79</b>	<b>68</b>	<b>75</b>	<b>81</b>	<b>72</b>

### Operating expenses

Operating expenses for own account grew in nominal terms by 6% in 1998. Costs expressed as a percentage of premium income were unchanged from 1997 at 26.9%. The level of costs incurred in 1998 was favourably affected by the gains in efficiency which have resulted from the first generation of measures implemented to improve the company's core processes. The second generation of core process measures, on which work started in 1998, has led to increased costs in respect of strengthening the sales operation and reorganising it to a sales channel based structure, the establishment of the claims centres, and IT investments. The majority of these costs were expensed in the profit and loss statement in 1998.

The higher rate of wage growth seen in the Norwegian economy in general during 1998 also had an effect on the company's costs, particularly because the non-life company's operations are both staff and IT intensive. The general rate of salary increase was set at 4.1% in July 1998, but there was significant variation in the actual salaries which had to be paid to ensure the company's access to the necessary level of expertise.

### Investment performance

For the Storebrand non-life group as a whole, net financial income in 1998 was 11% lower than in 1997. The book investment yield, including real estate and bonds held to maturity, amounted to

6.3%, whilst the yield after adjustment for unrealised gains and losses amounted to 2.6%. Capital gains on sales of real estate amounting to NOK 84 million contributed to the financial return. This resulted from a preference to reduce the real estate weighting in the portfolio following the acquisition of Storebrand Nybygg AS, which owns Storebrand's head office buildings. Value adjusted investment yield was negatively affected by a fall in unrealised gains, including real estate and bonds held to maturity, amounting to NOK 524 million. This reflected generally weak conditions in financial markets, and the value of outstanding unrealised gains at year end was reduced to NOK 182 million.

The following table shows the returns achieved by Storebrand Skadeforsikring AS (excluding subsidiaries), and the allocation of assets by category at 31 December 1998 in line with the principles established by Storebrand Kapitalforvaltning ASA for investment management:

	Return	Market value	Allocation
Equity portfolios	-6,9	1 910	14,6
Bond portfolios	7,7	2 238	17,1
Money market portfolio	4,1	2 808	21,5
Bonds held to maturity	6,4	3 931	30,1
Other securities	5,2	617	4,7
<b>Total securities portfolios</b>	<b>3,3</b>	<b>11 504</b>	<b>88,0</b>
Real estate portfolio*	10,0	1 538	11,8
Lending	19,0	32	0,2
<b>Total investment assets</b>	<b>4,0</b>	<b>13 074</b>	<b>100,0</b>

\* Includes the shares Storebrand Skadeforsikring AS holds in Storebrand Nybygg AS.

### Capital and Solvency

Total assets of Storebrand Skadeforsikring and its subsidiaries were NOK 263 million lower at NOK 18,016 million. This was largely due to reinsurance ceded in respect of elements of the claims reserves at 31 December 1997, which led to a transfer of funds amounting to NOK 825 million to reinsurers. The lower level of claims reserves which results from this is reflected in the claims reserves ratio, which was 16 percentage points lower at 90% as of 31 December 1998.

During the turbulent conditions seen in financial markets during the autumn of 1998, the non-life company continued to show a very sound financial condition despite the increases in interest rates in Norway and the sharp falls in equity markets both in Norway and internationally.

The financial condition of Storebrand Skadeforsikring at 31 December 1998 was very sound. The capital ratio of Storebrand Skadeforsikring including its subsidiary companies was 23.3%, and

the ratio for Storebrand Skadeforsikring AS alone was 23.5%, whereas the official minimum requirement is for an 8% capital ratio. Solvency margin capital amounts to NOK 3,426 million for Storebrand Skadeforsikring AS, which is NOK 2,316 million in excess of the minimum requirement.

Standard & Poors and Moody's rated the non-life company as A+ and A2 respectively in 1998. The Standard & Poors rating is unchanged from 1997, whilst Moody's had not previously rated the company. Both ratings place Storebrand Skadeforsikring amongst the highest rated insurance companies in the Nordic region.

### Profit sensitivity

The profit sensitivity in non-life insurance can be demonstrated by considering the effects of changes in the technical elements (expressed through the Combined Ratio) and changes in the return on investment assets. Storebrand's non-life business as a whole has a premium volume for own account of a little over NOK 7.5 billion and yield generating assets of approximately NOK 14 billion. The following table illustrates the effect of marginal changes in combined ratio and return on investment assets.

Change in combined ratio NOK million	Change in investment return		
	-1%	0%	1%
-1%	-65	75	215
0%	-140	0	140
1%	-215	-75	65

### Future prospects

The pace of growth seen in claims payments from retail market business is expected to slow in 1999. Taken in combination with the measures which have been implemented to increase premiums, the retail market is expected to show better profitability in 1999 than was seen in 1998. However profit for own account was also boosted by favourable reinsurance results in 1998, and this situation is not expected to be repeated in 1999.

The proposal to combine Storebrand's non-life insurance activities with those of Skandia does not change the company's focus on continuing to improve its core processes. The ability to continually adapt and improve the company's operations in terms of both its internal processes and its external relationships with customers are essential requirements if the company is to achieve its overriding goals of maintaining its current market share, reducing its cost ratio to 20% and achieving a combined ratio of an average of 100% over the course of the economic cycle.

# Life insurance

## Main features of 1998

- A successful year in both the private and corporate market, setting a record for sales of new business
- Higher market share
- Sound relative return on investment of 5.85%
- Continuing strength in risk bearing capacity provides the basis for high investment returns in the future
- Cost basis again highly competitive in 1998
- Profit from ordinary activities of NOK 501 million

## Business development

Storebrand's involvement in the Norwegian savings market makes use of a number of distribution channels and involves several companies in the group. Storebrand Livsforsikring develops and distributes life and savings insurance products to individual customers in the private market, to mid-market businesses and large companies in the corporate market and to the public sector. Unit linked products are provided by Storebrand Fondsforsikring. Storebrand Bank offers deposit and lending products, whilst mutual funds products are delivered through Storebrand Fondene. Discretionary investment management for third parties, such as pension funds, is provided by Storebrand Kapitalforvaltning, and other services for pension funds are provided by Storebrand Pensjonstjenster and Aktuar Consult.

All of Storebrand's distribution channels offer customers product neutral advice and service based on the group's role as a one-stop supplier of savings, banking and insurance products and services.

1998 was a year of strong progress. The life insurance company reported a 23.4% increase in premium income. The company experienced a net outflow of policy transfers in past years, but this trend has now reversed and a net inflow of NOK 847 million was recorded in 1998. An additional NOK 1.5 billion of contracted transfers will be first recognised in the accounts in 1999. Deposits at Storebrand Bank increased by NOK 2.6 billion, and Storebrand Kapitalforvaltning increased its funds under discretionary management by a net NOK 2.8 billion. Storebrand Kapitalforvaltning and Storebrand Fondene are described in more detail on page 36, and more information on Storebrand Bank can be found on page 37.

Storebrand again increased its share of the life insurance market in 1998. Statistics produced by the Association of Norwegian Insurance Companies show an increase in Storebrand's market share of total premiums (premiums written including reserves transferred) to 30% in 1998 (from 29% in 1997 and 27% in 1996).

## Private market

Storebrand's product distribution is based on a multi-channel strategy which allows customers to use whichever channel they prefer. The various advisory channels offer customers face to face financial advice, whilst on-going customer service is primarily provided from the group's customer centres as well as via the internet.

### *Financial advisers*

The group's financial advisers can offer an entire range of financial services, including mutual funds products, banking products, and health insurance. Sales efforts are principally focused on the higher end of the private market. Over the course of the last three years the number of financial advisers active in these distribution channels has been increased by 40%, and the volume of sales per adviser has also increased considerably.

### *Franchise*

Storebrand started to build up a franchise based distribution channel in 1997 in order to establish a flexible and efficient channel focused on the mid-market sector of the private market.

By 31 December 1998 13 franchise businesses had been established in larger Norwegian towns and cities. The franchise operations, trading under the name Storebrand Finans & Forsikrings-senter, will be able to offer the entire range of financial products to their retail customers.

### *Customer centres*

Storebrand committed considerable resources during 1998 to establishing and developing its customer centre distribution channel, and now employs some 80 staff in its telephone based customer centres. The staff in these centres are able to offer customers a significantly improved service, and contribute both to maintaining customer loyalty and to cross selling products. It is also envisaged that some sectors of the private market will prefer to use customer centres when first buy-

ing products from the company. This channel will also increasingly focus on cross selling products as part of its normal dialogue with customers, in addition to specifically promoting sales by calling customers.

#### *Insurance agents*

The company's agents are independent businesses, most often incorporated as limited companies. These agents solely distribute Storebrand products, and typically target the same sector of the market as the company's own financial advisers.

In addition to the channels mentioned above, Storebrand Bank's network of advisory offices and customer centres forms an important part of Storebrand's distribution apparatus, as does the internet.

#### **Savings products and individual life insurance in the private market**

Storebrand strengthened its position in the private market for life insurance and mutual funds products in 1998. The company's share of the market for policies sold to private individuals was unchanged from 1997 at 36%. (Official statistics for market share from the Association of Norwegian Insurance Companies). At the same time its market share of the sale of new policies to the private market increased from approximately 34% in 1995 to 44% in 1998. Sales of individual endowment policies continue to grow strongly, with an 8% increase for the year, whereas sales of guaranteed yield products with annual payments (guaranteed annuity and IPA) were somewhat lower. Turbulent conditions in financial markets and the increases in Norwegian interest rates caused unusually high surrenders and withdrawals from endowment policies in the autumn. Customers withdrawing lump-sums were actively canvassed to encourage them to invest the proceeds in other Storebrand savings products, and this produced good results with a significant proportion of these sums being transferred to other Storebrand products, including deposits with Storebrand Bank.

Storebrand continues to focus its resources on maintaining its position as a leading supplier of individual insurance products to the private market. 1998 saw the addition of health insurance to the Storebrand product range. Storebrand considers health insurance to be an important area which complements its existing product range by meeting customers' needs for an extension of insurance into the health area. Sales of insurance to the private market are expected to account for an increasing proportion of the life company's profits in the future.

#### **Corporate market**

Storebrand enjoyed a very successful year in the corporate market, and 1998 was the company's best year ever. The company's market share of collective premiums increased from 27% in 1997 to 29% in 1998, and its market share of new sales (premiums on new policies and policy transfers) reached 42% in 1998, up from 35% in 1997.

Storebrand is in a very strong competitive position. The company has achieved a good investment return relative to its competitors, it has a strong risk bearing capacity which creates the potential for a high level of future expected yield, it has a competitive cost base and offers good products. The company markets its products aggressively and is very active in the market. The productivity of Storebrand's sales effort has improved several times over in recent years.

The corporate market is serviced by specialist advisers at Storebrand. Insurance agents and insurance brokers also represent important sales channels and business partners for access to this market.

#### *Large customers*

A combination of aggressive new business marketing and active follow-up of existing customers produced good results for the large customer market in 1998. The approach to this sector is based on a product neutral approach which offers a parallel choice between occupational pension insurance schemes and turn-key stand-alone pension fund services for investment management, pensions administration and actuarial services. The growing internationalisation of Norwegian industry has increased the need for international solutions, and business grew strongly in this area in 1998.

The net inflow of funds under management from new sales of occupational pension insurance and investment management for pension funds in the large customer market amounted to approximately NOK 4 billion. Premium income for collective pension schemes also grew very strongly, with an 18% increase in total annual premium volume.

Large customers which transferred their pension arrangements to Storebrand during 1998 included Aker Maritime, Norzink, Prosafe and Bergen og Stavanger Rørhandel.

#### *Smaller and medium sized corporate customers*

1998 was also a very good year for business with smaller and medium-sized companies. The inflow of funds under management from new sales to this segment through the joint efforts of the life company and the investment management subsidiary amounted to NOK 2.4 billion. Improved co-oper-

tion with the group's investment management unit has had a very positive effect, producing joint sales of discretionary management and mutual funds of NOK 1.8 billion.

Transfers of customer business away from the company were much lower in 1998, and a renewed focus on customer service and advice takes much of the credit for this.

#### *Defined contribution pension schemes*

Storebrand has ambitious plans and high expectations for its focus on defined contribution pension schemes, which are a new product to the Norwegian market. Storebrand's defined contribution pension product was launched in April 1998 under the name Storebrand Innskuddspensjon (SIP), and has attracted considerable interest. Aker Maritime ASA has signed an agreement to transfer its current defined benefits scheme to Storebrand, and it is intended that this scheme will be transformed into a SIP defined contribution scheme for the company's 8,500 employees in 2000. Storebrand has set itself the target of becoming the leading Norwegian supplier of occupational pension schemes, including the new defined contribution schemes.

The Norwegian Parliament decided as part of the revised national budget for 1998 that defined contribution pension schemes should enjoy the same taxation treatment as the existing tax approved occupational pension schemes (TPES). It is still not known what requirements the authorities may place on these new products.

#### *Public sector pension schemes*

Storebrand established a clear position in 1998 as the obvious alternative for local authorities seeking to make new arrangements for their occupational pension schemes. The local authority sector was characterised in 1998 by a large number of local authorities inviting offers for the management of their pension arrangements, and approximately 45 authorities terminated their arrangements with KLP in order to reconsider their choice of company to manage their pension arrangements from 1999. A total of 12 authorities chose to complete this review process in 1998, and 7 of these selected Storebrand as their future pension supplier.

Storebrand now has a total of 12 local authorities in its portfolio, and funds under management for these and other public-sector clients amount to NOK 2 billion. Reserves transferred into the company during 1998 as a result of decisions taken by public sector clients to move their pension arrangements to Storebrand amounted to NOK 0.8 billion. This represents about 80% of all transfers of reserves in the public-sector in 1998. Transfers in process but not completed at

year-end and new decisions on transfers amount to approximately NOK 9 billion so far in 1999. KLP's total funds under management amount to approximately NOK 75 billion.

### **Costs**

The administration result for corporate market business was again in balance in 1998. Administration expenses represented 0.61% of funds under management in 1998, as compared 0.60% in 1997. This average level of cost ratio confirms Storebrand's position as the most cost efficient life insurance company in the various lines which make up the corporate market.

Costs increased in Storebrand's retail market activities in 1998. Important factors in this increase were the additions made to distribution capacity and investment in new technology. The key figures reported in the following table are calculated in accordance with a new industry standard introduced by the Association of Norwegian Insurance Companies. Costs associated with the savings element and total costs are reported relative to the respective customer funds. The costs of insurance cover are reported against the total of the relevant risk premiums and administration expenses.

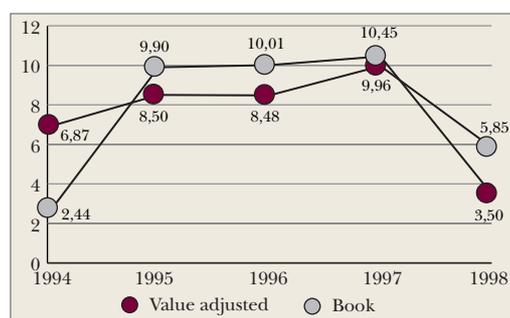
	Collective pensions/group life		Individual		Total	
	1998	1997	1998	1997	1998	1997
Savings	0.30%	0.30%	0.71%	0.64%	0.44%	0.42%
Insurance*)	17.9%	15.9%	31.2%	25.6%	24.0%	20.3%
Total	0.61%	0.60%	1.35%	1.16%	0.94%	0.86%

\*) Group life business is only included in the insurance line

### **Investment return, solidity and risk capital**

Storebrand Livsforsikring achieved a book investment return of 5.85% in 1998 despite the very turbulent conditions in financial markets during the year. The return after adjusting for movement in unrealised gains was 3.50% (2.93% if the change in value of bonds classified as hold to maturity are included).

#### **Investment return 1994-1998**



Storebrand's strategy of investing a significant proportion of the securities portfolio in overseas capital markets proved its worth in 1998. In addition the company's strong solidity and its high level of excess capital allow the company to retain flexibility in its asset allocation. The proportion of the portfolio invested in equities amounted to 31% at 31 December 1998, but derivative positions helped to reduce the effective exposure to equities to 24% of the total portfolio. The proportion of the portfolio held in equities at the end of 1997 was 26%. Markets outside Norway accounted for 65% of the equity portfolio, and after allowing for derivative positions international equities accounted for 55% of the total. Developments in the capital markets and investment management performance are described more fully in the Investment Management section at page 34.

#### Asset allocation and yields 1998 and 1997

	Yield	Assets allocation			1997
	1998	Market value	Exposure	1997	
	%	NOK million	%	%*)	%
<b>Total all investment ASSETS</b>	<b>3.74%</b>	<b>97,799</b>			
<b>Securities</b>	<b>3.28%</b>	<b>84,287</b>	<b>86%</b>	<b>85%</b>	<b>84%</b>
Equities	0.65%	30,278	31%	24%	26%
Fixed-income	8.06%	33,398	34%	40%	35%
Money market	3.91%	2,310	2%	2%	6%
Bonds held to maturity	7.08%	18,213	19%	19%	16%
<b>Real estate</b>	<b>6.59%</b>	<b>8,537</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>
<b>Loans</b>	<b>7.32%</b>	<b>4,976</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>

\*) As a percentage of market value, taking into account derivatives.

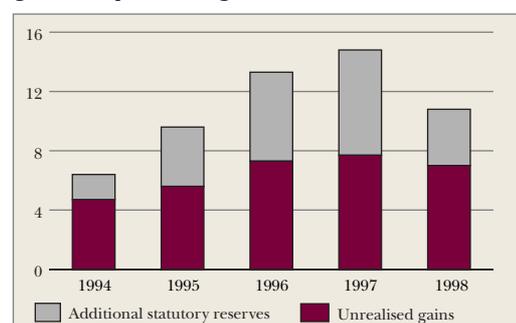
The events of 1998 demonstrated the value of Storebrand's strategy of maintaining strong solidity and a high level of capital in excess of the minimum required level. Storebrand had the highest excess capital of any Norwegian life insurance company at 30 September 1998, and there is good reason to believe that Storebrand had a strong competitive position in terms of risk capital for the start of 1999.

Risk management plays a central role in Storebrand's investment management. The company's risk capital comprises unrealised gains in its securities portfolios, additional statutory reserves, and the excess of primary capital over and above the minimum requirements imposed by the authorities or such higher requirements as the company may itself impose. Unrealised gains fell by NOK 2,526 million in 1998 to NOK 3,290 million (including unrealised gains on bonds held maturity). Additional statutory reserves form part of customer funds but allocations to these reserves are conditional. These reserves function as risk

capital to absorb price fluctuations in the investment portfolio, and amounted to NOK 6,112 million at the close of 1998. The life company's capital ratio was 12.1% in 1998 as compared to 10.5% in 1997. The minimum requirement is for a capital ratio of 8%. The company still has a very significant level of risk capital, despite the very turbulent conditions seen in financial markets during 1998, and this gives the company considerable freedom in its future choice of asset allocation.

The combination of a professional investment management function, high risk bearing capacity and low operating costs relative to its competitors gives every reason to expect that Storebrand will continue to produce a competitive net return for its customers.

#### Additional statutory reserves and unrealised gains as percentage of the insurance fund



#### Return to shareholders/profit allocation

The profit from life insurance business in the Norwegian market is subject to an allocation between customers and shareholders. The profit allocated to shareholders cannot exceed 35% of the year's operating profit. Storebrand has applied the same model to allocate its surplus for 1998 as has been used in previous years. In this approach the return to shareholders is made up of two elements: the return on shareholders capital and an income on capital calculated as a percentage of the average level of customer funds. The level of income attributed to capital remains unchanged from 1997 at 0.42% of average customer funds, and the increase in the size of this payment is accordingly a direct result of the growth in customer funds in 1998.

#### Allocation of profit to the shareholders of Storebrand Livsforsikring AS

NOK million	1998	1997	1996	1995	1994
Return on shareholder capital	<b>130</b>	218	242	258	149
Income to capital from customer funds	<b>366</b>	339	319	324	301
<b>Total return to shareholders</b>	<b>496</b>	557	561	582	450
<b>Return on equity</b>	<b>18.7%</b>	22.7%	24.2%	26.9%	22.0%

## Future prospects

### Private market

The major challenge for Storebrand in the private market is to become the leading one-stop supplier of mutual fund, banking and insurance products and services. This requires a strengthening of the group's position in mutual funds products whilst at the same time maintaining the strong position which the life company currently enjoys in guaranteed yield savings products and individual life insurance products. The main priorities are to ensure a professional level of advice to customers and to offer an increasingly broad range of products. Storebrand will continue to increase its distribution capacity for the private market. Whilst the group currently has a very large customer base, the proportion of a customer's financial savings which is arranged through Storebrand is often limited. Storebrand intends to concentrate its efforts on becoming the main provider of financial services for our customers.

### Corporate market

Storebrand expect to see defined contribution pension products become increasingly popular and grow into a significant market in parallel with the current defined benefit schemes. The market for defined benefit schemes will continue to be an important area for Storebrand's activities. It is a

major challenge to develop products which will satisfy both employers' and employees' requirements whilst containing the costs of servicing such an arrangement at a level which will allow the company to make the necessary profit margin.

Storebrand has proved itself to be a very competitive provider of pensions for the public-sector, and the company has high expectations for the future development of this market.

## Result analysis

The analysis of results shows the composition of operating profit and its allocation by type of insurance. Interest result is the difference between the book return and the guaranteed return on policies. The average guaranteed return on policies in 1998 was 3.9%.

The risk result arises as a consequence of the incidence of mortality and disability during the period differing from that assumed for the premium tariffs. The administration result shows a difference between the costs assumed for the premium tariffs and actual operating costs.

During 1998 an allocation was made to strengthen that part of the premium reserve which relates to the administration of collective pension schemes (the administration reserve). The amount involved, calculated in accordance with guidelines from the Banking, Insurance and Securities Commission, was NOK 63 million.

## Analysis of results by line of insurance

<i>NOK million</i>	Collective pension-Insurance	Group Life-Insurance	Individual Endowment Insurance	Individual Pension Insurance	Non-life Insurance	Total 1998	Total 1997
1. Financial income	3,375	30	456	1,282	1	5,144	7,954
2. Guaranteed yield	-2,211	-4	-328	-946		-3,489	-3,283
- of which transferred to premium	-158			-26		-184	-165
<b>3. Interest result</b>	<b>1,164</b>	<b>26</b>	<b>128</b>	<b>336</b>	<b>1</b>	<b>1,655</b>	<b>4,671</b>
4. Risk premium a)	306	311	239	-1	23	878	816
5. Risk bonus a)	-142	-316	-151	47	-20	-582	-410
6. Net reinsurance etc.	-3	-5	-7	-2	0	-17	-18
<b>7. Risk result</b>	<b>161</b>	<b>-11</b>	<b>82</b>	<b>44</b>	<b>3</b>	<b>279</b>	<b>388</b>
8. Administration premium	346	54	166	156	6	727	672
9. Operating expenses	-345	-64	-225	-173	-9	-817	-701
<b>10. Administration result</b>	<b>1</b>	<b>-10</b>	<b>-59</b>	<b>-18</b>	<b>-3</b>	<b>-90</b>	<b>-29</b>
<b>11. Change in premium reserve/sec. fund</b>	<b>-63</b>	<b>0</b>	<b>-3</b>	<b>3</b>	<b>0</b>	<b>-63</b>	<b>-675</b>
<b>12. Sectoral result (3+7+10+11)</b>	<b>1,263</b>	<b>5</b>	<b>148</b>	<b>365</b>	<b>1</b>	<b>1,781</b>	<b>4,354</b>
To equity:							
- Net return on capital etc. b)						-130	-218
- 0.42% of policyholders' fund c)						-366	-339
<b>13. Profit for the year</b>						<b>-496</b>	<b>-557</b>
<b>14. Policyholders' share of profit</b>						<b>1,285</b>	<b>3,797</b>

a) Risk premium and risk bonus are partly based on estimates.

b) Includes: Security fund, subordinated loan capital and equity at book value.

c) Includes: Premium reserve, additional statutory reserves, premium/pension adjustment fund and the claims reserve.

# Investment management

## Main Features of 1998

- Good sales performance
- The award of an investment management mandate from the Norwegian Government Petroleum Fund
- A good investment return relative to the market

## Turbulent capital markets

One has to look back to 1974, the year of the first "oil crisis", to find a year when the Oslo Stock Exchange fell by more than the 26.7% drop seen in 1998. Prices started to fall in the middle of July, and at its lowest point in October the market was 46% down from its high earlier in the year.

Norges Bank, the Norwegian central bank, increased its call money rate seven times during the year in pace with a weakening exchange rate for the Norwegian currency, from 3.5% in March to 8% by the end of the year. However there was almost no change in the yield on long-term Norwegian bonds.

International capital markets also saw wide fluctuations during the course of the year, but nonetheless managed to produce a positive return for the year as a whole. In the US market, which is the world's largest equity market, this was the first time in history that the index had risen by 20% or more for four years in a row. Policies implemented by the Federal Reserve played the determining role in stabilising conditions in the equity market over the final months of the year. The US market rose by almost 27% over 1998 as a whole, whilst European markets closed the year with an 18% increase from the start of the year.

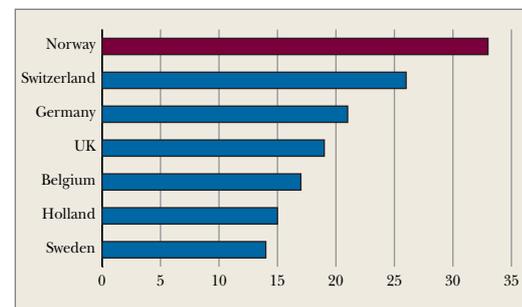
Long-term interest rates in international markets had fallen by the end of the year to historically low levels. In both the USA and Germany interest rates on government bonds with 10 years to maturity fell by between 1 and 1.5 percentage points over the course of the year.

In Norway both the equity and money markets put in a weaker performance than was seen in international markets. Despite the turbulent market conditions there was no point at which Storebrand felt compelled to sell equities to reduce risk. Both the group's strong solidity and the increase in recent years of the proportion of the equity portfolio held in international equities proved to be positive factors in this respect.

## Savings and investments in the Norwegian market

The Norwegian savings market has grown rapidly over the past 10 years, with average annual growth of 10% between 1990-97. Insurance related savings grew by an average of 8%, whilst mutual funds grew by an average of 33% per annum over the same period, representing rapid growth relative to other European countries.

### Growth in the market for mutual funds 1990-97



A prominent feature of the Norwegian savings market in 1998 was increased interest in international equities, which led to net inflows to international equity funds of NOK 4.7 billion over the course of the year.

Investment management is also becoming increasingly internationally orientated and complex, placing increased demands on both technical expertise and resources.

## The Investment Management market area

The Investment Management area in Storebrand comprises Storebrand Kapitalforvaltning ASA, Storebrand Fondene AS (previously Storebrand Spar AS) and the subsidiaries Storebrand Luxembourg SA and Storebrand Eiendom AS, as well as the business area Large Customers-Life in the life insurance company and the subsidiaries Storebrand Pensjonstjenester AS, Aktuar Consult AS and Aktuar Systemer AS.

The business concept for Storebrand's investment management activities is to build up a strong brand in order to capture a large part of the growing investment management market by meeting customer requirements for investment management in the broadest sense, including activities such as investment, risk management,

reporting, product development, investment advice and customer service.

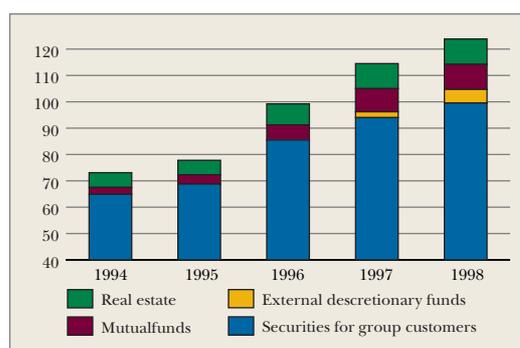
Storebrand Kapitalforvaltning, which was a cost-centre in the group's life insurance operation prior to 1994, has now been built up to become a market area of the Storebrand group. Investment management activities have been expanded and now include:

- Management of the group's own investments
- Discretionary management of the life company's pension assets and other pension funds, as well as the management of long term liquidity for external customers, including companies, local authorities, power companies, trusts and other entities, institutions etc.
- Managing the savings of households and private individuals

### Strong sales performance

Strong sales to both larger customers and the mid-market, combined with minimal customer turnover, produced strong growth in volumes during 1998. In the case of larger customers, 1998 was the best year ever. Total funds under management by the Investment Management market area increased by NOK 9.6 billion over the course of the year, of which discretionary management appointments by external customers accounted for NOK 3 billion. Total funds under management amounted to NOK 123.8 billion at year end, representing annual growth over the past four years of 14%.

### Funds under management NOK billion



Storebrand took on investment management assignments for a number of large pension funds and other major long term funds during 1998, including the Norwegian Government Petroleum Fund. In the market for collective pension schemes a significant breakthrough was seen for public sector pension schemes, with seven local authorities deciding to move the management of their schemes to Storebrand. In the field of insured pension schemes for the private sector Storebrand also won a number of major new contracts, inclu-

ding an assignment from Aker Maritime which has become the first major Norwegian company to establish a defined contributions scheme. This represents a good reference point for further growth in the market for defined contributions schemes.

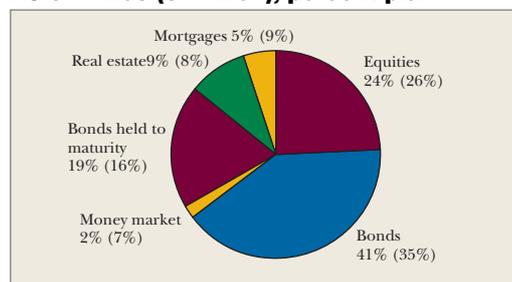
Product neutral advice, a wide product range and the ability to combine investment management and insurance expertise in contacts with our customers were all major factors in making 1998 a successful year.

### Asset allocation and investment performance

The Storebrand group companies have successfully increased their exposure to equity markets since 1996.

However Storebrand chose to reduce its exposure

### Asset allocation, Storebrand Livsforsikring AS 31.12.98 (31.12.97), percent p.a.



to equities in mid 1998 on the basis of a negative view of the market. This reduction was largely carried out in international derivative markets.

There have been significant differences between the performance of international equity markets and the Norwegian market over the period from the beginning of 1996 to the close of 1998. Over the course of this period Storebrand chose to direct significant amounts to international equity and bond markets, and has accordingly been less exposed to developments in the Norwegian market.

The investment returns produced by the various group companies are shown on pages 28 and 31, and the return including unrealised gains can be summarised as follows:

	Storebrand Liv		Storebrand Skade	
	Return	Return	Return	Return
		rel. to index		rel. to index
<b>Equities</b>				
Norway/Nordic	-18.92%	+3.09%	-14.38%	+4.64%
International	20.59%	-0.75%	24.84%	+3.49%
<b>Fixed Income</b>				
Norwegian Bonds	3.65%	-0.89%	4.24%	-0.30%
Internat. Bonds	10.42%	-0.82%	9.62%	-1.62%
Money market	4.15%	+0.13%	4.10%	+0.08%

The market weighted average return generated for our external discretionary customers shows a return on Norwegian equities 1.7 percentage points better than the bench mark index.

Storebrand remains a major long term investor in the Norwegian market despite its significant asset allocation to international securities markets. Its Norwegian portfolio is broadly based, but with a concentration on the largest companies listed on the Oslo Stock Exchange. Specific Norwegian rules for the calculation of capital adequacy penalise a life company if it invests in the financial sector. This sector performed significantly better than the market as a whole in 1998, due largely to the rise in Storebrand ASA's own share price. The restrictions placed on Storebrand investing in its own shares represented a "handicap" on the performance of the Norwegian equity portfolio of 1.7%.

### Storebrand's mutual funds

Storebrand Fondene AS offers a total of 28 equity and bond funds, with total funds under management of NOK 9.5 billion. Of these 28 funds, 15 are directed at the Norwegian market, and the balance are international.

Of the 14 Norwegian registered equity funds offered by Storebrand, nine produced a better return for their investors than the appropriate benchmark indices even after deducting management fees. In terms of return before management fees, 11 of the funds did better than the relevant index. In comparison to other mutual funds available in the Norwegian market, Storebrand's funds produced a good return in 1998, as the following examples demonstrate:

<b>Storebrand PensjonSpar</b>	highest 1998 return of any AMS fund
<b>Storebrand Verdi</b>	best 100% Norwegian equity fund
<b>Storebrand Global</b>	second best global fund in Norway
<b>Storebrand SMB</b>	second best SMB fund in Norway

1998 saw further investment in product development, and five new international funds were launched in November and December: Europe, Japan, North America, Nordic and Technology. Net inflows in 1998 to Storebrand's Norwegian registered international equity funds amounted to NOK 1 billion.

Storebrand Fondene AS entered into investment management advisory agreements with Storebrand Kapitalforvaltning ASA in 1998 for the management of the company's international funds. This allows investors in Storebrand's mutual funds to benefit from the expertise which

Storebrand has developed in the area of international investment management.

Storebrand Scudder Environmental Value Fund enjoyed a strong year in terms of both investment return and sales. The fund produced a return in USD terms of 22.4%, with total fund assets increasing to approximately NOK 1 billion. The fund invests globally in companies which Storebrand's analysis shows to be in the top 30% of their industry for a range of pre-determined environmental criteria.

### Real estate

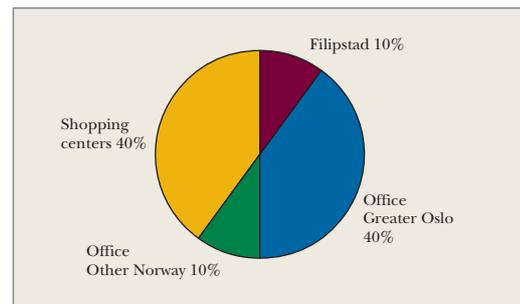
Storebrand is currently the second largest private real estate investor in Norway. The total value of the real estate portfolio amounts to NOK 9.6 billion, representing 780,000 sq.m. of property.

Over the recent past Storebrand's property investment has concentrated on centrally located office properties in larger centres of population, and larger shopping centres.

Shopping centre properties are managed by Steen & Strøm ASA, and are marketed as a part of the Steen & Strøm chain.

The real estate portfolio produced an operating return of a little under 7% in 1998. The return was depressed by the renovation works under way on a large part of the portfolio at Vika in Oslo.

### Allocation of the real estate portfolio Share of total value



# Storebrand Bank

Storebrand Bank AS is a wholly owned subsidiary of Storebrand ASA, and commenced operations in August 1996. The Storebrand Bank group comprises Storebrand Bank AS and its subsidiary Storebrand Finans AS. Storebrand Finans is engaged in running down its finance company activities, and its collection activities cover both its own claims as well as liabilities owed to other members of the Storebrand group.

Storebrand Bank is principally targeted at the retail banking market in Norway. The bank bases its activities on providing financial advice, and takes the customer's overall financial needs into consideration rather than selling specific products.

Storebrand Bank intends to become a leading supplier of the full range of financial services to customers who have savings to invest and are looking for financial advice. Storebrand Bank's goal is to combine the competitive terms and conditions of a direct banking operation with having a local presence and providing advice in order to assist its customers.

## Financial condition and business development

Storebrand Bank is still in a development phase, and the bank's results continue to reflect the significant resources which have been committed to developing the bank's expertise, infrastructure, and distribution capacity. The bank offers competitive products in the areas of deposits, loans and mutual funds which offer a transparent and attractive pricing structure. In all its products the bank's principal focus is on service and quality. The bank is engaged in a continuous process of improvement aimed at increasing its sales capability, making its internal processes more efficient, simplifying its range of products and services, and ensuring sound management and control.

Particular attention is currently being devoted to positioning the bank as a leading "self-service" bank, and this includes further improvements to its internet services which will include improved payment services, securities transactions and various models for advice.

Expanding the scope of the bank's distribution activities by making use of the local advice offices and Storebrand's branch network is expected to make a significant contribution to strong growth in sales of current accounts, loans and mutual

funds products. The Storebrand Bank group is expected to report a modest loss for 1999.

## Financial review

The Storebrand Bank group recorded a profit of NOK 10.9 million in 1998. Storebrand Bank AS showed a loss from ordinary operations of NOK 26.9 million for the year. Profit for the year after extraordinary dividend from Storebrand Finans was NOK 47.9 million.

The net interest margin for Storebrand Bank AS increased from 1.11% in 1997 to 1.29% in 1998.

Non-interest income was lower principally as a result of a fall in the value of the securities portfolio of NOK 17.9 million, and lower commission income from mortgage servicing. Non-interest expenses increased from NOK 159.5 million in 1997 to NOK 209.5 million.

The increase in non-interest expenses reflects a higher level of activity. A total of NOK 77.5 million was written back in respect of loan losses and provisions booked in previous years.

## Balance sheet and capital

Total assets of the Storebrand Bank group grew strongly largely as a result of increased mortgage lending. Customer deposits grew strongly as a result of the launch of a new savings account. The bank's capital base is made up solely of Tier 1 capital, and the bank had a capital ratio of 14.1%.

## Storebrand Bank Group: Profit and Loss Account

NOK mill.	1998	1997
Net interest income	91.2	41.9
Non-interest income	51.7	70.2
Non-interest expenses	-209.5	-159.5
<b>Operating profit</b>	<b>-66.6</b>	<b>-47.4</b>
Net write back of loan loss provisions	77.5	47.7
<b>Net profit</b>	<b>10.9</b>	<b>0.3</b>

## Storebrand Bank Group: Balance Sheet

NOK mill.	1998	1997	NOK mill.	1998	1997
Deposits at central bank	22.1	147.1	Deposits from other banks	358.0	675.1
Deposits at other banks	39.4	22.4	Com. paper and bonds issued	1,649.6	850.0
Investm. assets	917.7	495.0	Customer dep.	3,519.2	896.0
Loans	5,006.9	2,135.6	Other liabilities	148.9	107.5
Other assets	135.4	63.4	Shareh. equity	445.8	334.9
<b>Total assets</b>	<b>6,121.5</b>	<b>2,863.5</b>	<b>Tot. liabil. and shareh. equity</b>	<b>6,121.5</b>	<b>2,863.5</b>

# Corporate governance

Storebrand is one of the very largest investors in the Norwegian stock market, and the company accordingly has the potential to influence the long term development of the listed companies in which it is a shareholder. This represents an important responsibility, and makes it very important that Storebrand exercises its influence in a predictable and well considered manner. This responsibility is all the greater since Storebrand manages the life insurance company's assets on behalf of a large number of insurance customers.

Storebrand has for some considerable time sought to conduct its ownership interest in listed Norwegian companies on the basis of straight forward and consistent principles. The fundamental intention is to operate as a long term investor which practises sound and prudent investment management.

The principles which Storebrand follows are set out below, and the responsibility for applying these principles lies largely with the individual investment managers. These principles are expressed in general terms in order that they can be applied to a wide range of possible situations and companies. In addition to these general guidelines, the investment managers have a comprehensive action plan in respect of the particular issues covered by the guidelines.

It is possible in general terms to see the principles which Storebrand applies as an investor as falling into two categories. The first category deals with the observable characteristics of listed companies, and the second category applies to Storebrand's own activities in respect of such companies.

In the first category the principal focus is on the following aspects of a company:

- *Articles of Association.* A company's objectives should be set out in the most precise manner possible, and the Articles of Association should not place any restrictions on voting rights or the negotiability of the company's shares other than is required by law or regulation.
- *Corporate bodies.* The membership of the company's corporate bodies should be so arranged as to ensure that the interests of all shareholders are represented.
- *Investor relations.* The company should have a consistent policy for the distribution of information to the market, whether in written or spoken form.

- *Incentive arrangements.* The provision of information on the company's arrangements for rewarding its senior management and directors, including salaries, bonuses, share options etc., is considered to be an important issue. Storebrand takes a positive view of an element of variable remuneration so long as the arrangement can be seen as a real incentive for the individuals involved.
- *Conflicts of interest.* Storebrand believes that listed companies should conduct themselves in a manner which demonstrates their commitment to reducing to a minimum any possibility for conflicts of interest.
- *Transactions involving share capital.* This category of transaction can include various forms of share issues, buy-back of the company's own shares, mergers and de-mergers. All proposals to undertake transactions involving the company's share capital should be soundly based in terms of structure, timing and scale.

In addition Storebrand may choose to involve itself in the following activities in its role as an investor in a company:

- *Dialogue with company management.* Storebrand will maintain a dialogue with a company's management as part of its normal analysis work. This will be particularly relevant where Storebrand holds a significant ownership interest.
- *Communication with the Board of Directors.* There may be specific circumstances in which Storebrand might wish to communicate its views to a company's Board. Questions relating to strategy or senior management could be examples of such circumstances. However Storebrand does not normally seek to be represented on the Board of listed companies.
- *Co-operation with other holders of shares.* It may from time to time be appropriate, or even in some cases essential, for Storebrand to co-operate with other holders of shares in a company.
- *Voting.* In the majority of cases Storebrand will exercise its votes at company General Meetings, either directly or through proxies.
- *Investigations.* In certain specific instances Storebrand may either carry out its own investigation or arrange for an independent investigation to be carried out.

# Shareholder matters

## Share capital and shares

Storebrand ASA's share capital at the start of 1998 was NOK 1,884.9 million. Following the redemption of the company's preference share capital of NOK 1,000 million in May 1998, and a new issue of shares for employees of NOK 832,000 in August 1998, share capital at 31 December 1998 amounted to NOK 1,385,749,110, made up of 277,149,822 shares each of nominal value NOK 5.

## Share purchase arrangements for the company's employees

It was resolved at the Annual General Meeting of Storebrand ASA on 13 May 1996 that the Board be empowered to increase the share capital by up to 3 million shares, each of NOK 5 nominal value. This authority was valid until 31 December 1998. The issue of these shares was restricted to employees of the Storebrand Group. The intention was to involve the employees more closely in value creation in the company by making as many as possible shareholders.

In 1998 every employee was given the opportunity to buy 85 ordinary shares at a calculated subscription price of NOK 58.80 per share. Approximately 51% of the employees subscribed for a total of 166,515 shares.

## Foreign ownership

The EEA Agreement provides for Norwegian and foreign investors to have equal rights to acquire shares. However the restriction on a single owner holding more than 10% of the shares in a financial company is maintained. As at 31 December 1998 total foreign ownership amounted to 43.0%.

### *Geographic distribution of shares as at 31.12.1998*

Norway	57.0%
Great Britain	22.0%
USA	10.4%
Germany	4.9%
Sweden	1.8%
41 other countries	3.9%

## Share price development

Despite a general fall in share prices on the Oslo Stock Exchange in 1998, Storebrand's shares performed well. From a price of NOK 53.00 at 31 December 1997, the high and low prices for the year were NOK 75.00 and NOK 38.50 respectively. The price on 31 December 1998 was NOK 57.50.

## Price development - 1998



## Preference share capital

Storebrand's Articles of Association provided for the preference share capital to be redeemed by a decision of the Annual General Meeting of the company in 1998 or 1999, and if redemption was approved this was then to be implemented as soon as possible thereafter, in such a way that the holders of preference shares received the dividend approved at the relevant General Meeting. The question of redemption was considered by the 1998 Annual General Meeting, and redemption of the shares at the price of NOK 11.60 per share fixed earlier was unanimously approved. A dividend of NOK 0.50 per share was approved, and was distributed on 22 April 1998. Following the final approval of the relevant authorities the preference share capital was redeemed in full on 14 May 1998.

## Stock exchange listing

Storebrand's shares are listed on the Oslo Stock Exchange and have the following symbol: STB

## Shareholder

At 31 December 1997 the company had 75,305 shareholders. During 1998 the number reduced to 73,823. Storebrand ASA still has the largest number of shareholders of all companies listed on the Oslo Stock Exchange.

The company's shareholder structure shows a disproportionate number of shareholders with small share holdings: 54% hold fewer than 10 shares. Most of these became shareholders in 1991 when shares were distributed to policyholders of UNI Livsforsikring on the conversion from a mutual company to a joint stock company. The company will take advantage of the provisions contained in the new Companies Act which

came into force on 1 January 1999 to redeem small shareholdings during the course of 1999.

The company has shareholders from all the municipalities in Norway and from 46 foreign countries.

### Compliance

The officers in the governing bodies and senior employees of Storebrand ASA are subject to rules - based on the provisions in the relevant legislation and regulations - regarding the trading of securities issued by Storebrand ASA.

As one of the country's leading financial institutions, Storebrand is dependent on maintaining an orderly relationship with the financial markets and control authorities. The company therefore places particular emphasis on ensuring that routines and guidelines satisfy the formal requirements imposed by the authorities on securities trading. The company has its own compliance system which ensures that routines are complied with.

### Investor relations

Storebrand wishes to maintain and further develop the company's good contacts with all participants in the national and international capital markets. The company has a separate Investor Relations function within its treasury department. This function is responsible for establishing and co-ordinating contact between the company and external connections, such as analysts, stock exchanges, shareholders, investors, etc.

### Internet

In order to further improve its service to the capital markets, Storebrand has established its own Internet site: <http://www.storebrand.no>. The company's quarterly reports and other important press releases are made available on this site at the same time as they are published through traditional channels.

### Dividend policy

The Board of Directors of Storebrand ASA has resolved to establish a dividend policy for Storebrand. The policy will contribute to ensuring that shareholders receive a competitive return, whilst also ensuring that the company maintains an optimal capital structure.

The dividend to shareholders will normally be in the order of 15-30% of profit after tax. The Board intends to operate the company's dividend policy with a view to the longer term, and will endeavour to ensure a stable growth in dividend per share over time.

The Board has however decided not to recommend a dividend for the 1998 accounting year in view of the intention to increase the company's

share capital in connection with the acquisition of Finansbanken. This decision will serve to reduce the need for external capital. The Board of Directors has accordingly decided to give existing shareholders the right of pre-emption in the proposed capital increase.

### Shareholders' contact with the company

Shareholders should generally contact the administrator of their own share account with queries and notice of changes such as, for example, a new address. In addition, Storebrand's own shareholders' office, Telephone: 47 22 31 20 61, can provide guidance and information.

### Risk adjustment

The following paragraph is not included in the original Norwegian Annual Report and is included here by way of explanation for the international reader:

There are particular rules for Norwegian resident shareholders relating to the taxable gain or loss on the sale of shares. When shares in Storebrand ASA are sold by Norwegian resident shareholders the acquisition price has to be adjusted by a so called RISK amount when calculating the taxable gain or loss. The RISK amount is calculated annually and is related to the change in retained capital for the year. Foreign shareholders are subject to the tax regulations of their own domicile and are not affected by the Norwegian RISK regulations.

### The 10 largest shareholders

at 31 December 1998

		Shares No.	%
Folketrygdfondet	Oslo	27,671,673	9.98
Orkla ASA	Oslo	27,648,956	9.98
Steen & Strøm Invest ASA	Lysaker	17,500,000	6.31
Merrill Lynch Int. (n.t.a)	London	16,800,153	6.06
Stiftelsen UNI	Oslo	11,038,000	3.98
Canica AS	Oslo	10,000,000	3.61
Deutsche Bank AG London	London	9,972,420	3.60
Merrill Lynch Int. (t.a)	London	9,928,177	3.58
State Street Bank & Trust Co.	Boston	9,106,296	3.29
Bankers Trust Co	Jersey City	8,201,582	2.96

The 10 largest shareholders own in total 147,867,257 shares, which represents 53.35% of the share capital.

# Directors and officers

No. of shares at  
31 December 1998

## Board of Directors:

Jon R. Gundersen (Chairman)	1,024
Leiv L. Nergaard (Deputy Chairman)	0
Jens Ulltveit-Moe	7,484
K. S. Rugland	18
Tom Vidar Rygh	10,129
Peter Ruzicka	0
Mathias Dannevig	314
Per-Olav Myrtrøen	0
Dagfin Lea	85

## Board of Representatives:

*Elected by the shareholders:*

Sven Ullring (Chairman)	0
Jens P. Heyerdahl d.y. (Deputy Chairman)	6,881
Tore Lindholt	31
Svein Rennemo	0
Reidar Flod Johansen	0
Kari Broberg	0
Wenche Meldahl	0
Sandra Riise	0
Brit Seim Jahre	0
Ole Enger	0
Erik Braathen	5,840
Terje Venold	0
Halvor Stenstadvold	101
Erling Steigum	0
Harald Tyrdal	5
Kristian Zachariassen	0
Anders Renolen	0
Tor Brandeggen	0
Mille-Marie Treschow	2,349
Stein Erik Hagen	10,000,000

*Elected by the employees:*

Jorun Elisabeth Erstad	115
Ingrid Rongen	0
Inger Anne Strand	111
Arild Lorentzen	568
Morten Rambech Dahl	1,226
Tore Fredriksen	0
Edrund Olaisen	326
Einar Sørensen	585
Cecilie Frivold	385
Arild Thoresen	0

## Auditors:

Ole M. Klette	0
Arne Frogner	0

## Control Committee:

Nils Erik Lie (Chairman)	0
Brit Seim Jahre	0
Harald Moen	322
Carl Graff-Wang	0
Sverre Bjørnstad	2,816
Jon Ansteinsson	4,334

## Senior management:

*Executive management:*

Åge Korsvold*)	0
Knut W. Francke	1,536
Gunn Ovesen	2,051
Espen Klitzing	300
Allan Åkerstedt	0
Idar Kreutzer	300
Grete Faremo	19
Kai Gjesdal Henriksen	0

*Office of the Chief Executive:*

Åge Korsvold*)	0
Idar Kreutzer	300
Espen Klitzing	300
Hans Henrik Klouman	463
Grete Faremo	19

*Central staff functions:*

Gry Gautneb	0
Rolf Corneliussen	115
Jon M. Hippe	0

\*) Åge Korsvold has purchased, at market price, an option to buy 1,000,000 shares at an exercise price of NOK 57.50. The option expires on 25 September 2000.

The figures show the number of shares recorded in the share register for each named individual as at 31 December 1998. The share holdings shown include shares owned by spouses, children or companies where the named individual exerts such influence as is defined in paragraphs 1-2 of the Companies Act.

# Storebrand ASA

## Profit and Loss Account 1 January - 31 December

<i>NOK million</i>	Note	1998	1997
<b>Operating income</b>			
Group contribution from subsidiaries	1	488.8	760.0
Dividends from subsidiaries		193.3	58.4
<b>Total operating income</b>		<b>682.1</b>	818.4
<b>Operating expenses</b>			
Salary and personnel costs	2, 4	-358.0	-346.9
Depreciation	10	-74.7	-44.8
Recharge of costs/other costs		215.2	174.2
<b>Total operating costs</b>		<b>-217.5</b>	-217.5
<b>Financial income and financial expenses</b>			
Interest income from securities		120.2	92.2
Other interest income		18.1	37.6
Dividends		5.7	1.0
Gain on sale of securities		28.7	71.3
Other financial income		1.1	9.8
<b>Total financial income</b>		<b>173.8</b>	212.0
Loss on sale of securities		-53.0	-9.6
Write-down of securities		-59.8	
Other financial expenses		-14.5	-1.3
Interest costs - bond loan	8	-153.0	-153.0
Interest costs - other long term debt		-32.0	-35.1
<b>Total financial expense</b>		<b>-312.3</b>	-198.9
<b>Net financial income and expense</b>		<b>-138.5</b>	13.1
<b>Profit before tax</b>		<b>326.1</b>	614.0
Taxes	3	0.0	0.0
<b>Profit for the year</b>		<b>326.1</b>	614.0
<b>Allocations</b>			
Dividend			-50.0
Distributable reserves		-326.1	-564.0
<b>Total allocations</b>		<b>-326.1</b>	-614.0

Jon R. Gundersen  
*Chairman*

Leiv L. Nergaard

Jens Ulltveit-Moe

Peter Ruzicka

Mathias B. Dannevig

Per-Olav Myrtrøen

# Storebrand ASA

## Balance Sheet at 31 December

<i>NOK million</i>	Note	1998	1997
<b>Assets</b>			
Properties and real estate	10, 11	42.6	11.2
Shares and participations in group companies	5	4,906.3	4,725.3
Shares and other financial investments - long term holdings	7	19.2	16.0
Subordinated loan	7	189.9	
Shares	7	168.6	293.5
Bonds	9	965.6	837.0
Certificates	9	191.6	1 154.3
<b>Total financial assets</b>		<b>6,483.8</b>	7,037.3
Intra-group accounts	14	604.7	853.3
Other receivables and other assets		76.0	89.6
Fixed assets excluding real estate	10, 11	183.8	120.3
Cash and bank		187.3	366.2
Prepaid pension	2	76.6	78.8
<b>Total assets</b>		<b>7,612.2</b>	8,545.4
<b>Equity capital and liabilities</b>			
Share capital	6	1,385.7	1,884.9
Legal reserve	6	1,281.0	1,272.1
Redemption fund	6	500.0	
Distributable reserves	6	1,434.3	2,268.2
<b>Total equity capital</b>		<b>4,601.0</b>	5,425.2
Reserves for other risks and costs		89.8	26.1
Pension liabilities	2	260.9	256.9
Allocated for dividend			50.0
Bond loan	8	1,800.0	1,800.0
Intra-group debt	14	588.1	718.8
Other debt		157.3	157.4
Other accrued costs and deferred income		115.1	111.0
<b>Total equity capital and liabilities</b>		<b>7,612.2</b>	8,545.4

Financial instruments: See notes 7,9

Guarantees: See note 15

Oslo, 2 March 1999

Translation - not to be signed

Brit K.S. Rugland

Tom Vidar Rygh

Dagfinn Lea

Åge Korsvold  
Group Chief Executive Officer

# Storebrand Group

## Profit and Loss Account 1 January - 31 December

<i>NOK million</i>	Note	1998	1997
<b>Operating income</b>			
Premiums for own account - life insurance	39	9,174.1	7,402.1
Premiums for own account - non life insurance	40	7,573.1	7,240.4
Income from insurance related financial assets	16	17,602.5	15,489.9
Income from financial assets related to other activities		581.4	292.6
Other insurance related income		241.8	266.8
Other income		248.4	226.5
<b>Total operating income</b>		<b>35,421.3</b>	30,918.3
<b>Costs</b>			
Claims for own account - life insurance	39	-6,646.4	-5,955.3
Change in insurance reserves - life insurance	39	-5,052.4	-4,339.4
Claims for own account - non life insurance	40	-5,562.8	-5,632.9
Expenses related to financial assets - insurance	16	-11,476.5	-6,307.1
Expenses related to assets - other activities	17, 18	-846.1	-538.5
Operating costs - insurance	17, 18	-2,829.8	-2,601.0
Other insurance related costs		-265.9	-322.4
Other costs		-503.4	-412.5
<b>Total costs</b>		<b>-33,183.3</b>	-26,109.1
<b>Operating profit</b>		<b>2,238.0</b>	4,809.2
Additional statutory allocations - life insurance			-1,000.0
Funds allocated to policyholders - life insurance		-1,285.5	-2,796.8
<b>Group profit</b>	19	<b>952.5</b>	1,012.4
Changes in security reserve etc. - non life insurance		-161.8	5.2
<b>Profit from normal activities</b>		<b>790.7</b>	1,017.6
Taxes	20	0.7	59.3
<b>Profit for the year</b>		<b>791.4</b>	1,076.9
Earnings per ordinary share		<b>3.40</b>	3.57

Jon R. Gundersen  
*Chairman*

Leiv L. Nergaard

Jens Ulltveit-Moe

Peter Ruzicka

Mathias B. Dannevig

Per-Olav Myrtrøen

# Storebrand Group

## Balance Sheet at 31 December

<i>NOK million</i>	Note	1998	1997
<b>Assets</b>			
Intangible assets	21	55.5	53.9
Properties and real estate	22, 23, 24	9,718.1	9,079.4
Shares and other financial investments - long term holdings	26, 30	61.0	40.2
Bonds held to maturity	28, 29, 30	22,011.3	18,553.7
Mortgage and other loans	31	10,026.4	10,023.9
Other long term financial assets	29, 30, 33	505.1	163.5
Shares and other financial investments	26, 30	27,809.3	20,732.3
Bonds	27, 29, 30	36,657.3	38,100.7
Certificates	27, 30	3,517.7	7,078.5
Other short term financial assets etc.	29, 30, 33	1,053.1	1,734.1
<b>Total financial assets</b>		<b>111,359.3</b>	105,506.3
Receivables		5,049.8	2,301.1
Other assets	23	4,456.6	3,985.6
Prepaid pension	18	586.9	599.7
Deferred tax	36	124.0	100.3
Prepaid expenses and accrued income		1,439.7	1,886.7
<b>Total assets</b>		<b>123,071.8</b>	114,433.6
<b>Equity capital and liabilities</b>			
Equity capital	34	5,565.9	5,921.8
Minority interest in equity capital		1.5	1.5
Subordinated loan capital	25	2,962.3	1,401.0
Insurance reserves - life insurance		90,262.8	85,659.3
Premium reserve for own account - non life insurance	40	3,465.5	3,180.4
Claims reserve for own account - non life insurance	40	7,026.3	7,815.9
Security reserve etc. - non life insurance		3,236.6	3,061.9
<b>Total technical (insurance) reserves</b>		<b>103,991.2</b>	99,717.5
Reserves for other risks and costs		199.4	152.4
Accrued pension liability	18	766.6	790.5
Deferred tax	36	124.0	100.3
Debt		8,854.1	5,856.3
Accrued costs and deferred income		606.8	492.3
<b>Total equity capital and liabilities</b>		<b>123,071.8</b>	114,433.6

Financial derivatives: see Notes 26, 27 and 29

Balance sheet figures as at 31.12.1997 have been restated as a result of a change in the accounting principles applied to certain foreign currency items (see also Accounting Principles). This change increased equity as at 31.12.97 by NOK 35.9 million.

Oslo, 2 March 1999

Translation - not to be signed

Brit K.S. Rugland

Tom Vidar Rygh

Dagfinn Lea

Åge Korsvold  
Group Chief Executive Officer

# Storebrand Skadeforsikring Group

## Profit and Loss Account 1 January - 31 December

<i>NOK million</i>	Note	1998	1997
<b>Technical account</b>			
Gross premiums earned		8,738.3	8,257.5
- Reinsurance share of gross premiums earned		-1,193.7	-1,017.1
<b>Premiums for own account</b>		<b>7,544.6</b>	7,240.4
Allocation of investment return transferred from the non-technical accounts		774.0	677.5
Other insurance related income for own account		223.3	257.4
Gross claims		-7,076.7	-6,237.9
- Reinsurance share of gross claims		1,533.4	605.1
<b>Claims for own account</b>		<b>-5,543.3</b>	-5,632.9
Profit sharing agreements etc.		-5.7	-4.7
Sales costs (insurance)		-1,110.9	-1,011.2
Insurance related administration costs		-1,215.7	-1,127.4
-Reinsurance commissions and profit sharing		225.3	155.2
<b>Insurance related operating costs for own account</b>		<b>-2,101.4</b>	-1,983.3
Other insurance related operating costs for own account		-224.0	-225.8
<b>Balance on the technical account before allocations to security reserve</b>		<b>667.5</b>	328.5
Changes in security reserve etc.		-161.8	5.2
<b>Balance on the technical account</b>		<b>505.7</b>	333.7
<b>Non-technical account</b>			
Income from financial assets	16	1,940.9	1,623.0
Costs arising from financial assets	16	-1,025.1	-589.6
Allocation of investment return transferred to the technical account		-774.0	-677.5
<b>Balance on the non-technical account</b>		<b>141.9</b>	355.8
<b>Profit from ordinary activities</b>		<b>647.6</b>	689.6
Tax		-32.0	-12.3
<b>Profit for the year</b>		<b>615.6</b>	677.2
<b>Allocations</b>			
Group contribution		-483.0	-527.0
Free reserves		-132.6	-150.2
<b>Total allocations</b>		<b>-615.6</b>	-677.2

# Storebrand Skadeforsikring Group

## Balance Sheet at 31 December

<i>NOK million</i>	Note	1998	1997
<b>Assets</b>			
Intangible assets	21	46.2	46.8
Properties and real estate		1,346.2	1,575.4
Receivables due from/securities issued by group companies		413.8	505.8
Shares and other financial investments - long term holdings	30	9.5	9.0
Bonds held to maturity	30	4,230.2	3,910.0
Loans		36.5	47.9
Shares and other financial investments	30	1,917.2	1,995.6
Bonds and other securities - fixed yield	30	6,151.3	6,661.9
Money market deposits	30	116.0	140.1
Other short term financial assets	30	1.3	
Reinsurance accounts		35.5	39.7
<b>Total financial assets</b>		<b>14,257.4</b>	14,885.4
Receivables		2,418.3	1,681.5
Other assets		1,088.8	1,298.3
Deferred tax		12.6	25.0
Prepaid expenses and accrued income		192.2	341.8
<b>Total assets</b>		<b>18,015.5</b>	18,278.8
<b>Equity capital and liabilities</b>			
Share capital		1,380.6	1,380.6
Revaluation reserve		7.0	7.0
Other equity		888.4	752.9
<b>Total equity capital</b>		<b>2,276.0</b>	2,140.5
Minority interests' share of equity capital		1.5	1.5
Reserve for unearned premiums for own account		3,465.0	3,180.4
Claims reserve for own account		7,018.3	7,815.9
Security reserve		1,183.0	1,226.2
Reinsurance reserve		77.6	57.8
Administration reserve		525.5	536.3
Allocation to natural perils fund		1,074.3	877.0
Allocation to guarantee reserve		364.6	364.6
<b>Total technical reserves for own account</b>		<b>13,708.3</b>	14,058.2
Reserves for other risks and costs		484.8	482.6
Debt		1,332.7	1,404.2
Accrued costs and deferred income		212.2	191.8
<b>Total equity and liabilities</b>		<b>18,015.5</b>	18,278.8

Balance sheet figures as at 31.12.1997 have been restated as a result of a change in the accounting principles applied to certain foreign currency items. This change increased assets and equity as at 31.12 1997 by NOK 42.9 million.

# Storebrand Livsforsikring Group

## Profit and Loss Account 1 January - 31 December

<i>NOK million</i>	Note	1998	1997
<b>Technical account</b>			
<b>Premiums for own account</b>		<b>8,990.6</b>	7,286.9
Income from financial assets	16	<b>15,685.8</b>	13,890.3
Other insurance related income after reinsurance		<b>18.5</b>	9.4
<b>Claims for own account</b>		<b>-6,654.2</b>	-5,953.8
Change in insurance reserves for own account		<b>-4,873.5</b>	-5,227.3
- of which additional statutory allocations			-1,000.0
Transfer to insurance fund: premium reserve		<b>-372.5</b>	-1,138.5
Transfer to insurance fund: premium/pension adjustment fund		<b>-913.0</b>	-1,658.3
<b>Total transfers to policyholders</b>		<b>-1,285.5</b>	-2,796.8
Sales costs (insurance)		<b>-283.1</b>	-257.8
Insurance related administration costs		<b>-435.2</b>	-355.7
<b>Total insurance related operating costs for own account</b>	17	<b>-718.3</b>	-613.5
<b>Costs arising from financial assets</b>	16, 17	<b>-10,430.5</b>	-5,726.0
Other insurance related costs after reinsurance		<b>-36.1</b>	-91.8
<b>Balance on the technical account</b>		<b>696.8</b>	777.4
<b>Non-technical account</b>			
Other income		<b>115.9</b>	107.0
Other costs		<b>-311.8</b>	-322.4
<b>Profit from ordinary activities</b>		<b>500.9</b>	562.0
Tax		<b>-0.7</b>	70.9
<b>Profit for the year</b>		<b>500.2</b>	632.9
<b>Storebrand Livsforsikring AS</b>			
<b>Allocations</b>			
Group contribution			-225.0
Dividend		<b>-371.8</b>	-192.0
Free reserves		<b>-123.9</b>	-140.0
<b>Total allocations</b>		<b>-495.7</b>	-557.0

# Storebrand Livsforsikring Group

## Balance sheet at 31 December

<i>NOK million</i>	Note	1998	1997
<b>Assets</b>			
Intangible assets	21	5.3	7.1
Properties and real estate		8,504.4	7,668.8
Receivables due from/securities issued by group companies		174.3	213.0
Shares and other financial investments - long term holdings	30, 35	32.2	40.5
Bonds held to maturity	30	17,781.1	14,643.7
Loans		4,983.0	7,840.4
Shares and other financial investments	30	25,764.3	18,443.2
Bonds and other securities - fixed yield	30	30,148.8	32,061.7
Certificates	30	1,783.8	4,062.8
Money market deposits	30	684.3	1,273.3
Other short term financial assets	30	153.4	168.8
<b>Total financial assets</b>		<b>90,009.6</b>	86,416.2
Receivables		2,620.1	588.4
Other assets		3,187.3	2,414.2
Deferred tax		72.2	72.1
Prepaid expenses and accrued income		1,137.8	1,469.2
<b>Total assets</b>		<b>97,032.3</b>	90,967.2
<b>Equity capital and liabilities</b>			
Share capital		1,361.2	1,361.2
Other reserves		121.2	116.1
Free reserves/losses carried forward		1,286.3	1,163.3
<b>Total equity capital</b>		<b>2,768.7</b>	2,640.6
<b>Subordinated loan capital</b>	25	<b>2,962.3</b>	1,401.0
Premium reserve		74,971.6	69,624.2
Additional statutory reserve		6,112.4	6,306.0
Premium/pension adjustment fund		8,098.9	8,831.2
Claims reserve		194.0	194.0
Other technical reserves		19.5	
<b>Insurance fund reserves for own account</b>		<b>89,396.4</b>	84,955.4
<b>Allocations to security fund</b>		<b>591.8</b>	591.8
<b>Total insurance related reserves for own account</b>		<b>89,988.2</b>	85,547.2
Reserves for other risks and expenses		196.5	204.0
Debt		977.6	1,039.1
Accrued costs and deferred income		139.0	135.3
<b>Total equity and liabilities</b>		<b>97,032.3</b>	90,967.2

Balance sheet figures as at 31.12.1997 have been restated as a result of a change in the accounting principles applied to certain foreign currency items. The effect of the change amounts to NOK 126 million, of which NOK 7 million was applied against equity and NOK 119 million against policyholders' funds respectively. The reduction in policyholders' funds will be shown as a reduction in available surpluses in the reconciliation of customer balances for 1998.

# Storebrand ASA

## **Audit report 1998\*)**

We have audited the Annual Report and Accounts of Storebrand ASA for 1998, which show a profit for the year of NOK 326.1 million for the parent company and a consolidated profit for the year of NOK 791.4 million. The Annual Report and Accounts, which consists of the annual report from the Board of Directors, profit and loss account, balance sheet, cashflow statement, notes to the accounts and consolidated accounts, are presented by the company's Board of Directors and its Managing Director.

Our responsibility is to examine the company's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with relevant laws, regulations and Norwegian generally accepted auditing standards. We have performed those audit procedures which we considered necessary to confirm that the Annual Report and Accounts are free of material misstatements. In accordance with generally accepted auditing standards, we have examined selected

parts of the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the annual report and accounts. To the extent required by Norwegian generally accepted auditing standards, we have reviewed the company's internal control and the management of its financial affairs.

The Board of Directors' proposal for the appropriation of the profit is in accordance with the requirements of the Companies Act.

In our opinion, the Annual Report and Accounts have been prepared in accordance with relevant legislation and regulations for financial institutions and financial groups and present fairly the financial position of the company and the group as of 31 December 1998 and the result of its operations for the financial year, in accordance with the regulations of the Banking, Insurance and Securities Commission and Norwegian generally accepted accounting principles.

\*) Includes the official annual accounts appearing on pages 5 through 9 and pages 42 through 76.

Oslo, 2 March 1999

KPMG as

Translation, not to be signed

Ole M. Klette

State Authorised Public Accountant

Translation, not to be signed

Arne Frogner

State Authorised Public Accountant

## **Control committee's Statement 1998**

The Control Committee of Storebrand ASA has reviewed the Board of Directors' proposed Annual Report and Accounts for 1998 for Storebrand ASA and the Storebrand Group.

With reference to the auditor's report of 2 March 1999 the Control Committee recommends that the Profit and Loss Account and the Balance Sheet are adopted as the Accounts of Storebrand ASA and the Storebrand Group for 1998.

Oslo, 8 March 1999

Translation, not to be signed

Nils Erik Lie

Chairman of the Control Committee

## **Board of Representatives' Statement 1998**

The Board of Directors' proposal for the Annual Report and Accounts, together with the Auditor's report and the Control Committee's statement have, in the manner required by law, been presented to the Board of Representatives. The Board of Representatives recommends that the Annual General Meeting approve the Board of Directors proposal for the Profit and Loss account for 1998 and the 31 December 1998 Balance Sheet for Storebrand ASA and for the Storebrand Group.

The Board of Representatives raises no objections to the Board's proposal regarding dividend and allocation to the free reserve for 1998.

Oslo, 16 March 1999

Translation, not to be signed

Sven Ullring

Chairman of the Board of Representatives

# Notes Storebrand

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# Accounting principles

## CHANGES IN ACCOUNTING PRINCIPLES IN 1998

Storebrand ASA introduced a change to its accounting policies for the currency exposure arising from balance sheet items denominated in foreign currency where the currency risk is hedged, with the change taking effect from 1 January 1998. The new principles provide for the hedged balance sheet items to be carried in the balance sheet at the value determined by the exchange rate on the date of the balance sheet, with the value of hedging transactions, almost exclusively forward foreign exchange contracts, recorded at their market value at the date of the balance sheet. Previous practice was to record the balance sheet items at the exchange rate applicable at the acquisition date and only recognise profit or loss from forward contracts when realised. The new policy better reflects Storebrand's policy for hedging currency positions by matching forward contracts with the security portfolio they are to hedge. In accordance with the rules for life insurance company annual accounts, the effect of the transition to the new principle as at 1 January 1998 is booked directly against equity (equity and policyholders' funds in the case of Livsforsikring). The result was an increase in the group's total equity as at 1 January 1998 by NOK 36 million.

## GENERAL

### Consolidation principles

The Storebrand group accounts incorporate companies in life insurance, direct non-life insurance and banking. The Banking, Insurance and Securities Commission has issued specific accounting requirements for life insurance, non-life insurance and banking.

The Group accounts consolidate all subsidiaries of which Storebrand ASA directly or indirectly owns more than 50%.

Investments considered to be of strategic importance where the group owns between 20% and 50% of the voting capital (associated companies), are consolidated in accordance with the equity method.

Investments in companies which are jointly controlled with one or more external partners are included in the accounts to the extent of a proportionate share of assets, debt, income and expense (the gross method).

The Banking, Insurance and Securities Commission has issued regulations in respect of the production of consolidated accounts which include life insurance companies. The consolidated profit for the year includes only that part of the life company's profits which is due to shareholders.

#### *Consolidation of subsidiaries*

Elimination of shares in subsidiaries is based on the purchase value method, where the book value of shares

in subsidiaries is eliminated against the equity capital in the subsidiaries. Any excess value/deficit is booked direct to the assets/liabilities in question and depreciated/taken as income in line with these. Any excess value which is not directly related to a specific item is classified as goodwill.

#### *Translation of foreign subsidiaries*

The profit and loss accounts of foreign subsidiaries are translated to NOK at the average exchange rates for the year, whilst the balance sheets are translated at the rate ruling at the end of the year. Any translation differences are posted against unrestricted equity.

#### *Elimination of internal transactions*

Internal receivables and payables, internal profits and losses, interest and dividends, etc., between group companies are eliminated in the consolidated accounts.

Gains and losses on internal sales to/from Storebrand Livsforsikring AS are not eliminated due to the fact that the profit of the life company is to be divided between customers and shareholders.

#### *Minority interests*

In the profit and loss account, the minority interests' share of the profit after tax is stated. This means that all items in the profit and loss account include minority interests.

Minority interests are shown in the balance sheet as a separate item between other reserves and shareholders' funds. Assets and liabilities are thus shown inclusive of minority interests.

### Deferred tax

The tax charge in the profit and loss account consists of tax payable and deferred tax/tax allowances.

Tax payable is calculated on the basis of the taxable profit for the year. Deferred tax/tax allowances are calculated on the basis of timing differences between accounting and tax values as well as the tax effects of the loss and unused allowances carried forward.

Deferred tax assets cannot be recorded at a higher value in the balance sheet than the booked value of tax liabilities deferred.

### Pension costs

The net pension cost for the period is included under "salary and person-nel costs" and consists of the sum of pension liabilities accrued in the period, the interest charge on the estimated liability and the expected return on the pension funds.

Prepaid pension is the difference between the actual value of the pension funds and the present value of estimated pension liabilities, and is booked as a long term asset in the balance sheet. Correspondingly a long term liability arises in the accounts when the pension

liability is greater than the pension funds. A distinction is made between insured and uninsured schemes. The uninsured scheme will always be entered as a liability, as such a scheme does not have a pension fund.

The cumulative effect of changes in assumptions, deviations between calculated and estimated pension liabilities, and the difference between the expected and actual return achieved on pension funds is not charged to profit and loss until such time as it exceeds 10% of the higher of the pension liability or pension funds at the start of the year ("the corridor approach").

## Real estate

### *Method of valuation*

The company regularly assesses the value of the properties which it owns. The properties are valued individually by discounting estimated future net income streams by a rate corresponding to the yield requirement for the relevant property. The net income stream takes into account existing and future losses of income as a result of vacancy, necessary investments and an assessment of the future development in market rents. The yield requirement is based on the expected future risk-free interest rate and an individually determined risk premium, dependent on the letting situation and the building's location and standard.

### *Real estate directly owned by Storebrand Livsforsikring AS*

Due to the relationship with life insurance customers the rules for the treatment of real estate in the accounts differ as between the life insurance business and the Group's other businesses.

Property values are required to be written down in the event of a lasting fall in value, but earlier write-downs can be reversed. Real estate is not depreciated. The cost of refurbishment to current standards is booked as an expense in the accounts.

### *Other real estate*

Ordinary depreciation is applied to real estate in the other businesses in the Group. Investment properties are valued by applying a portfolio principle. Where there is a permanent fall in value, the property is written down.

### *Other*

Certain properties are owned through Norwegian partnerships. These are treated in the accounts in the same manner as other properties and are thus included under the same items in the accounts.

## Loans

Loans advanced are carried at nominal values in the balance sheet, reduced by provisions for losses calculated in accordance with the Banking, Insurance and Securities Commission's regulations.

Specific loss provisions are intended to cover calculable losses on facilities which are identified as exposed to the risk of loss at the balance sheet date.

General loss provisions are booked to cover losses which, due to matters existing on the balance sheet date, must be expected to occur on facilities which have not been identified and valued in accordance with the rules for specific loss provisions. This type of provision

is made for all current loans where there has not been a payment default exceeding 67 days. The provision is made on the basis of past experience and sector data.

Realised losses on facilities are losses which are considered to be final. These include losses arising on the borrower's bankruptcy, insolvency or composition with creditors, or where the company considers it is overwhelmingly likely that the loss is final.

In the case of loans in default for more than 90 days, interest, commission and fees booked as income, but which remains unpaid, are reversed.

## Shares held as long term investments

Investments in shares in subsidiaries and in associated companies are considered as fixed assets where the investment is of a long term and strategic nature. A corresponding classification is made for strategic investments in shares.

The book value is the cost price, and write-downs are made on an individual basis if these are not due to reasons which are temporary or of an insignificant nature.

## Bonds to be held to maturity

Bonds classified as to be held until maturity are managed in accordance with the Banking, Insurance and Securities Commission's guidelines. Such bonds are booked at cost price at the time of purchase. Premiums/discounts in relation to par value are amortised over the bonds' remaining term and recorded in the profit and loss account as an interest element.

Bonds in default are valued in line with the Banking, Insurance and Securities Commission's guidelines for loans.

## Portfolio valuation of financial assets not held as long term investments.

The portfolio principle is applied to identify the holdings of short term assets of the various companies in the group since these are administered as a single pool of investments. This applies to investments in shares, bonds, certificates and financial derivatives.

The valuation of all such types of investment is carried out together on the basis of the lower of market or purchase price at the date of the balance sheet. Investments showing a loss are written-down and the loss is booked as a financial cost.

Financial investments which present realised and permanent losses are taken out of the portfolio. Such investments are managed individually and written down to their estimated true value.

## Financial derivatives

Financial derivatives form an integrated part of Storebrand's management of the risk and return profile of share and bond portfolios.

The basis for recording financial derivatives in the financial accounts is the historic price. Financial derivatives are then included in the valuation of the total securities portfolio on the basis of the lowest value principle.

Storebrand undertakes routine mark-to-market valuations of all derivatives. Valuation is based on actual market values where these are available in a liquid market. If no market price is directly available, market value is calculated on the basis of the market price of the under-

lying instrument by using mathematical models generally accepted for pricing such instruments.

The various categories of financial derivative are described in "Terms and Expressions" on page XX.

#### *Share and interest rate options*

Option premiums are capitalised when the option is purchased. Options are realised when they expire, are exercised or are closed out by a matching and opposite transaction. Upon realisation, the premium is booked to the profit and loss account together with any other income or expense arising.

#### *Stock futures and interest rate futures*

Futures contracts (including stock futures) are reconciled daily on the basis of the previous day's market prices. Changes in the values of futures contracts are recorded in the accounts as they occur as realised financial income or expense.

#### *Interest rate swaps*

Interest income and expense arising from interest rate swaps is accrued continuously.

#### *FRA - Forward rate agreements*

Forward rate agreements (FRA) are settled on the first day of the period which is the subject of the agreement and the full profit or loss arising is accordingly booked to the profit and loss account at that time.

#### *Forward foreign exchange contracts*

Forward foreign exchange contracts are principally used to hedge holdings of securities, other financial instruments and insurance related entries. As part of the accounting recognition of hedging transactions, forward foreign exchange contracts entered into for hedging purposes are valued at market price in the financial accounts, and unrealised gains or losses are taken to profit and loss.

Changes in value of forward foreign exchange contracts which represent open currency positions are only recorded when realised.

Foreign exchange contracts are valued at the exchange rate prevailing on the date of the balance sheet.

### **Foreign exchange**

Hedged balance sheet items are recorded at the exchange rate prevailing on the date of the balance sheet. The currency risk arising from foreign investments and currency denominated debt is largely hedged by forward foreign exchange contracts.

Liquid assets, receivables and liabilities are always converted at the exchange rate prevailing on the date of the balance sheet.

Any other balance sheet items are recorded at the exchange rate prevailing at the date of acquisition.

## **NON-LIFE INSURANCE**

### **Technical (insurance) reserves**

The Banking, Insurance and Securities Commission has introduced separate minimum requirements for five

types of technical reserves: unearned premium reserve, claims reserve, security reserve, reinsurance reserve and administration reserve. The minimum requirements for premium and claim reserves must be satisfied for each line of insurance and for security reserves for each group of lines.

*The unearned premium reserve* applies to current contracts in force on the balance sheet date. Accrual is made pro rata and without deduction for costs.

*The claims reserve* for own account is a reserve for expected claims on losses for own account, less any reinsurance, which have been notified but not settled, and for losses which have been incurred but not reported at the date of the accounts.

*The statutory security reserve* is an allocation to cover fluctuations (possible catastrophes and extraordinary claims) in the company's claim liabilities for own account.

The Banking, Insurance and Securities Commission's requirements on security reserves specify that the inflation element in the claims reserve is covered by the security reserve. In line with this, the inflation element has been transferred from the claims reserve and added to the security reserve.

*The statutory reinsurance reserve* is an allocation for any costs which the company incurs as a result of its reinsurers not covering their portion of total claim liabilities.

*The statutory administration reserve* is an allocation to cover administration costs incurred on claim settlement in the event of the winding-up of the company.

#### *Natural perils fund*

The operating profit from the obligatory natural perils fund, which is managed by the Norwegian Natural Perils Pool, must be allocated to a separate natural perils reserve. These allocations may only be used to cover claims resulting from natural perils.

#### *Guarantee reserve*

A mandatory reserve for non-life and credit insurance companies. The allocation is intended to contribute to policyholders receiving settlement in accordance with the policies.

### **Sales costs**

Sales costs are expensed. Expected commissions on insurance ceded or assumed are capitalised in the accounts and expensed in line with the accrual of the associated premium.

### **Reinsurance ceded**

Reinsurance ceded represents the transfer by Storebrand of risks (a share in insurance policies) to one or more other insurance companies. Reinsurance contracts may be related to a share of the gross premium (proportional contracts) or be related to a loss excess (non-proportional contracts).

*Reinsurance premiums* for proportional contracts are recognised to profit and loss in pace with the recogni-

tion of the gross premium. Premiums for non-proportional contracts are recognised on a straight line basis over the course of the year, normally in monthly instalments.

*Reinsurance claims* are mainly recognised in line with gross claims. Reinsurance claims in respect of aggregate policies, where the reinsurance applies to the excess of the total of individual losses over and above an agreed limit, are recognised as and when it is recognised as highly likely that the contract will be called upon.

## LIFE INSURANCE

### Premiums for own account

Premiums for own account comprise premium amounts which fall due during the year, transfers of premium reserve and premiums on reinsurance ceded. Accrual of premiums earned is made through allocations to premium reserve in the insurance reserve.

### Claims for own account

Claims for own account comprise claims settlements paid out, including reinsurance assumed, premium reserves transferred from other companies, reinsurance ceded and changes in claims reserves. The allocation for unsettled disability and death benefits is made through an allocation to the premium reserve in the insurance fund.

### Transfer of premium reserves, etc.

Transferred premium reserves in the insurance fund on the transfer of policies between insurance companies are booked to the profit and loss account at the date the risk is transferred. The year's mandatory allocations to the premium reserve are correspondingly reduced. In addition, the premium reserve transferred includes the policy's share in the year's realised and unrealised profit.

### Insurance reserves

Insurance reserves comprise the insurance fund and the statutory security fund. The insurance fund includes premium reserve, additional statutory allocation, premium fund/pension adjustment fund and claims reserves.

#### *Premium reserve in the insurance fund*

The premium reserve represents the cash value of the company's total insurance obligations in accordance with the individual insurance agreements after deducting the cash value of future premiums. The calculation principles are set out in the Insurance Activities Act. The calculations are made by an actuary.

#### *Additional statutory allocations in the insurance fund*

Additional statutory allocations are a conditional reserve, allocated to customers, which is booked to the profit and loss account as a mandatory reserve allocation. The maximum additional statutory allocation is set at the difference between the premium reserve, calculated on the basis of 3.5% guaranteed yield on basic

premium amounts, and the actual guaranteed yield in the contracts.

#### *Premium fund/pension adjustment fund in the insurance fund*

The premium fund contains premiums prepaid by policyholders on individual and collective pension insurance as a result of taxation regulations. The pension adjustment fund consists of payments from policyholders on collective pension insurance also resulting from taxation regulations. The fund is to be applied in payments of future benefit increases to pensioners.

The premium fund is required to have the same return as the premium reserve.

#### *Security fund*

The security fund consists of statutory security allocations to cover unexpected insurance risks. The calculations are made in accordance with regulations published by the Banking, Insurance and Securities Commission.

It is possible to increase the fund by 50% above the minimum allocation. In special situations the Banking, Insurance and Securities Commission may give permission that all or part of the fund is used to cover a fall in the value of securities. In the accounts the entire fund is shown as a mandatory fund.

### Unit Linked

Unit linked products are sold by Storebrand Fondsforsikring AS.

Financial assets are recorded at market value. The level of technical reserves required in respect of such contracts is determined by the market value of the financial assets.

## STOREBRAND ASA: DIVIDENDS AND GROUP CONTRIBUTION

The main income of Storebrand ASA is the return on capital invested in subsidiaries. In the company's accounts group contributions received are therefore recorded in the same manner as dividends received, i.e. as ordinary operating income.

Group contributions are booked in the current accounting year. Dividends are booked in the year when the distribution is made, which is the year following the current accounting year.

# Notes Storebrand ASA

## Note 1: Group contributions from subsidiaries

<i>NOK million</i>	1998	1997
Storebrand Skadeforsikring AS	<b>483.0</b>	527.0
Storebrand Livsforsikring AS		225.0
Storebrand Fondene AS	<b>5.5</b>	8.0
AS Værdalsbruket	<b>0.3</b>	
<b>Total</b>	<b>488.8</b>	760.0

## Note 2: Pension costs and pension liabilities

<i>NOK million</i>	1998			Total	1997		
	Insured schemes	Uninsured schemes Ordinary	Early retirees		Insured schemes	Uninsured schemes*)	Total
Pension liabilities accrued	<b>-14.7</b>	<b>-5.4</b>	<b>-1.0</b>	<b>-21.1</b>	-13.5	-189.6	-203.1
Interest costs	<b>-30.2</b>	<b>-7.0</b>	<b>-10.7</b>	<b>-47.9</b>	-28.7	-7.5	-36.2
Expected return on pension funds	<b>42.7</b>			<b>42.7</b>	38.6		38.6
<b>Net pension cost</b>	<b>-2.2</b>	<b>-12.4</b>	<b>-11.7</b>	<b>-26.3</b>	-3.6	-197.1	-200.7

\*) Pension cost for 1997 includes re-organisation costs of NOK 181.8 million.

### Net pension liability

Shown below is a reconciliation of estimated pension liabilities and pension funds with the liability booked in the company's balance sheet.

Earned pension liability	<b>-202.3</b>	<b>-54.6</b>	<b>-198.6</b>	<b>-455.6</b>	-187.9	-249.1	-437.0
Estimated effect of future salary growth	<b>-19.8</b>	<b>-8.8</b>	<b>0.0</b>	<b>-28.6</b>	-18.5	-8.0	-26.5
Estimated pension liability	<b>-222.2</b>	<b>-63.4</b>	<b>-198.6</b>	<b>-484.2</b>	-206.4	-257.1	-463.5
Pension funds at market value	<b>301.9</b>			<b>301.9</b>	279.2		279.2
<b>Net estimated liability/surplus</b>	<b>79.7</b>	<b>-63.4</b>	<b>-198.6</b>	<b>-182.3</b>	72.8	-257.1	-184.3
Deviation from estimated values at 1.1*):							
Pension funds	<b>-3.1</b>			<b>-3.1</b>	-1.2		-1.2
Pension liabilities	<b>0.1</b>	<b>1.1</b>	<b>0.0</b>	<b>1.2</b>	7.2	0.2	7.4
<b>Net liability as recorded in balance sheet</b>	<b>76.6</b>	<b>-62.3</b>	<b>-198.6</b>	<b>-184.3</b>	78.8	-256.9	-178.1

\*) Deviations from estimate are booked against the "corridor" in accordance with Norwegian Accounting Standards, and are not reflected in the balance sheet or profit and loss account. (See Accounting Principles). Note 18 also provides a more detailed description of the pension schemes provided by Storebrand and their accounting treatment.

The estimated employer's contribution in respect of booked pension liabilities amounts to NOK 27.6 million and is included as part of the "Reserves for other risks and costs" item in the balance sheet. The calculations are in respect of 687 employees.

## Note 3: Taxation

<i>NOK million</i>	1998	1997
Profit before tax	<b>326.1</b>	614.0
+/- Permanent differences	<b>2.4</b>	2.3
+/- Changes in timing differences	<b>102.8</b>	-951.8
- Application of loss carried forward	<b>-431.3</b>	
<b>Tax base for the year</b>	<b>0.0</b>	-335.5

**Note 4: Remuneration of Board and Committee members and of the Auditor**

NOK	1998	1997	
Board of Representatives	<b>573,750</b>	617,171	*) The Control Committee covers all the Norwegian companies in the group which are required to have a Control Committee, except for Storebrand Bank AS, which has a separate Control Committee.
Control Committee*)	<b>1,011,500</b>	845,500	
Board of Directors	<b>970,511</b>	1,172,667	**) Includes contractual benefits amounting to NOK 358,052 and the redemption of an option agreement in the amount of NOK 8,285,750.
Group Chief Executive**) )	<b>10,659,329</b>	1,791,603	
Auditor's fees for audit and related control functions	<b>1,093,080</b>	1,173,785	
Auditor's fees for consultancy services	<b>1,352,651</b>	2,442,355	

**Note 5: Parent company's shares in subsidiaries**

NOK million	Company's share capital	No. of shares (1,000's)	Par value (NOK)	Interest in %	Book value
Storebrand Skadeforsikring AS	1,380.6	13,806	100	100.0%	2,559.7
Storebrand Livsforsikring AS	1,361.2	13,612	100	100.0%	1,663.6
Storebrand Fondene AS	1.2	1	1,000	100.0%	30.0
Storebrand Bank AS	100.0	100	1,000	100.0%	500.4
Storebrand Investment Management AS	15.0	15	1,000	100.0%	25.0
Storebrand Kapitalforvaltning ASA	12.0	6	2,000	100.0%	35.0
Storebrand Fondsforsikring AS	29.6	30	1,000	100.0%	29.6
Storebrand Felix kurs og konferanse AS	1.0	1	1,000	100.0%	8.0
Storebrand Helseforsikring AS	30.0	15	1,000	50.0%	45.0
AS Værdalsbruket*)	1.3	2	625	24.9%	0.0
Storebrand Leieforvaltning AS	10.0	100	100	100.0%	10.0
<b>Total</b>					<b>4,906.3</b>

\*)74.9% held by Storebrand Livsforsikring AS. Minority interests amount to 0.2%

**Note 6: Change in equity capital**

NOK million	1998	1997
Equity at 1.1	<b>5,425.2</b>	4,849.8
Share capital at 1.1	<b>1,884.9</b>	1,883.6
Redemption of preference shares	<b>-500.0</b>	
New share capital (employee issue)	<b>0.8</b>	1.3
Write down of share capital	<b>-499.2</b>	1.3
Share capital 31.12 (277,149,822 shares of NOK 5)	<b>1,385.7</b>	1,884.9
Legal reserve 1.1	<b>1,272.1</b>	1,261.9
Employee issue	<b>8.9</b>	10.1
Allocation of profit	<b>8.9</b>	10.1
Legal reserve 31.12	<b>1,281.0</b>	1,272.1
Redemption fund 1.1	<b>0.0</b>	
From distributable reserves	<b>500.0</b>	<b>500.0</b>
Redemption fund 1.1	<b>500.0</b>	
Distributable reserves 1.1	<b>2,268.3</b>	1,704.3
Redemption of preference shares	<b>-1,160.0</b>	
Profit for the year	<b>326.1</b>	614.0
Allocated to dividend	<b>-833.9</b>	-50.0
Distributable reserves 31.12	<b>1,434.4</b>	2,268.3
<b>Equity capital at 31.12.</b>	<b>4,601.0</b>	5,425.2

**Employee share purchase arrangements**

The Annual General Meeting of Storebrand ASA resolved on 13 May 1996 that the Board be empowered to increase the share capital by up to 3 million ordinary shares reserved for Storebrand employees in 1998. The subscription period was 3-11 June 1998, and the subscription price NOK 58.80 per share. A total of 166,515 shares were issued, increasing the share capital by NOK 832,575. The total increase in share capital was NOK 9.7 million.

**Note 7: Shares and other financial investments**

<i>NOK million</i>	Share capital	Par value (NOK)	No. of shares	Interest	Book value	Market value
<b>Shares and other financial investments (long term holdings)</b>						
Oslo Reinsurance Company	264.0	200.00	132,000	10.00%	15.9	31.7
Fair Financial Ireland plc.			2,250	5.30%	2.7	2.7
Other					0.7	0.7
<b>Total shares and other financial investments (long term holdings)</b>					<b>19.2</b>	<b>35.1</b>
<b>Norwegian shares</b>						
<b>Bank and Insurance shares</b>						
Sparebanken NOR, Primary Capital Certifi	4,688.9	100.00	30,600	0.07%	5.3	4.5
Den norske Bank	6,405.0	10.00	140,000	0.02%	3.8	3.7
Christiania Bank og Kreditkasse	3,859.5	7.00	100,000	0.02%	2.7	2.6
Fokus Bank	799.6	11.00	30,000	0.04%	1.9	2.3
<b>Shipping and Offshore shares</b>						
Bergesen d.y., B-shares	56.7	2.50	46,950	0.06%	6.5	4.1
Leif Høegh & Co	60.0	2.00	36,000	0.12%	4.3	3.2
Fred. Olsen Energy	1,206.0	20.00	63,500	0.11%	4.1	3.0
Smedvig, B-shares	41.6	3.00	27,000	0.07%	3.7	1.6
Solstad Offshore	71.5	2.00	84,250	0.24%	3.2	1.8
<b>Industrial and other shares</b>						
Orkla	1,234.2	6.25	612,000	0.31%	84.9	69.5
Helikopter Services Group	234.7	11.50	72,000	0.35%	5.6	2.6
Norske Skogindustrier, B-shares	188.3	20.00	23,000	0.24%	4.9	4.4
Selmer	278.2	12.50	61,000	0.27%	4.5	3.4
Nera	192.2	2.00	180,200	0.19%	4.2	1.8
Dyno Industrier	512.0	20.00	27,500	0.11%	4.1	3.1
Braathens	32.2	1.00	79,400	0.25%	3.7	2.3
Saga Petroleum	2,239.8	15.00	48,610	0.03%	3.5	3.4
Norsk Hydro	4,581.5	20.00	10,000	0.00%	3.4	2.6
Ekornes	33.3	1.00	50,000	0.15%	3.1	3.1
Veidekke	57.0	5.00	20,600	0.18%	2.7	1.8
Fotokjeden Click	1.0	1.00	153,000	15.00%	11.3	11.2
Other					19.1	15.0
<b>Total shares and other financial investments - Norwegian</b>					<b>190.2</b>	<b>150.9</b>
<b>International shares:</b>						
Stolt-Nielsen, B-shares (Luxembourg)			50,000		7.0	3.7
Nordstrøm & Thulin Argonaut, B-shares (Sweden)			200,000		2.7	0.9
Trico Marine Services (USA)			25,000		3.9	1.0
<b>Total shares and other financial investments - International</b>					<b>13.6</b>	<b>5.5</b>
<b>Equity derivatives</b>						
			<b>Equity exposure - No. of shares</b>	<b>by amount</b>		
Share options - Finansbanken*)			1,583,490	46.7	20.5	14.5
Forward contracts - BN-Bank*)			436,650	82.4	0.0	-2.5
<b>Total equity derivatives</b>					<b>129.1</b>	<b>20.5</b>
Amounts written down - total portfolio					-55.8	
<b>Total shares and equity derivatives (short term holdings)</b>					<b>168.6</b>	<b>168.6</b>

\*) The equity exposure arising from options contracts is based on the relationship between the option strike price and the actual market price ("delta weighting")

**Subordinated loan**

Storebrand ASA has granted a subordinated loan to Fair Financial Ireland plc. of DKK 161.8 million. The loan is recorded in the accounts at NOK 189.9 million.

**Note 8: Bond loan**

<i>NOK million</i>	Amount	Currency	Interest	Maturity
Storebrand ASA (drawn down in 1993)	1,800.0	NOK	8.5%	2003

## Note 9: Certificates and bonds

NOK million	Percentage risk weighting	Certificates		Bonds		Total	
		Book value	Market value	Book value	Market value	Book value	Market value
<b>Certificates and bonds - Norwegian</b>							
State/State guaranteed	0%	94.7	94.6	527.1	512.4	621.8	607.0
Local authorities	20%	56.9	56.9	10.0	9.8	66.9	66.7
State owned enterprises	20%	40.0	40.0	30.2	30.2	70.2	70.2
Industry/subordinated loan	100%	0.0	0.0	4.5	4.5	4.5	4.5
<b>Local authorities - International</b>	20%	0.0	0.0	397.8	408.6	397.8	408.6
<b>Interest rate derivatives</b>					0.1		0.1
<b>Write downs - total portfolio</b>				-4.1		-4.1	
<b>Certificates and bonds - short term investments</b>		<b>191.6</b>	<b>191.5</b>	<b>965.6</b>	<b>965.7</b>	<b>1 157.2</b>	<b>1 157.2</b>

## Note 10: Property and other operating assets

NOK million	Property	Other assets	Total	
Purchase cost as at 1.1	11.9	217.3	229.2	Straight line depreciation periods for operating assets are as follows: Equipment and inventory: 4 years Motor cars: 6 years Computer systems: 3 years
Additions	32.0	140.8	172.8	
Disposals at acquisition cost	-0.9	-20.1	-21.0	
Aggregate depreciation and write-downs at 31.12	-0.4	-154.2	-154.6	
<b>Book value at 31.12</b>	<b>42.6</b>	<b>183.8</b>	<b>226.4</b>	
Ordinary depreciation for the year	-0.1	-74.7	-74.8	

## Note 11: Property and other operating assets: Additions and disposals in last 5 years.

NOK million	1998	1997	1996	1995	1994
<b>Additions</b>					
Property	<b>32.0</b>		0.8	1.1	
Operating assets	<b>140.8</b>	80.8	61.2	52.2	30.8
<b>Total</b>	<b>172.8</b>	80.8	62.0	53.3	30.8
<b>Disposals</b>					
Property	<b>32.5</b>		0.1		
Operating assets	<b>1.9</b>	2.7	12.9	4.1	1.8
<b>Total</b>	<b>34.4</b>	2.7	13.0	4.1	1.8

## Note 12: Deferred tax allowances and deferred tax

NOK million	1998		1997		Net change
	Positive	Negative	Positive	Negative	
<i>Temporary differences</i>					
Securities	<b>929.0</b>	<b>96.0</b>	929.0	36.0	60.0
Property	<b>1.8</b>		1.7		-0.1
Operating assets		<b>35.8</b>		48.9	-13.1
Reserves		<b>90.5</b>		45.9	44.6
Prepaid pension	<b>76.6</b>		78.8		2.2
Accrued pension liabilities		<b>260.9</b>		256.9	4.0
Profit and loss account	<b>20.5</b>		25.6		5.1
Other	<b>5.4</b>		5.5		0.1
<b>Total temporary differences</b>	<b>1,033.3</b>	<b>483.2</b>	1,040.6	387.7	102.8
Loss carried forward		<b>403.5</b>		834.8	-431.3
Benefit carried forward*)		<b>1,224.0</b>		1,025.0	199.0
Set-off	<b>-1,033.3</b>	<b>-1,033.3</b>	-1,040.6	-1,040.6	0.0
<b>Net temporary differences</b>	<b>0.0</b>	<b>1,077.4</b>	0.0	1,206.9	-129.5
Limitation of deferred tax allowances		<b>-1 077.4</b>		-1,206.9	129.5
<b>Base for balance sheet entries</b>	<b>0.0</b>	<b>0.0</b>	0.0	0.0	0.0

\*) Amount calculated to be comparable with losses carried forward.

Unused credits deductible from tax total NOK 343 million (28% of benefit carried forward)

### Note 13: Liabilities on termination or change of employment for senior management

There are no liabilities to the Chairman of the Board relating to special compensation on termination or change of his appointment.

The Chief Executive Officer, Åge Korsvold, has the benefit of a salary compensation agreement in the event that the Board of Directors request his resignation. The salary compensation agreement provides for two year's salary (6 month's notice period plus a further 18 months salary). The amount is reduced by salary or other equivalent remuneration resulting from other employment

during this period. Pension is fixed at 70% of salary at the date of departure, and pension rights are accrued on a straight line basis over 19 years of service, subject to termination by the employee being after at least 5 year's pensionable service. In the case of resignation before 5 years service has accrued, pension rights are calculated on the basis of a normal period of pensionable service of 30 years. The pension age is 67, with the right, and at the Board's request obligation, to retire with pension from the age of 62.

### Note 14: Transactions with connected parties

<i>NOK million</i>	No. of shares owned*)	Remuneration	Loan	Interest rate at 31.12.98
Chief Executive Officer**)	0	10.7	0.0	-
Chairman of the Board of Directors	1,024	0.2	0.2	10.05%
Other members of the Board of Directors	18,030	0.8	0.7	6.75 - 10.8%
Control Committee	7,472	1.0	0.0	-
Members of the Board of Representatives	10,018,523	0.6	11.9	6.75 - 10.8%

\*) Includes shares owned by spouse, children or companies where the relevant person exercises such influence as specified in §1-2 of the Norwegian Companies Act. The Chief Executive Officer has acquired, on market terms, an option to purchase 1,000,000 shares at a price of NOK 57.50, which can be exercised until 25.09.2000.

\*\*\*) Remuneration of the Chief Executive Officer includes NOK 8,285,750 in respect of the redemption of an option agreement (see Note 4).

#### Share options for senior management

As part of his terms of employment the Chief Executive Officer, Åge Korsvold, exercised an option over 250,000 shares in 1998.

#### Share holders

No share holder has a material influence, defined as voting rights at a General Meeting in respect of more than 20% of the shares.

### Transactions between group companies

<i>NOK million</i>	Amount	Terms
<b>Profit and loss account items:</b>		
Group contribution from subsidiaries	488.8	
Dividends from subsidiaries	193.3	
Purchase and sale of services (net)	874.5	At cost, settled monthly
Interest on internal debt (net)	28.2	6 month NIBOR/bank rate +1%
<b>Balance sheet items:</b>		
Long term debt within the group	588.0	6 month NIBOR
Group contribution	488.8	Settlement March/April 1998
Other intra-group receivables	115.9	Bank rate +1%

### Note 15: Guarantees given

<i>NOK million</i>	Currency	Terms	Provided in the accounts
<b>Storebrand ASA has given the following guarantees:</b>			
1) Institute of London Underwriters (ILU)	GBP	No specified amount	0
2) Aon Norway AS	NOK	No specified amount	0
3) Orkla Finans AS	NOK	No specified amount	0
4) Norges Bank	NOK	No specified amount	0

- 1) Counter indemnity of Oslo Reinsurance Company ASA (formerly UNI Storebrand International Insurance AS)
- 2) Contingent liability in respect of AS DUO which ceased trading on 07.06.1993. Liability is not specified and is considered to be immaterial.
- 3) Guarantee in connection with sale of Carl Kierulf & Co AS in 1993.
- 4) Guarantee in respect of management of the Norwegian Government Petroleum Fund.

# Notes Storebrand Group

## Note 16: Net financial income: insurance

NOK million	Life		Non-Life		Group*)	
	1998	1997	1998	1997	1998	1997
Income from group companies	10.2	9.5	29.5	23.3		
Income from real estate	625.1	603.0	92.6	64.4	717.7	667.4
Interest income - bonds & certificates	3,422.4	3,478.1	657.9	717.3	4,080.6	4,196.2
Interest income - lending	422.7	471.8	4.0	5.4	426.7	477.2
Share dividends	464.5	353.7	39.6	17.4	504.7	371.1
Reversal of valuation adjustments - shares		185.9		16.4		202.3
Reversal of valuation adjustments - bonds & certificates		2.3		0.1		2.4
Gain on sale of shares	6,384.3	4 377.4	299.5	206.4	6,683.8	4,583.8
Gain on sale of bonds & certificates	4,110.5	4 203.3	14.3	111.3	4,125.6	4,314.6
Other financial income	246.1	205.3	803.5	460.8	1,063.4	674.9
<b>Total income from financial assets</b>	<b>15,685.8</b>	<b>13,890.3</b>	<b>1,940.9</b>	<b>1,622.8</b>	<b>17,602.5</b>	<b>15,489.9</b>
Costs arising from real estate**)	-79.8	-139.0	-26.8	-25.8	-106.6	-164.8
Valuation adjustments - shares	-23.5	-6.5		-3.9	-23.5	-10.4
Valuation adjustments - bonds & certificates			-2.3		-28.9	-9.1
Loss on sale of shares	-6,230.6	-1,998.9	-191.7	-44.2	-6,422.3	-2,043.1
Loss on sale of bonds & certificates	-3,881.3	-3,354.8	-120.0	-63.1	-4,004.9	-3,417.9
Loss on lending	-0.1	-5.1	-0.3	-1.3	-0.4	-6.4
Other financial expenses	-215.2	-221.7	-684.0	-451.3	-889.9	-655.4
<b>Total costs of financial assets</b>	<b>-10,430.5</b>	<b>-5,726.0</b>	<b>-1,025.1</b>	<b>-589.6</b>	<b>-11,476.5</b>	<b>-6,307.1</b>
<b>Total net income from financial assets</b>	<b>5,255.3</b>	<b>8,164.3</b>	<b>915.8</b>	<b>1,033.2</b>	<b>6,126.0</b>	<b>9,182.8</b>
*) Group figures include Storebrand Fondsforsikring AS, Storebrand Helseforsikring AS and internal netting on consolidation.						
**) of which administration costs (see note 17)						
	-98.6	-87.6	-16.0	-15.8	-116.0	-104.4

## Note 17: Operating costs

NOK million	Life		Non-Life		Other		Group	
	1998	1997	1998	1997	1998	1997	1998	1997
Sales costs	-283.1	-257.8	-1,110.9	-1,011.2	-6.1	-2.7	-1,400.1	-1,271.7
Insurance related administration costs	-435.2	-355.7	-1,215.8	-1,127.4	-4.0	-1.6	-1,655.0	-1,484.7
Reinsurance commissions and share of profits			225.3	155.2			225.3	155.2
<b>Total insurance related operating costs</b>	<b>-718.3</b>	<b>-613.5</b>	<b>-2,101.4</b>	<b>-1,983.4</b>	<b>-10.1</b>	<b>-4.2</b>	<b>-2,829.8</b>	<b>-2,601.0</b>
Operating costs arising from financial assets*)	-98.6	-87.6	-16.0	-15.8	-1.4	-1.0	-116.0	-104.4
Operating costs arising from other activities**)	-64.5	-62.7	-18.7	-6.0	-500.7	-416.1	-583.9	-484.8
<b>Total operating costs ***)</b>	<b>-881.4</b>	<b>-763.8</b>	<b>-2,136.1</b>	<b>-2,005.3</b>	<b>-512.2</b>	<b>-421.3</b>	<b>-3,529.7</b>	<b>-3,190.4</b>
*) Operating costs related to management of financial assets in insurance activities								
**) Operating costs of non-insurance subsidiaries								
***) of which restructuring costs								
					-25.0	-43.0	-25.0	-43.0

### Auditors' fees

Fees for audit and other control functions on a group basis amounted to NOK 5.5 million, whilst fees to the auditors for consultancy services amounted to NOK 2.3 million.

### Note 18: Pension expenses and pension liabilities

Staff pensions are provided by a group pension scheme, primarily with Storebrand Livsforsikring AS in accordance with the rules on private occupational pension schemes. Pensions are payable at pension age which is 67 for executives and 65 for underwriters. The ordinary retirement age is 65, and a retirement pension equivalent to 70% of pensionable salary becomes payable on retirement. Pension benefits form a part of the group collective employment terms applicable to employment by Storebrand ASA. Early retirees are defined as those who retire before reaching 65 years of age. Pension costs and pension liabilities are treated for accounting purposes in accordance with the accounting standards for pension costs issued by the Norwegian Accounting Standards Foundation (see also Accounting principles). Both insured and uninsured schemes are treated as benefits plans. The following assumptions have been used in the calculations:

### Financial assumptions:

- Return on pension fund	8.0%
- Discount rate	7.0%
- Annual earnings growth	3.0%
- Expected adjustment of Social Security Fund's base amount (G)	3.0%
- Annual pension increase	2.5%
- Average rate of employers' contributions	13.5%

### Actuarial assumptions:

- Standardised assumptions on mortality/disability and other demographic factors as produced by the Association of Norwegian Insurance Companies.
- Average employee turnover rate of 2-3% of entire workforce.
- Linear earnings profile

The calculations apply to 4,348 employees and 2,046 pensioners. Net accrued pension costs are shown in the table below.

NOK million	1998			Total	1997			Total
	Insured scheme	Uninsured Ordinary	Uninsured Early retirees		Insured scheme	Uninsured Ordinary	Uninsured Early retirees*)	
Pension liabilities accrued	-90.5	-28.1	-5.0	-123.6	-86.4	-25.0	-250.1	-361.5
Interest costs	-184.3	-36.4	-15.9	-236.6	-181.7	-34.3	-2.6	-218.6
Expected return on pension funds	261.4			261.4	245.4			245.4
<b>Net pensions cost</b>	<b>-13.4</b>	<b>-64.5</b>	<b>-20.9</b>	<b>-98.8</b>	<b>-22.7</b>	<b>-59.3</b>	<b>-252.7</b>	<b>-334.7</b>

\*) Pension costs in respect of early pensions included re-organisation costs of NOK 236 million in 1997. This amount is booked against the provision for these costs in the accounts.

### Pensions liability

Shown below is a reconciliation of the estimated pension liabilities, and the pension funds held in respect of these, to the liability booked in the balance sheet:

Earned pension liability	-2,570.8	-489.4	-204.2	-3,264.4	-2,534.3	-450.5	-264.8	-3,249.6
Estimated effect of future salary growth	-269.9	-84.0		-353.9	-266.6	-79.2		-345.8
Estimated pension liability	-2,840.7	-573.4	-204.2	-3,618.3	-2,800.9	-529.7	-264.8	-3,595.4
Market value of pension funds	3,462.2			3,462.2	3,312.0			3,312.0
<b>Net estimated pension liability/surplus</b>	<b>621.5</b>	<b>-573.4</b>	<b>-204.2</b>	<b>-156.1</b>	<b>511.1</b>	<b>-529.7</b>	<b>-264.8</b>	<b>-283.4</b>
<i>Deviation from estimated values at 1.1.**</i>								
Pension funds	-35.9			-35.9	-14.2			-14.2
Pension liabilities	1.3	10.5	0.5	12.3	102.8	1.1	2.9	106.8
<b>Net pensions liability as per balance sheet</b>	<b>586.9</b>	<b>-562.9</b>	<b>-203.7</b>	<b>-179.7</b>	<b>599.7</b>	<b>-528.6</b>	<b>-261.9</b>	<b>-190.8</b>

\*\*) Deviations from estimate are booked against the "corridor" in accordance with Norwegian Accounting Standards, and are not reflected in the balance sheet or profit and loss account. (See Accounting Principles). The estimated employer's contribution in respect of booked pension liabilities amounts to NOK 96.8 million and is included in the balance sheet under 'Reserves for other risks and costs'.

### Note 19: Group profit by company and sub-group

NOK million	1998	1997
Storebrand ASA	326.1	614.0
Storebrand Livsforsikring Group	500.9	562.0
Storebrand Skadeforsikring Group	809.4	684.4
Storebrand Bank Group	10.9	-0.7
Storebrand Fondsforsikring AS	-1.2	-3.7
Storebrand Fondene Group	5.9	11.9
Storebrand Kapitalforvaltning ASA	-11.8	-3.4
Storebrand Helseforsikring AS*)	-5.2	
Other companies	-1.4	1.9
Netting on consolidation	-681.1	-854.0
<b>Group profit</b>	<b>952.5</b>	<b>1,012.4</b>

\*) Includes 50% of the results of Storebrand Helseforsikring AS in accordance with Storebrand ASA's ownership interest.

### Note 20: Taxation

NOK million	1998	1997
Profit before tax	790.7	1,017.6
Tax payable	0.1	-12.0
Deferred tax - net change	0.6	71.3
<b>Tax expense</b>	<b>0.7</b>	<b>59.3</b>

## Note 21: Intangible assets in subsidiaries

NOK million	Owned by	Intangible assets		Goodwill depreciation		Deprec. rate
		31.12.98	31.12.97	1998	1997	
Försäkringsaktiebolaget Storebrand Sverige (goodwill)	Non-life				-2.8	10%
Nærbankkonsept	Bank	<b>4.0</b>				
Storebrand Filipstad AS (lease interest)	Nybygg AS	<b>46.2</b>	46.8	<b>-0.6</b>	-0.6	
Aktuar Systemer AS	Life	<b>5.3</b>	7.1	<b>-1.8</b>	-1.8	20%
<b>Total</b>		<b>55.5</b>	53.9	<b>-2.4</b>	-5.2	-

## Note 22: Real Estate

Geographic distribution	Book value	Sq. metres	Percentage let
Oslo - Vika/Filipstad	3,347.6	244,864	100.0%
Oslo - Other	1,260.4	90,224	97.9%
Shopping centres (all locations)	3,925.1	332,938	97.2%
Bergen, Stavanger and Trondheim	490.5	43,902	97.6%
Norway - other	581.6	68,693	97.8%
Sweden	70.3		
<b>Total Life and Non-life companies</b>	<b>9,675.5</b>	<b>780,621</b>	<b>98.0%</b>
Other companies	42.6		
<b>Total</b>	<b>9,718.1</b>		

Analysis by type	Sq. metres
Office	256,855
Shopping centre	332,938
Garages	106,142
Commercial	39,762
Warehousing	44,924
<b>Total</b>	<b>780,621</b>

## Note 23: Properties and other operating assets

NOK million	Real estate	Other assets	Total
Purchase cost as at 1.1	8,854.7	755.0	9,609.7
Previous revaluations	1,076.3		1,076.3
Additions	1,328.7	265.3	1,594.0
Disposals at purchase cost	-796.5	-116.9	-913.4
Total depreciation and write-downs at 31.12	-745.1	-497.8	-1,242.9
<b>Book value at 31.12</b>	<b>9,718.1</b>	<b>405.6</b>	<b>10,123.7</b>
Ordinary depreciation for the year	-9.9	-139.6	-149.5

Straight line depreciation is applied over the following periods for operating assets:

Equipment and inventory:	4 years
Motor cars:	6 years
Computer systems:	3 years

## Note 24: Property and other operating assets: Additions and disposals in last 5 years.

NOK million	1998	1997	1996	1995	1994
<b>Additions</b>					
Property	<b>1,328.7</b>	1,432.2	3,983.8	558.9	240.0
Operating assets	<b>265.3</b>	155.2	137.3	129.9	89.9
Leased operating assets					
<b>Total</b>	<b>1,594.0</b>	1,587.4	4,121.1	688.8	329.9
<b>Disposals</b>					
Property	<b>889.4</b>	624.0	997.0	177.3	403.8
Operating assets	<b>12.8</b>	18.1	27.0	32.0	9.1
Leased operating assets					17.6
<b>Total</b>	<b>902.2</b>	642.1	1,024.0	209.3	430.5

## Note 25: Subordinated loan capital

NOK million	Borrowing company	Amount NOK	Currency	Currency gain/loss NOK	Interest in %	Maturity	
<b>Lender/date drawn down</b>							
	J.P. Morgan (16 bank syndicate, 11.05.1995)	Life	900.5	USD	120	6.09%	2005
	Carl Kierulf & Co AS, SPN Fonds/ Oslo Securities (15.01.1992)	Life	81.2	NOK		11.15%	2002
	Chase Manhattan Bank, Oslo (01.12.1997)	Life	479.8	NOK		5.89%	2007
	Citibank, London (24.02.98)*	Life	1,500.8	USD	200	6.42%	Perpetual
<b>Total</b>			<b>2,962.3</b>				

\*) Option to redeem after 5 years.

**Note 26: Shares and other financial investments**

<i>NOK million</i>	Share capital	Par value (NOK)	Number of shares held	Interest	Book value	Market value
<b>Shares and other financial investments (long term holdings)</b>						
Oslo Reinsurance Company	264.0	200.00	132,000	10.00%	15.9	31.7
Fair Financial Ireland			2,250	5.30%	2.7	2.7
Other - Norwegian					8.3	8.3
Other - International					2.3	2.3
<b>Shares and other financial investments (long term holdings)</b>					29.2	45.0
<b>Norwegian</b>						
<b>Bank and Insurance shares</b>						
Bolig- og Næringsbanken	487.7	50.00	101,200	1.04%	19.2	18.5
Christiania Bank og Kreditkasse	3,859.5	7.00	5,978,225	1.08%	124.7	157.8
Den norske Bank	6,405.0	10.00	6,831,000	1.07%	209.5	179.7
Finansbanken	693.4	20.00	7 500	0.02%	0.3	0.2
Fokus Bank	799.6	11.00	315,000	0.43%	19.1	23.9
Sparebanken Nor, Primary Capital Certificates	4,688.9	100.00	600,217	1.28%	77.8	88.8
<b>Shipping/Offshore</b>						
Bergesen d.y., A-shares	132.7	2.50	393,130	0.52%	55.3	35.8
Bergesen d.y., B-shares	56.7	2.50	1,301,243	1.21%	176.5	114.5
Bonheur	57.5	5.00	308,545	2.69%	148.3	44.4
Det Søndenfj. Norske Dampskibsselskap	41.6	1.00	1,324,550	3.19%	194.8	79.5
Fred. Olsen Energy	1,206.0	20.00	1,820,350	3.02%	239.0	85.6
Ganger Rolf	45.8	5.00	178,130	1.95%	84.1	24.9
Leif Høegh & Co	60.0	2.00	1,665,550	5.55%	185.0	148.2
Ocean Rig	363.3	1.00	9,188,500	2.53%	75.5	19.1
Odfjell	148.7	10.00	500,304	2.29%	55.1	29.0
Odfjell, B-shares	69.7	10.00	843,600	3.86%	70.1	52.3
Petroleum Geo-Services	447.7	5.00	2,179,600	2.43%	424.7	211.4
Prosafe	257.2	10.00	2,167,755	8.43%	233.0	107.3
Smedvig	82.0	3.00	1,068,910	2.59%	141.6	68.4
Smedvig, B-shares	41.6	3.00	783,400	1.90%	109.4	45.4
Solstad Offshore	71.5	2.00	976,650	2.73%	30.8	20.3
TGS Nopec Geophysical Company	23.9	1.00	1,073,600	4.49%	115.3	31.7
Wilh. Wilhelmsen	49.7	5.00	156,500	1.08%	32.3	31.3
Wilh. Wilhelmsen, B-shares	22.7	5.00	546,522	3.78%	71.9	106.6
<b>Industrial and other shares</b>						
A-Pressen	176.8	20.00	249,722	2.83%	22.5	26.2
Aker Maritime	283.6	5.00	1,645,900	2.90%	212.7	92.2
Aker RGI, A-shares	1,139.4	20.00	1,054,036	1.34%	133.8	84.3
Braathens	32.2	1.00	1,825,555	5.67%	88.4	53.9
Dyno Industrier	512.0	20.00	262,900	1.03%	31.7	29.7
Ekornes	33.3	1.00	609,732	1.83%	35.5	37.2
Elkem	985.6	20.00	303,400	0.62%	29.1	27.6
Elkjøp	71.6	10.00	370,400	5.17%	106.4	103.7
Gresvig	38.3	5.00	1,106,700	14.46%	107.6	52.0
Hafslund, A-shares	68.3	1.00	1,841,352	1.59%	72.2	88.4
Hafslund, B-shares	47.2	1.00	700,300	0.61%	29.5	22.7
Håg	95.6	10.00	570,200	5.96%	40.1	47.9
Helikopter Services Group	234.7	11.50	2,668,777	13.07%	172.2	96.1
Hitec	37.6	1.00	906,650	2.41%	31.3	9.2
Hydralift, A-shares	3.5	0.20	457,040	1.60%	18.7	15.5
Hydralift, B-shares	2.2	0.20	995,016	3.47%	61.8	27.9
Jøtul	58.2	20.00	354,200	12.17%	37.9	21.8
Kitron	17.6	10.00	256,200	14.57%	23.2	17.9
Kongsberg Gruppen	120.0	5.00	1,179,000	4.91%	88.8	89.6
Kværner	423.8	12.50	614,020	1.41%	92.5	92.1
Kværner, B-shares	120.6	12.50	234,690	0.54%	50.6	29.3
Kverneland	97.2	10.00	687,520	7.08%	101.9	128.6
Linstow	449.9	10.00	1,300,000	2.89%	44.2	46.8
Merkantildata	101.9	1.00	4,878,000	4.79%	173.5	365.9
Narvesen	200.0	20.00	715,550	7.16%	122.2	141.7
Nera	192.2	2.00	6,728,423	7.00%	93.3	68.0
NetCom	23.6	0.50	1,014,502	2.15%	152.6	200.9
Norsk Hydro	4,581.5	20.00	2,200,535	0.96%	691.8	565.5
Norske Skogindustrier	575.9	20.00	240,983	0.63%	52.3	53.5
Norske Skogindustrier, B-shares	188.3	20.00	1,261,827	3.30%	246.4	241.0
Norway Seafoods	365.6	5.00	930,000	1.27%	35.5	6.7
Olav Thon Eiendomsselskap	119.0	10.00	459,798	3.86%	81.3	88.3

**Note 26: Shares and other financial investments**

<i>NOK million</i>	Share capital (million)	Par value (NOK)	Number of shares held	Interest	Book value	Market value
Orkla	1,234.2	6.25	11,055,832	5.60%	790.6	1,254.8
Provida	15.9	2.00	684,800	8.61%	57.9	21.9
Rieber & Søn	398.2	10.00	1,128,733	2.83%	22.8	68.9
Saga Petroleum	2,239.8	15.00	3,835,776	2.57%	303.0	266.6
SAS Norge, B-shares	235.0	10.00	1,736,126	3.69%	138.0	111.1
Scana Industrier	26.6	1.25	1,518,799	7.14%	54.4	44.0
Schibsted	69.3	1.00	2,240,800	3.24%	223.0	215.1
Selmer	278.2	12.50	3,262,578	14.66%	194.9	179.4
Steen & Strøm	27.9	1.00	4,149,153	14.88%	243.5	394.2
Tandberg Television	64.4	2.00	1,997,000	6.20%	131.7	125.8
Tomra Systems	164.4	4.00	655,850	1.60%	122.0	164.0
Ulstein Holding	214.1	10.00	818,750	3.82%	97.4	138.4
Veidekke	57.0	5.00	1,500,600	13.17%	148.5	132.1
Eiendomsspar	445.0	50.00	330,000	3.71%	35.1	62.7
Dagbladet	24.8	20.00	174,618	14.55%	32.4	69.0
Glamox	64.0	100.00	80,939	12.65%	30.6	28.3
Glava	96.0	100.00	96,574	10.06%	30.2	45.1
Telenor Venture	100.0	1,000.00	14,063	14.06%	30.0	48.5
Hansa	21.5	10.00	322,500	15.00%	21.5	21.5
Union, A-shares	7.0	10.00	56,020	5.60%	15.5	50.4
Union, B-shares	3.0	10.00	51,476	5.15%	14.3	46.3
Other Norwegian shares					236.2	338.5
<b>Equity fund units</b>						
Storebrand Aksje Innland			13,912		214.4	152.5
Storebrand Bedriftspensjon			99,850		100.0	103.2
Storebrand Europa no			56,961		58.9	59.1
Storebrand Japan			99,220		99.6	102.1
Storebrand North America			96,568		99.6	102.1
Storebrand Nordic			49,854		49.9	53.1
Storebrand Teknologi			98,677		98.8	110.1
<b>Total shares and other financial investments - Norwegian</b>					<b>9,869.9</b>	<b>9,205.7</b>

**International shares:**

<i>NOK million</i>	Number of shares held	Book value	Market value	<i>NOK million</i>	Number of shares held	Book value	Market value
<b>Canada</b>				<b>Italy</b>			
Northern Telecom	164,649	61.9	62.9	ENI	2,058,103	90.5	102.5
Canada - other		174.0	173.3	Telecom Italia	678,899	28.8	43.9
<b>Denmark</b>				Telecom Italia Mobile, Savings	1,892,455	46.7	67.4
Sabroe Holding	119,037	22.8	51.2	Telecom Italia, Savings	1,100,000	50.6	52.4
Tele Danmark, B-shares	60,000	31.2	61.6	Italy - other		31.7	31.1
Denmark - other		265.0	296.7	<b>Japan</b>			
<b>Finland</b>				Fuji Television Network	1,200	40.8	41.6
Nokia	310,000	96.9	287.0	Fujitsu	811,000	75.0	82.4
Nokia SDB	102,000	30.8	93.8	Hitachi	1,560,000	83.7	73.7
Finland - other		158.3	239.7	Honda Motor	157,000	52.9	39.3
<b>France</b>				Kirin Brewery	984,000	75.7	95.7
Danone	35,772	53.5	77.6	Matsushita Electric Industrial	316,000	43.3	42.6
Elf Aquitaine	111,572	110.5	103.4	NTT	3,847	268.7	226.5
France Telecom	147,244	31.6	88.6	Sankyo	300,000	64.0	50.0
L'Oréal	12,443	49.3	68.1	Softbank	114,000	51.0	52.3
Michelin	100,347	42.4	30.4	Sony	86,000	61.4	47.8
Peugeot	43,029	47.2	50.4	Toyota Motor	604,000	137.4	125.2
Rhone-Poulenc	209,416	74.2	81.6	Japan - other		1,264.7	1,246.2
Total	44,973	42.2	34.5	<b>Liberia</b>			
Vivendi	29,165	42.5	57.3	Royal Caribbean Cruises	2,005,880	357.1	549.6
France - other		294.1	309.1	<b>Luxembourg</b>			
<b>Hong Kong</b>				Stolt-Nielsen, B-shares	1,348,350	170.6	98.4
Hutchison Whampoa	935,000	48.8	50.3	Stolt Comex Seaway	374,800	56.1	18.0
Hong Kong - other		153.1	160.2	Stolt Comex Seaway, A-shares	139,900	21.0	6.0
<b>Ireland</b>				Luxembourg - other		13.6	8.4
CRH	371,238	37.5	47.9	<b>Netherlands</b>			
				Ahold	217,775	52.0	65.1
				Heineken	192,716	46.8	87.9

**Note 26: Shares and other financial investments**

<i>NOK million</i>	Number of shared held	Book value	Market value	<i>NOK million</i>	Number of shared held	Book value	Market value
Philips Electronics	117,255	62.1	59.6	Cisco Systems	246,901	73.6	174.6
Royal Dutch Petroleum	394,667	182.2	148.9	Coastal	600,000	154.2	159.7
Unilever	117,825	61.0	76.3	Coca-Cola	333,695	174.0	170.0
Netherlands - other		116.0	137.4	Compaq Computer	250,000	75.7	79.9
<b>Spain</b>				Cunard Line	1,340,164	99.9	100.1
Telefonica	336,738	98.1	113.5	DuPont (E.I) De Nemours	160,350	76.5	64.8
Spain - other		88.2	103.8	EMC	234,617	120.1	151.9
<b>Great Britain</b>				Exxon	132,973	71.5	74.1
Asda	2,850,000	57.3	58.0	First Data	982,989	224.7	237.3
BP Amoco	855,974	84.2	97.0	Fort James	400,000	120.8	121.9
British Land	1,153,296	75.3	65.1	General Motors	107,639	50.1	58.7
British Telecom	968,109	67.7	110.6	Gillette	192,237	71.0	70.8
Cadbury Schweppes	927,781	89.7	120.0	Hewlett-Packard	162,036	76.3	84.3
Diageo Plc	1,174,343	80.1	101.4	Home Depot	204,074	43.9	95.1
Glaxo Wellcome	538,599	80.9	140.6	IBM	133,329	115.5	187.7
Nycomed Amersham	7,929,465	380.9	420.3	Johnsen & Johnsen	393,294	211.6	251.3
Smithkline Beecham	838,164	74.2	88.9	Lilly (Eli) & Co	163,905	72.0	111.0
Vodafone	1,600,848	117.2	197.2	Mattel	898,896	238.2	156.2
Great Britain - other		942.3	918.1	McDonalds	106,710	42.6	62.3
<b>Switzerland</b>				MCI Worldcom	251,560	82.3	137.5
Nestle	9,739	140.8	160.9	Merck & Co	172,166	161.0	193.7
Novartis, Namen	18,209	235.5	271.7	Metromedia Intl Group	800,000	63.6	33.1
Roche Holding	1,727	131.6	160.0	Minnesota Mng & Mfg	72,150	40.0	39.1
Swisscom	30,435	67.4	96.7	Mobil	115,599	62.4	76.7
Switzerland - other		69.4	72.7	Monsanto	511,345	175.9	185.0
<b>Sweden</b>				Motorola	92,462	41.8	43.0
Astra, A-shares	1,195,333	135.3	185.6	Nabisco Hldg	400,000	119.9	126.5
Atlantic Container Line	1,142,500	59.4	101.7	Oracle Corporation	205,358	33.5	67.5
Ericsson, B-shares	1,116,000	163.0	202.0	Pfizer	186,420	104.9	178.2
Hennes & Mauritz, B-shares	115,500	32.8	71.7	Procter & Gamble	182,749	100.1	127.1
Volvo, B-shares	264,440	45.9	46.1	SBC Communications	515,004	179.1	210.4
Sweden - other		503.6	533.0	Schering-Plough	203,168	58.3	85.5
<b>Germany</b>				Siem Industries	2,214,500	38.9	151.8
Daimler-Benz	105,144	60.2	75.4	The Walt Disney Co	690,365	158.2	157.8
Daimler Chrysler	60,000	38.6	44.9	Time Warner	171,828	44.0	81.2
Deutsche Telecom	403,992	81.4	100.8	Warner-Lambert	114,889	43.6	65.8
Mannesmann	84,710	46.5	74.4	USA - other		2,341.5	2,602.4
Metro	186,720	82.0	112.7	<b>Other countries</b>			
Rwe	97,353	42.6	40.5	Australia		183.2	216.9
SAP, Priority shares	18,366	59.5	66.5	Belgium		58.7	78.1
Siemens	145,565	78.2	71.4	Malaysia		5.3	6.0
Veba	91,512	43.4	41.5	New Zealand		17.7	19.6
Volkswagen	25,000	16.9	15.1	Portugal		28.0	23.2
Volkswagen, Priority shares	170,160	46.4	64.3	Singapore		69.0	67.1
Germany - other		164.0	163.2	Other		22.4	10.4
<b>USA</b>				<b>Equity fund units</b>			
Abbott Laboratories	212,772	56.1	79.4	Storebrand Scudder Evf A	166,667	229.9	290.6
AES	300,000	73.7	108.3	Head Insurance Investors	200	152.4	152.4
America Online	66,118	26.8	80.6	Apax UK V-B	42	52.7	135.8
American Home Products	483,108	182.0	207.3	Apax UK Vi-D	60	41.0	41.0
AT & T	578,189	258.3	331.5	Apax UK Vi-B	60	41.0	41.0
Atlantic Richfield	67,663	40.5	33.6	Zenit	4,416	37.5	112.0
Bell Atlantic	225,133	79.2	90.9	Wand Partners	32	23.7	24.4
Bellsouth	285,900	65.2	108.6	Storebrand Scudder Evf B	15,148	17.2	24.2
Boeing	155,110	58.0	38.6	ESG Partners (Bermuda)	100	16.8	16.8
Boston Scientific	621,000	117.9	126.9	Other		17.8	6.3
BP Amoco	147,201	49.0	67.1	<b>Total shares and other financial investments - International</b>		<b>18,181.7</b>	<b>21,120.7</b>
Bristol-Myers Squibb	133,742	83.4	136.3	Forward foreign exchange contracts, shares		-186.2	-186.2
Chevron	98,930	61.9	62.5	Amounts written down - total portfolio		-56.0	
				<b>Total shares and other financial investments (short term holdings)</b>		<b>27,809.3</b>	<b>30,140.2</b>

## Note 26: Shares and other financial investments

### Equity derivatives

NOK million	Equity exposure*)		Book value	Market value
	No. of shares	Amount		
<b>Norwegian equity derivatives</b>				
Share options - Finansbanken	3,166,979	93.4	41.0	29.1
Other share options - Norwegian shares		-1.6	-1.7	-0.3
Forward contracts - BN-Bank	873,300	164.7	-	-4.9
<b>Total equity derivatives - Norwegian shares</b>		<b>256.5</b>	<b>39.2</b>	<b>23.9</b>
<b>International equity derivatives</b>				
Share options - Atlantic Container Line	(691,835)	-61.6	-28.4	-4.3
Share options, international shares		-275.4	-35.9	-8.4
Stock index futures, international shares		-5,436.4	42.8	42.8
<b>Total equity derivatives - International shares</b>		<b>-5,773.4</b>	<b>-21.5</b>	<b>30.0</b>
<b>Total equity derivatives</b>		<b>-5,516.8</b>	<b>17.7</b>	<b>53.9</b>

\*) The equity exposure arising from options contracts is based on the relationship between the option strike price and the actual market price ("delta weighting")

## Note 27: Certificates and bonds

NOK million	Risk weight in %	Certificates		Bonds		Total	
		Book value	Market value	Book value	Market value	Book value	Market value
<b>Norwegian</b>							
State/state guaranteed	0%	463.7	463.9	11,009.0	10,867.8	11,472.7	11,331.7
State owned enterprises	10%			39.5	39.5	39.5	39.5
Local authorities	20%	353.8	353.6	526.7	523.1	880.5	876.7
Banking and finance	20%	2,700.2	2,696.7	3,374.3	3,329.4	6,074.5	6,026.1
Industry/subordinated loan	100%			315.3	316.6	315.3	316.6
<b>International</b>							
State/state guaranteed	0%			15,183.9	15,687.0	15,183.9	15,687.0
Local authorities	20%			2,216.2	2,299.7	2,216.2	2,299.7
Banking and finance	20%			2,523.9	2,569.7	2,523.9	2,569.7
Industry/subordinated loan	100%			1,880.7	1,883.6	1,880.7	1,883.6
<b>Interest rate derivatives</b>							
Forward foreign exchange contracts, interest bearing				-408.1	-408.1	-408.1	-408.1
Write downs				-4.1		-4.1	
<b>Total</b>		<b>3,517.7</b>	<b>3,514.2</b>	<b>36,657.3</b>	<b>37,108.4</b>	<b>40,175.0</b>	<b>40,622.6</b>
<b>Par value:</b>							35,672.3

## Note 28: Bonds to be held to maturity

NOK million	Risk weight in %	Nominal value	Purchase cost	Book value	Market value	Unrealised gain	Unrealised loss	NOK million	Book value
State or State guaranteed	0%	5,369.2	5,778.1	5,633.5	5,921.7	300.6	-12.4	<b>Remaining term*)</b>	
State owned enterprises	10%	838.0	837.9	837.3	889.8	52.7	-0.2	Up to 1 year	1,076.7
Banking and finance	20%	9,681.0	9,491.1	9,550.7	9,677.3	181.7	-55.0	from 1 to 5 years	10,958.6
Local authorities	20%	5,883.1	5,892.6	5,888.7	6,076.5	200.3	-12.3	from 6 to 10 years	8,954.1
Industry/subordinated loan	100%	100.0	101.4	101.2	102.1	0.9		Over 10 years	1,022.0
<b>Total portfolio</b>		<b>21,871.3</b>	<b>22,101.1</b>	<b>22,011.3</b>	<b>22,667.4</b>	<b>736.1</b>	<b>-79.8</b>	<b>Total</b>	<b>22,011.3</b>

Modified duration for bonds held to maturity is 3.9 years.

\*) to maturity adjusted for expected redemptions/installments

## Note 29: Financial derivatives

The concepts applied in the following tables are set out in the following section.

### Nominal volume

Financial derivative contracts are related to underlying amounts which are not recorded in the balance sheet. In order to quantify a derivative position, reference is made to underlying concepts such as nominal principal, nominal volume, etc. Nominal volume is arrived at differently for different classes of derivative, and gives an indication of the size of the position and risk the derivative creates. Gross nominal volume principally indicates the size of the exposure, whilst net nominal volume gives an indication of the risk exposure. However nominal volume is not a measure which necessarily provides a comparison of the risk represented by different types of derivative.

### Long positions and short positions (note 33)

A long position in a share derivative produces a gain in value if the share price increases. For interest rate derivatives, a long position produces a gain if interest rates

fall, as is the case for bonds. A long position in a currency derivative produces a gain if the currency strengthens against the NOK. The gap between long and short positions is taken into account in calculating the total net nominal volume, whereas gross total nominal volume takes no account of the result for a particular instrument of a long versus a short position.

### Average gross nominal volume

The average figures are based on daily calculations of gross nominal volume.

### Credit equivalent amounts

Credit equivalent amounts are intended to give a measure of the credit risk associated with financial derivatives. In general the credit risk is seen as being limited, since either stock exchange listed and cleared contracts or contracts with well known financial institutions are employed. Credit equivalent values represent the weighted volume of currency and interest rate agreements for the purposes of capital adequacy calculations, where gross nominal volume is taken into account.

NOK million	Nominal volume			Credit equivalent amount	Book value	Market value	Realised on open contracts
	Gross	Average	Net				
Share options	1,109.2	1,379.2	-902.2		-25.1	16.0	
Forward share contracts	164.7	15.7	164.7		-	-4.9	
Stock index futures	7,217.9	3,323.1	-5,436.4		42.8	42.8	-210.1
<b>Total equity derivatives</b>	<b>8,491.8</b>	<b>4,718.1</b>	<b>-6,173.9</b>		<b>17.7</b>	<b>53.9</b>	<b>-210.1</b>
Forward rate agreements	55,897.8	62,795.8	4,657.8	9.2	-	-12.0	
Interest rate futures	11,851.8	8,128.9	10,499.2	-	-0.2	-0.2	-56.1
Interest rate swaps	1,219.1	1,861.9	1,219.1	5.4	21.9	16.9	
Interest rate options	-	322.0	-		-	-	
<b>Total interest rate derivatives</b>	<b>68,968.7</b>	<b>73,108.7</b>	<b>16,376.1</b>	<b>14.6</b>	<b>21.7</b>	<b>4.7</b>	<b>-56.1</b>
Forward foreign exchange contracts	53,346.2	52,973.6	-40,020.8	146.7	-553.3	-553.3	
<b>Total currency derivatives</b>	<b>53,346.2</b>	<b>52,973.6</b>	<b>-40,020.8</b>	<b>146.7</b>	<b>-553.3</b>	<b>-553.3</b>	
<b>Total derivatives</b>	<b>130,806.6</b>	<b>130,800.4</b>	<b>-29,818.5</b>	<b>161.3</b>	<b>-513.9</b>	<b>-494.7</b>	<b>-266.1</b>

## Note 30: Market value of securities by asset category

NOK million	Life insurance		Non-life insurance		Other		Book value	Group Market value	Unrealised reserves
	Book value	Market value	Book value	Market value	Book value	Market value			
<b>Long term investments</b>									
Shares and other financial investments	0.4	0.4	9.5	9.5	19.3	35.1	29.2	45.0	15.8
Bonds held to maturity	17,781.1	18,333.8	4,230.2	4,333.6			22,011.3	22,667.4	656.1
Other long term financial assets					480.2	480.2	480.2	480.2	
<b>Other financial assets (short term)</b>									
Shares and other financial investments	25,764.3	28,031.9	1,917.2	1,964.7	127.8	143.6	27,809.3	30,140.2	2,330.9
Bonds	30,148.8	30,564.0	5,000.2	5,035.1	1,508.3	1,509.3	36,657.3	37,108.4	451.1
Certificates	1,783.8	1,784.0	1,151.1	1,147.5	582.8	582.7	3,517.7	3,514.2	-3.5
Money market deposits	684.3	684.3	116.0	114.8			800.3	799.1	-1.2
Other financial assets	87.5	132.6	1.3	-0.8	62.6	46.8	151.4	178.6	27.2
<b>Total</b>	<b>76,250.2</b>	<b>79,531.0</b>	<b>12,425.5</b>	<b>12,604.4</b>	<b>2,781.0</b>	<b>2,797.7</b>	<b>91,456.7</b>	<b>94,933.1</b>	<b>3,476.4</b>
<b>Unrealised gains</b>		3,280.8		178.9		16.7		3,476.4	

**Note 31: Lending**

<i>NOK million</i>	<b>1998</b>	1997
Not greater than 60% estimated value	<b>6,804.7</b>	6,618.0
Between 60-80% of estimated value	<b>2,112.8</b>	2,305.5
Over 80% of estimated value	<b>310.5</b>	369.9
<b>Secured loans*)</b>	<b>9,228.0</b>	9,293.4
Specific provisions	<b>-2.4</b>	-3.1
General provisions	<b>-2.0</b>	-1.7
<b>Total secured loans</b>	<b>9,223.6</b>	9,288.6
<b>Other loans</b>	<b>1,099.1</b>	803.5
Specific provisions	<b>-290.6</b>	-61.5
General provisions	<b>-5.6</b>	-6.7
<b>Total other loans</b>	<b>802.8</b>	735.3
<b>Total lending</b>	<b>10,026.4</b>	10,023.9
*) of which guaranteed	285.4	245.0

Loans to employees of the group total NOK 1,850.7 million. Details of loans to the CEO and members of the Boards are provided in Note 14.

**Note 32: Current exchange rate principle for currency accounting**

With effect from 1 January 1998 the group has changed its accounting policies for the currency exposure arising from currency hedged securities holdings an hedging contracts to the current exchange rate principle (see also Accounting Principles page 52). The effect of the change to the new principle for Storebrand Livsforsikring AS on opening balances for the year amounts to NOK 126 million, of which NOK 7 million was applied against equity an NOK 119 million against policyholders funds respectively. The allocation was determined by the relative size of the company's capital and is equivalent to a reduction in return on capital of 0.13%. The reduction in policyholders' funds will be shown as a reduction in available surpluses in the reconciliation of customer balances for 1998. The effect of the change to the new principle for Storebrand Skadeforsikring AS amounts to an increase in equity of NOK 42.9 million as of 1 January 1998. Comparable figures have not been produced for 1997 since the company previously recognised any mis-match between currency items and their hedging when contracts were realised.

**Note 33: Currency**

<i>NOK million</i>	Long position	Short position	Net book	Forex forwards	Net position in currency	Net position in NOK
AUD	53.9	-2.9	51.0	-40.5	10.5	48.9
CAD	205.2	-2.5	202.7	-190.5	12.2	60.6
CHF	150.6	-0.4	150.2	-143.2	7.0	38.5
DKK	1,121.8	-15.2	1,106.7	-844.0	262.7	314.1
EURO-currencies restated as EURO	1,175.2	-9.8	1,165.3	-1,099.2	66.2	588.6
GBP	326.6	-30.2	296.3	-279.1	17.3	218.0
HKD	229.2	-8.3	220.9	-213.5	7.4	7.3
JPY	70,084.4	-981.5	69,102.9	-68,000.0	1,102.9	74.5
NZD	6.4	-0.1	6.4	-4.4	2.0	7.9
SEK	2,143.8	-152.6	1,991.2	-1,626.2	365.0	342.4
SGD	15.4	-0.0	15.4	-12.1	3.3	15.0
USD	2,919.3	-570.1	2,349.2	-2,283.0	66.3	504.8
<b>Total</b>						<b>2,220.5</b>

**Note 34: Change in equity capital**

<i>NOK million</i>	<b>1998</b>	1997
Equity capital at 01.01	<b>5,885.9</b>	4,857.2
Change due to new accounting principle	<b>35.9</b>	
Restated equity capital at 1.1	<b>5,921.8</b>	4,857.2
Profit for the year	<b>791.4</b>	1,076.9
Redemption of preference shares	<b>-1,160.0</b>	
Translation gain/loss - foreign subsidiaries	<b>5.5</b>	-6.2
Allocated to dividend		-50.0
Share issue (net proceeds)	<b>9.7</b>	11.4
Other capital movements	<b>-2.5</b>	-3.4
<b>Equity capital at 31.12.</b>	<b>5,565.9</b>	5,885.9

**Note 35: Interest in associated companies**

<i>NOK million</i>	Share of profit	1998 Book value	Equity value	Share of profit	1997 Book value	Equity value
Nordben Life and Pension Insurance Co. Ltd.	2.2	19.0	31.8	3.9	16.9	27.4

In the group accounts the shares are included at the value of the equity capital.

**Note 36: Deferred tax allowances and deferred tax**

<i>NOK million</i>	1998		1997		Net change
<i>Temporary differences</i>	Positive	Negative	Positive	Negative	
Securities	1,679.0	218.2	8.8	266.4	-1,718.4
Real estate	165.2	229.8	245.2	232.4	77.4
Operating assets	252.7	63.6	249.2	75.9	-15.8
Reserves	24.2	179.9	66.1	190.2	31.6
Prepaid pensions	586.9		599.2		12.3
Accrued pension liability		833.9		857.9	-24.0
Profit and loss account	142.8	97.0	26.1	18.9	-38.6
Other	8.1	0.5	15.4	4.6	3.2
<b>Total temporary differences</b>	<b>2,859.0</b>	<b>1,622.9</b>	1,210.0	1,646.3	-1,672.4
Loss carried forward		2,476.0		1,672.3	803.7
Benefit carried forward*)		1,965.3		1,497.5	467.8
Set-off	-2,416.0	-2,416.0	-851.9	-853.7	1.8
<b>Net temporary differences</b>	<b>443.0</b>	<b>3,648.3</b>	358.1	3,962.4	-399.1
Limitation of deferred tax benefit		-3,205.2		-3,604.3	399.1
<b>Base for balance sheet entries</b>	<b>443.0</b>	<b>443.0</b>	358.1	358.1	0.0
<b>Deferred tax/tax allowances</b>	<b>124.0</b>	<b>124.0</b>	100.3	100.3	0.0

\*) Amount calculated to be comparable with losses carried forward. Unused credits deductible from tax total NOK 550 million. (28% of benefit carried forward)

**Note 37: Losses carried forward**

<i>NOK million</i>	Amount
Storebrand ASA*)	403.5
Storebrand Livsforsikring AS*)	1,385.8
Storebrand Bank AS	73.8
Storebrand Finans AS	587.8
Storebrand Kapitalforvaltning ASA	17.8
Storebrand Investment Management AS	1.4
Storebrand Leieforsikring AS	5.9
<b>Total</b>	<b>2,476.0</b>

\*) In addition the group has unused allowances deductible from tax of NOK 550 million, equivalent to losses carried forward of NOK 1,965 million. Unused allowances deductible from tax are divided as to NOK 343 million for Storebrand ASA, NOK 197 million for Storebrand Livsforsikring AS and NOK 10 million for Storebrand Skadeforsikring AS.

**Note 38: Capital adequacy**

<i>NOK million</i>	Life Group	Non-life Group	SB Bank Group	SB ASA	Group
Risk-weighted calculation base	44,839	7,756	3,095	5,626	56,161
Core capital	2,713	1,843	441	4,524	4,992
Subordinated loan capital - perpetual	1,512				1,512
Subordinated loan capital - dated	1,320				1,320
Reduction in eligible subordinated loan capital	-119				-49
<b>Eligible subordinated loan capital</b>	<b>2,713</b>				<b>2,783</b>
Revaluation reserve		7			7
Intangible assets		-46	-4.0		-50
Other deductions				-198	-198
<b>Net primary capital</b>	<b>5,426</b>	<b>1,804</b>	<b>437</b>	<b>4,326</b>	<b>7,534</b>
<b>Capital ratio (%)</b>	<b>12.1%</b>	<b>23.3%</b>	<b>14.1%</b>	<b>76.9%</b>	<b>13.4%</b>

The required minimum capital ratio is 8%.

**Note 39: Storebrand Livsforsikring AS: Analysis by sector of insurance\*)**

<i>NOK million</i>	Collective pension insurance	Group life insurance	Individual endowment insurance	Individual annuity/pension insurance	Unit linked products	Total
Gross premiums written	3,900.4	361.0	1,808.8	791.5	132.9	<b>6,994.6</b>
Reinsurance ceded	-1.8	0.6	-5.2	-2.2		<b>-8.6</b>
Transfers of premium reserve etc. received	1,976.2		7.9	124.9	79.0	<b>2,188.0</b>
<b>Premium income 1998</b>	<b>5,874.8</b>	<b>361.6</b>	<b>1,811.5</b>	<b>914.2</b>	<b>211.9</b>	<b>9,174.1</b>
Premium income 1997	4,073.9	345.2	1,709.6	1,158.2	115.2	<b>7,402.1</b>
<b>Income from financial assets</b>	10,260.3	90.2	1,389.2	3,897.2	2.8	<b>15,639.7</b>
<b>Unrealised life insurance gains relating to investment contracts</b>					10.9	<b>10.9</b>
<b>Other insurance related income</b>	12.0	0.1	1.6	4.8		<b>18.5</b>
Gross claims paid	-2,027.3	-326.2	-1 890.0	-1,132.6	-5.1	<b>-5,381.2</b>
Reinsurance ceded			0.3	0.2		<b>0.5</b>
Gross change in claims reserve	-6.0	15.1	-7.5	-1.6	-0.1	<b>-0.1</b>
Transfers of premium reserve etc. paid	-993.5		-5.0	-263.8	-3.3	<b>-1,265.6</b>
<b>Claims 1998</b>	<b>-3,026.8</b>	<b>-311.1</b>	<b>-1,902.2</b>	<b>-1,397.8</b>	<b>-8.5</b>	<b>-6,646.4</b>
Claims 1997	-3,294.3	-319.9	-1,199.1	-1,140.5	-1.5	<b>-5,955.3</b>
Movements in insurance fund: premium reserve	-4,457.7	-5.3	-33.5	-268.2	-181.7	<b>-4,946.4</b>
Movements in insurance fund: additional statutory reserves	2.8	0.0	45.0	30.7		<b>78.5</b>
Guaranteed yield on premium fund	-158.3			-25.8		<b>-184.1</b>
Movement in security reserve			-3.1	3.1	-0.4	<b>-0.4</b>
<b>Movements in insurance related reserves 1998</b>	<b>-4,613.2</b>	<b>-5.3</b>	<b>8.4</b>	<b>-260.2</b>	<b>-182.1</b>	<b>-5,052.4</b>
Movements in insurance related reserves 1997	-3,552.4	-13.0	-659.2	-1,002.7	-112.1	<b>-5,339.4</b>
<b>Allocated to policyholders</b>	-945.8		-112.6	-227.1		<b>-1,285.5</b>
<b>Insurance related operating costs</b>	-280.8	-63.6	-216.2	-148.8	-3.9	<b>-713.3</b>
Operating costs related to financial assets	-64.5	-0.6	-8.9	-24.6	-1.4	<b>-100.0</b>
Other costs related to financial assets	-6,745.7	-59.3	-914.0	-2 562.2	-4.3	<b>-10,285.5</b>
<b>Costs related to financial assets</b>	<b>-6,810.2</b>	<b>-59.9</b>	<b>-922.9</b>	<b>-2,586.8</b>	<b>-5.7</b>	<b>-10,385.5</b>
<b>Unrealised life insurance losses relating to investment contracts</b>					-26.6	<b>-26.6</b>
<b>Other insurance related costs</b>	-18.8	-5.4	-4.4	-7.5		<b>-36.1</b>
<b>Balance of the technical account</b>	<b>451.5</b>	<b>6.6</b>	<b>52.4</b>	<b>188.0</b>	<b>-1.2</b>	<b>697.3</b>
<b>Other income</b>						<b>0.0</b>
<b>Other costs</b>	-133.8	-1.2	-18.1	-50.8		<b>-203.9</b>
<b>Tax</b>					-3.1	<b>-3.1</b>
<b>Profit for the year</b>	<b>317.7</b>	<b>5.4</b>	<b>34.3</b>	<b>137.2</b>	<b>-4.3</b>	<b>490.3</b>

\*) The sectoral analysis includes all business of Storebrand Livsforsikring AS except non-life cover, and also includes the business of Storebrand Fondsforsikring AS.

**Note 40: Storebrand Skadeforsikring: Results by sector**

<i>NOK million</i>	Private		Corporate		Motor		Marine		Other lines		Total	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
<b>Premiums written</b>												
Gross premiums	<b>2,080</b>	1,878	<b>2,064</b>	1,923	<b>3,180</b>	2,900	<b>840</b>	911	<b>860</b>	764	<b>9,024</b>	8,376
Premiums ceded	<b>-35</b>	-17	<b>-520</b>	-304	<b>-54</b>	30	<b>-196</b>	-345	<b>-391</b>	-309	<b>-1,196</b>	-1,005
Premiums for own account	<b>2,045</b>	1,861	<b>1,544</b>	1,619	<b>3,126</b>	2,870	<b>644</b>	566	<b>469</b>	455	<b>7,828</b>	7,371
<b>Gross business</b>												
Premiums earned	<b>1,996</b>	1,828	<b>1,994</b>	1,937	<b>3,064</b>	2,861	<b>877</b>	894	<b>836</b>	738	<b>8,767</b>	8,258
Current claims	<b>-1,410</b>	-1,705	<b>-2,126</b>	-1,737	<b>-2,477</b>	-2,169	<b>-291</b>	-371	<b>-793</b>	-256	<b>-7,097</b>	-6,238
Insurance related operating costs	<b>-611</b>	-595	<b>-540</b>	-471	<b>-848</b>	-792	<b>-195</b>	-186	<b>-132</b>	-78	<b>-2,326</b>	-2,122
Technical result	<b>-25</b>	-472	<b>-672</b>	-271	<b>-261</b>	-100	<b>391</b>	337	<b>-89</b>	404	<b>-656</b>	-102
<b>Business ceded</b>												
Premiums earned	<b>-35</b>	-17	<b>-501</b>	-319	<b>-54</b>	-31	<b>-242</b>	-336	<b>-361</b>	-314	<b>-1,193</b>	-1,017
Current claims	<b>51</b>	51	<b>724</b>	192	<b>265</b>	100	<b>-17</b>	77	<b>510</b>	185	<b>1,533</b>	605
Insurance related operating costs	<b>-1</b>	-1	<b>-8</b>	-7	<b>-1</b>		<b>-3</b>	-6	<b>-3</b>	-3	<b>-16</b>	-17
Commission income	<b>1</b>	1	<b>124</b>	61			<b>64</b>	63	<b>36</b>	30	<b>225</b>	155
Technical result	<b>16</b>	34	<b>339</b>	-73	<b>210</b>	69	<b>-198</b>	-202	<b>182</b>	-102	<b>549</b>	-274
<b>For own account</b>												
Technical result	<b>-9</b>	-438	<b>-333</b>	-344	<b>-51</b>	-31	<b>193</b>	135	<b>93</b>	302	<b>-107</b>	-376
<b>Current claims for own account</b>												
Incurred this year	<b>-1,474</b>	-1,605	<b>-1,375</b>	-1,684	<b>-2,354</b>	-2,325	<b>-612</b>	-466	<b>-252</b>	-164	<b>-6,067</b>	-6,244
Incurred in previous years	<b>119</b>	-48	<b>3</b>	-143	<b>-35</b>	282	<b>272</b>	161	<b>38</b>	92	<b>397</b>	344
Effect of BISC min. requirement	<b>-4</b>	-1	<b>-30</b>	282	<b>177</b>	-26	<b>32</b>	11	<b>-69</b>	1	<b>106</b>	267
Total for the accounting year	<b>-1,359</b>	-1,654	<b>-1,402</b>	-1,545	<b>-2,212</b>	-2,069	<b>-308</b>	-294	<b>-283</b>	-71	<b>-5,564</b>	-5,633
<b>Technical reserves for own account</b>												
Premium reserve	<b>910</b>	826	<b>592</b>	537	<b>1,480</b>	1,364	<b>241</b>	222	<b>243</b>	231	<b>3,466</b>	3,180
Claims reserve	<b>1,034</b>	1,117	<b>2,314</b>	3,126	<b>1,879</b>	2,061	<b>1,108</b>	1,032	<b>691</b>	480	<b>7,026</b>	7,816
<b>Key ratios:</b>												
Gross Claims ratio (excl. BISC min. requirement)	<b>70%</b>	93%	<b>105%</b>	104%	<b>87%</b>	75%	<b>37%</b>	43%	<b>87%</b>	35%	<b>82%</b>	79%
Claims ratio f.o.a. (excl. BISC min. requirement)	<b>69%</b>	91%	<b>92%</b>	113%	<b>79%</b>	72%	<b>53%</b>	55%	<b>45%</b>	17%	<b>75%</b>	81%
Premium reserve % f.o.a.	<b>45%</b>	44%	<b>38%</b>	33%	<b>47%</b>	48%	<b>37%</b>	39%	<b>52%</b>	51%	<b>44%</b>	43%
Claims reserve ratio f.o.a	<b>51%</b>	60%	<b>150%</b>	193%	<b>60%</b>	72%	<b>172%</b>	182%	<b>147%</b>	105%	<b>90%</b>	106%

Other lines includes Storebrand Helseforsikring AS and non-life insurance lines booked by Storebrand Livsforsikring AS.

# Cash flow analysis

NOK million	Storebrand ASA		Storebrand Livsforsikring		Storebrand Skadeforsikring		Storebrand Bank		Storebrand Group	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
<b>Cash flow from operational activities</b>										
Premiums received - direct insurance			5,038.5	5,299.3	8,931.2	8,293.7			14,102.8	13,706.7
Premiums received - insurance assumed			7.8	11.7					7.8	11.7
Premiums paid - reinsurance			-21.4	-35.3	-1,904.3	-946.6			-1,925.7	-981.9
Claims and benefits paid - direct insurance			-5,398.9	-4,657.8	-6,989.9	-6,566.1			-12,393.9	-11,223.9
Claims settlement received in respect of claims and benefits paid					612.6	682.2			615.7	682.2
Receipts from policy transfers			1,494.9	844.6					1,573.8	844.6
Payments on policy transfers			-1,322.3	-1,466.6					-1,325.6	-1,466.6
Payments to third parties for goods and services	266.7	103.3	-375.3	-619.8	-647.0	-448.1	-134.7	-75.4	-838.3	-1,116.3
Payments to employees, pensioners, employment taxes etc.	-351.7	-306.7	-412.4	-294.3	-1,398.8	-1,593.3	-68.4	-60.2	-2,375.9	-2,294.5
Interest paid	-186.0	-158.0	-253.6	-54.7	-4.8	-21.4	-21.4	-36.8	-422.9	-229.4
Interest received	12.4	41.0	4,063.4	4,089.7	968.4	944.5	306.5	121.7	5,313.2	5,146.7
Dividends received	5.7	1.0	464.5	353.7	39.5	15.5	66.6	48.1	578.3	538.4
Payments of tax, duties etc.			-0.6	-0.4	-9.2	-37.3			-10.6	-38.5
Net receipts from securities	110.2	63.1	1,205.7	3,807.5	96.4	283.7	-88.5	-3.5	1,427.0	4,162.9
<b>Net cash flow from operational activities</b>	<b>-142.6</b>	<b>-256.3</b>	<b>4,490.3</b>	<b>7,277.6</b>	<b>-305.9</b>	<b>606.8</b>	<b>60.2</b>	<b>-6.0</b>	<b>4,325.7</b>	<b>7,742.1</b>
<b>Cash flow from investment activities</b>										
Loans disbursed to customers			-16.4	-807.6			-3,842.4	-2,285.8	-3,858.8	-2,963.4
Loan repayments by customers			2,873.2	3,050.3	107.3	122.4	1,002.6	283.3	3,852.4	3,298.9
Receipts from sales of shares and other financial investments	554.0	344.0	27,418.0	10,070.7	3,259.2	1,285.3			31,282.4	11,700.0
Payments for purchase of shares and other financial investments	-892.1	-701.0	-34,891.3	-17,087.8	-3,125.9	-2,454.3	-5.1	-95.8	-38,977.3	-20,270.8
Receipts from sales of bonds	1,229.8	559.0	72,547.8	36,314.9	7,465.5	4,601.2	173.3	78.1	81,416.4	41,553.2
Payments on purchase of bonds	-1,350.0	-1,396.0	-74,905.8	-38,907.8	-7,534.1	-6,838.1	-653.6	-88.8	-84,462.3	-47,255.4
Receipts on sale of certificates	2,618.6	2,549.0	26,828.3	24,723.2	8,037.9	9,983.1	429.3	792.4	37,914.1	38,047.7
Payments on purchase of certificates	-1,657.4	-2,529.0	-24,549.3	-22,412.0	-7,776.0	-6,335.5	-461.6	-775.3	-34,444.3	-32,051.8
Receipts on sale of real estate	2.4		284.7	594.5	448.4	87.8			735.5	682.3
Payments on purchase of real estate	-32.1		-1,073.8	-1,023.7	-231.6	-437.4			-1,337.5	-1,461.1
Net payments on sale of other securities			40.2	-70.1	-0.3				40.2	-112.7
Net payments on purchase of fixed assets etc.	-137.4	-78.0	-27.8	-11.4	-72.6	-44.4	-12.2	-7.5	-268.0	-145.2
<b>Net cash flow from investment activities</b>	<b>335.7</b>	<b>-1,252.0</b>	<b>-5,472.2</b>	<b>-5,566.8</b>	<b>577.8</b>	<b>-29.9</b>	<b>-3,369.7</b>	<b>-2,099.3</b>	<b>-8,107.3</b>	<b>-8,978.3</b>
<b>Cash flow from financing activities</b>										
Deposits from customers							9,837.6	3,792.8	9,837.6	3,792.8
Repayment of customer deposits							-7,290.8	-3,115.5	-7,290.8	-3,114.9
Payments on repayment of long term lending	-130.7	-232.7				-411.4		-12.5		-103.0
Receipts from redemption of term loans		555.9								159.4
Receipts from issue of certificates/short term loans							483.0	1,525.1	490.5	1,399.9
Receipts from subordinated loan capital			1,561.3	74.3					1,561.3	74.3
Receipts from issue of new capital	15.4	5.7					100.0	125.0	15.4	5.7
Dividend payments	-1,160.0								-1,160.0	
Group contribution received	-50.0	-70.0						-58.3	-50.0	-70.0
Receipts/payments of group contribution	953.4	1,214.0	-417.0	-420.0	-527.0	-727.0				
<b>Net cash flow from financing activities</b>	<b>-371.9</b>	<b>1,472.9</b>	<b>1,144.3</b>	<b>-345.7</b>	<b>-527.0</b>	<b>-1,138.4</b>	<b>3,129.8</b>	<b>2,256.5</b>	<b>3,404.0</b>	<b>2,144.3</b>
<b>Net cash flow for the period</b>	<b>-178.9</b>	<b>-35.4</b>	<b>162.4</b>	<b>1,365.1</b>	<b>-255.1</b>	<b>-561.5</b>	<b>-179.7</b>	<b>151.2</b>	<b>-377.7</b>	<b>908.1</b>
Net movement in cash and cash equivalent assets	-178.9	-35.4	162.4	1,365.1	-255.1	-561.5	-179.7	151.2	-377.7	908.1
Cash and cash equivalent assets at start of the period	366.1	401.5	3,567.0	2,201.9	877.2	1,438.8	263.1	111.9	5,160.0	4,251.9
<b>Cash and cash equivalent assets at the end of the period</b>	<b>187.3</b>	<b>366.1</b>	<b>3,729.4</b>	<b>3,567.0</b>	<b>622.1</b>	<b>877.3</b>	<b>83.4</b>	<b>263.1</b>	<b>4,782.3</b>	<b>5,160.0</b>
<b>Reconciliation:</b>										
Profit before tax	326.1	614.0	500.9	562.0	647.6	689.5	10.9	-0.7	790.7	1,017.6
Tax paid in the period			0.6	71.4	-11.3	-37.3			-11.5	33.3
Gains/losses on sale of fixed assets	6.3	-3.9			0.2			0.9	6.5	-3.0
Ordinary depreciation	68.4	44.8	16.9	19.7	43.1	39.1	6.8	2.8	140.7	116.9
Write-down of fixed assets					10.3		13.9		24.2	
Other non-cash items			6,184.9	7,867.7	168.2	13.3	-19.0		6,533.5	7,881.0
Difference between pension cost and payments/receipts to pension scheme	6.2	20.0	18.2	-9.0	-14.5	-78.5		-1.6	10.5	-67.6
Items classified as investment or financing activities	-586.8	-1,214.0			43.8	31.5	103.9	-5.4	261.3	-334.0
Movement in accruals	37.0	282.8	-2,231.2	-1,234.2	-1,193.3	-50.8	-56.2	-2.0	-3,430.2	-902.1
<b>Net cash flow from operational activities for the year</b>	<b>-142.6</b>	<b>-256.3</b>	<b>4,490.3</b>	<b>7,277.6</b>	<b>-305.9</b>	<b>606.8</b>	<b>60.2</b>	<b>-6.0</b>	<b>4,325.7</b>	<b>7,742.1</b>

# Significant Differences Between N GAAP and US GAAP

The accounting principles under which the group financial statements have been prepared conform with Norwegian generally accepted accounting principles (N GAAP) and differ in certain significant respects from United States generally accepted accounting principles (US GAAP). A summary of the significant differences is presented below.

## Reconciliation of group net income to US GAAP

<i>NOK million</i>	1998	1997
Group result - N GAAP	952,5	1 012,4
Technical allocations non-life/income taxes	-161,1	64,5
<b>Result - N GAAP</b>	<b>791,4</b>	<b>1 076,9</b>
<i>Effect of estimated US GAAP adjustments:</i>		
Contract acquisition costs	83,7	-117,2
Claim adjustment expenses	3,0	-75,3
Liabilities for unpaid claims	-138,0	-388,2
Real estate	-63,5	104,8
Pension costs	-26,1	-26,1
Software costs	-10,0	-26,0
Investment securities and derivatives	129,6	-876,9
Cumulative effect of change in accounting principles	365,4	-
Other US GAAP adjustments - life**)	-216,6	549,3
Income taxes:		
Full deferred asset recognition	-104,0	-109,4
Income tax effects of US GAAP adjustments	-35,7	239,6
<b>Net income - US GAAP basis</b>	<b>779,2</b>	<b>351,4</b>

## Reconciliation of shareholders' equity to US GAAP

<i>NOK million</i>	31.dec 1998	31.dec 1997
<b>Group equity capital - N GAAP</b>	<b>5,565.9</b>	<b>5,885.9</b>
<i>Effect of estimated US GAAP adjustments:</i>		
Contract acquisition costs	1,917.4	1,833.7
Claim adjustment expenses	-365.4	-368.4
Liabilities for unpaid claims	1,597.1	1,735.1
Real estate	-1,417.4	-1,353.9
Pension costs	156.5	182.6
Software costs	14.0	24.0
Investment securities and derivatives	-321.0	-899.2
Income statement adjustments - life**)	183.3	451.1
Effect of recognizing market value for AFS*) sec.	3,363.6	6,257.1
Adjustments for AFS*) sec. - life**)	-2,461.5	-4,253.3
Income taxes:		
Full deferred asset recognition	774.9	878.9
Income tax effects of US GAAP adjustments	-737.7	-1,010.5
Dividends	-	50.0
<b>Shareholders' equity - US GAAP basis</b>	<b>8,269.7</b>	<b>9,413.2</b>

\*) Available for sale

\*\*) Life insurance policyholders' participation

## Contract Acquisition Costs

Under N GAAP all costs and expenses incurred in connection with the origination of new insurance contracts are charged to expense as incurred. Under US GAAP those costs which vary with and are primarily related to the acquisition and renewal of insurance contracts, for example commissions, are capitalized and charged to expenses in proportion to related revenue recognized.

## Claim Adjustment Expenses

Under N GAAP all expenses associated with processing and settling claims under insurance contracts are charged to expense as incurred. Under US GAAP costs expected to be incurred in connection with the settlement of unpaid claims are accrued when the related liabilities for unpaid claims are accrued.

## Liabilities for Unpaid Claims

Under N GAAP liabilities for unpaid non-life claims (claims reserve or allocations to non-life technical reserves) include certain minimum amounts required by regulation and the anticipated effects of inflation on future payment amounts are considered to be part of a special statutory reserve. US GAAP prescribes no minimums for such liabilities and requires that liabilities for unpaid claims include inflationary effects. Statutory reserves not supported by actual incurred claims are not recognized.

## Real estate

Under N GAAP real estate held both for investment and for use in the business was periodically revalued to current value until 1994. Since then such real estate is carried at the lower of revalued cost or current value. Furthermore, real estate is not depreciated in the life insurance company while buildings are depreciated over 100 years in the non-life companies. Interest expense incurred during the development of a real estate project is expensed as incurred. Also, any impairments in value deemed permanent are evaluated on a total portfolio basis. Under US GAAP real estate is carried at historical cost and, for buildings used in the business and income-producing investment properties, depreciation is recorded over the expected useful lives of the buildings not in excess of fifty years. Interest expense incurred during the development of a real estate project is

capitalized as part of its cost. Impairment provisions are evaluated on an individual property basis.

### **Pension costs**

While N GAAP and US GAAP provide for similar measurements of pension costs, US GAAP spreads certain transition effects of adopting its standard over the remaining service period of employees covered measured from January 1, 1989, while N GAAP provide for the full absorption of the transition liability in shareholders' equity effective January 1, 1994.

### **Software costs**

Under N GAAP, the group has accrued as a liability certain internal and external costs associated with modifying internal use software for the year 2000. US GAAP require such costs be expensed as incurred.

### **Investment Securities and Derivatives**

Under N GAAP cost of investment securities is defined as original cost. The original cost is subsequently adjusted for the effects of changes in foreign currency resulting from currency denominated securities which are being hedged by a derivative financial instrument. Investment securities except those classified as held to maturity beginning in 1995, and related derivative instruments are generally carried in the financial statements at the lower of cost or market with any required adjustments made in the income statement (profit and loss account).

Under US GAAP cost is defined as amortized cost for debt instruments which requires that premiums and discounts arising at time of purchase be amortized over the lives of the related securities through the income statement and all securities transaction are recorded as of the trade date. The accounting for investment securities depends on their classification and two classifications are relevant to the group financial statements:

- *Held to maturity securities are debt securities which will not be sold before their maturity dates and are carried at amortized cost reduced by any impairments in value deemed to be other than temporary.*
- *Available for sale securities are quoted equity instruments and all other debt securities and are carried at fair market value with the difference between such value and amortized cost carried as a separate component of shareholder's equity. Impairments in value deemed other than temporary are written down through earnings.*

Under US GAAP derivative financial instruments were generally marked-to-market through the

income statement. In 1998 the provisions of SFAS No. 133 have been adopted which require derivative financial instruments to be recognized in the balance sheet at fair value with the unrealized gains and losses recorded in the income statement, unless such derivative financial instruments meets certain hedging criteria. Storebrand's policy is to hedge the foreign currency exposures of securities classified as "available for sale" with foreign currency exchange contracts. As a qualifying fair value hedge, such exchange contracts are recorded at fair value in the balance sheet with changes in that fair value recognized in the income statement during each reporting period. Foreign currency gains and losses that are attributable to the underlying security are also recognized in the income statement with the offset being recorded as an adjustment to the carrying amount of the security. The effect of adopting SFAS No 133 is included as a cumulative effect of a change in accounting principles in the reconciliation of net income for the year ended December 31, 1998. This effect is shown inclusive taxes and policy holders participation in the reconciliation.

### **Life Insurance Policyholders' Participation**

Pre-tax operating results of the life insurance entity are shared with policyholders on the basis of a formula which by government regulation must allocate at least 65% of profits before the allocation to policyholders. US GAAP considers the 65% minimum policyholder participation as applicable to all elements of pre-tax profits and therefore provides for a similar 65% participation in all of the US GAAP differences which are of timing nature and which affect the measurement of such profits in the life insurance entity on a US GAAP basis. Norwegian government regulation also requires a participation by terminating policyholders in unrecognized unrealized investment gains through a formula that attributes 75% of such gains to policyholders as a group. No recognition of this potential liability is reflected under N GAAP. Under US GAAP 75% of the adjustment to shareholders' equity arising as a result of marking available for sale securities to market value is allocated to policyholder liabilities in recognition of this regulatory provision.

### **Income Taxes**

N GAAP limits the recognition of deferred tax assets regardless of the prospects for recoverability. US GAAP requires the recognition of all deferred tax amounts subject to a recoverability test for deferred tax assets. An additional US GAAP difference arises to reflect the income tax effects of the other US GAAP differences.

# Terms and expressions

See also the preceding description of **Accounting Principles**.

## General

### **Capital ratio:**

Eligible primary capital as a percentage of the risk-weighted balance sheet. (Individual assets and off-balance sheet items are given a risk weighting based on the estimated credit risk they represent.)

### **Duration:**

The average remaining term of cash-flow on interest bearing financial instruments. Modified duration is calculated on the basis of duration and is an expression of sensitivity to changes in the underlying interest rates.

### **Earnings per ordinary share:**

Profit for the year less preference dividend and other costs related to preference shares forms the base for the calculation of earnings per ordinary share. Adjustment is also made for the year's allocations to statutory security reserves etc. in respect of non-life insurance. These statutory allocations include security, reinsurance and administration reserves, as well as the natural perils fund and the guarantee reserve. The total number of shares used in the calculation is taken as the average number of ordinary shares in issue over the course of the year. In the event of new issues of shares, the new shares are included from the date of subscription.

### **Equity capital:**

Equity capital consists of restricted equity capital and free reserves such as the contingency reserve, etc.

### **Primary capital:**

Primary capital is capital eligible to fulfil the capital requirements under the authorities' regulations. Primary capital may comprise Tier 1 capital and Tier 2 capital.

### **Subordinated loan capital:**

Subordinated loan capital is loan capital which ranks after all other debt. Subordinated loan capital is part of Tier 2 capital.

### **Tier 1 capital:**

Tier 1 capital is part of primary capital and consists of equity capital less the revaluation reserve and net prepaid pensions.

### **Tier 2 capital:**

Tier 2 capital is part of the primary capital and consists of the revaluation reserve and subordinated loan capital. In order to be eligible as primary capital, Tier 2 capital cannot exceed Tier 1 capital. Perpetual subordinated loan capital, together with other Tier 2 capital, cannot exceed 100% of Tier 1 capital, whilst subordinated loan capital which is not perpetual cannot exceed 50% of Tier 1 capital. To be fully eligible as primary capital, the remaining term must be at least 5 years. If the remaining term is less, the eligible portion is reduced by 20% for each year.

## Life insurance

### **Administration result:**

The difference between actual costs and those assumed for the premium tariffs.

### **Annuity/pension insurance:**

Individual life insurance where the annuity/pension amount is paid in instalments from an agreed age, during the life of the insured. Such insurance can be extended to include spouse, child and disability pensions.

### **Average yield:**

Average yield is an expression for the average return the company has obtained on policyholders' funds during the course of the year. The average yield is a gross yield before deducting costs and will thus not be comparable with interest reported by other financial institutions. The average yield is calculated in accordance with rules set by the Banking, Insurance and Securities Commission.

### **Collective pension insurance:**

A collective pension insurance scheme where pensions are paid in instalments from an agreed age, during the life of the insured. Such insurance normally includes spouse, child and disability pensions.

**Cost ratio:**

Operating costs as a percentage of average customer funds.

**Endowment insurance:**

Individual life insurance where the insured amount is payable on either the expiry of the insurance period or the death of the insured if earlier. Such insurance can be extended to provide disability pensions or disability insurance.

**Group life insurance:**

Collective life insurance in which an insured sum is payable on the death of an insured member of the group. Such insurance can be extended to cover disability insurance.

**Interest result:**

The result arising from financial income deviating from that assumed for the premium tariffs.

**Operating profit:**

Operating profit from the year's operations including the share due to insurance customers.

**Return on capital:**

The booked return on capital shows income from financial assets expressed as a percentage of the average of the company's total assets over the year in accordance with rules set by the Banking, Insurance and Securities Commission. The value-adjusted return on capital shows income from financial assets plus the year's change in unrealised gains expressed as a percentage of the average of the company's total assets over the year at market value.

**Risk result:**

The result arising from the incidence of mortality and/or disability during a period deviating from the assumptions used for the premium tariffs.

**Non-life insurance****Claims:**

Total claims amount for losses incurred.

**Claims ratio:**

Claims incurred as a percentage of premiums earned.

**Claims reserve ratio:**

The claims reserve f.o.a. as a percentage of premiums written f.o.a..

**Combined ratio:**

The sum of the cost ratio and the claims ratio.

**Cost portion:**

Operating expenses as a percentage of premiums earned.

**Cost ratio:**

Operating expenses as a percentage of premiums written.

**Direct business:**

Insurance business where a direct agreement is entered into between the insurance company and the insurance customer.

**F.o.a.:**

For own account.

**Gross claims:**

The sum of total claims amount for losses incurred in the period and any changes in losses which occurred in earlier periods.

**Gross premiums:**

Used both for premiums written and earned and corresponds to total premiums without deduction for reinsurance ceded.

**Insurance (technical) profit:**

Premium income less claims and operating costs.

**Operating profit:**

Technical profit (before changes in security reserves etc.), and the result of the non-technical profit and loss account.

**Premiums earned:**

Premiums for the risk the company has incurred during the accounting period.

**Premiums written:**

The sum of all notified (invoiced) premiums with the main due date in the accounting period for direct insurance, together with premiums booked in the period for insurance assumed from other companies (reinsurance).

**Reinsurance ceded/assumed:**

Insurance risk ceded to/assumed from another insurance company.

**Reinsured portion of claims:**

Reinsurers' portion of gross claims.

**Reinsured portion of premiums:**

That part of gross premiums ceded to other insurance companies (reinsurers) for agreeing to assume part of the risk the company has itself assumed towards its insurance customers.

***Run-off results (gains/losses):***

Amounts related to losses which have occurred in previous years, representing the difference between actual and expected claim amounts paid on settled losses, as well as changes in expected claim payments for unsettled losses.

***Solvency capital:***

Solvency capital consists of that part of the company's capital which does not represent continuing obligations and is an expression of the company's solidity.

***Solvency margin:***

Solvency capital as a percentage of premiums written f.o.a..

**Financial derivatives**

The term financial derivatives embraces a wide range of financial instruments for which the current value and future price movements are determined by shares, bonds, foreign currencies or traditional financial instruments. Derivatives require less capital than is the case for traditional financial instruments such as shares and bonds, and are used as a flexible and cost effective supplement to traditional financial instruments in portfolio management. Financial derivatives can be used to hedge against unwanted financial risks, or to create a desired risk exposure in place of using traditional financial instruments.

***Share options:***

The purchase of share options confers a right (but not an obligation) to buy or sell shares at a pre-determined price. Share options may be related to stock market indices as well as to specific individual stocks. The sale of share options implies the equivalent one-sided obligation. In the main exchange traded and cleared options are used. Purchases of options to buy shares (call options) and sales of options to sell shares (put options) are classed as long positions.

***Stock futures (stock index futures):***

Stock futures contracts can be related to individual shares, but are normally related to stock market indices. Stock futures contracts are standardised futures contracts which are exchange traded and are subject to established clearing arrangements. Profits and losses on futures contracts are recognised daily, and are settled on the following day. Purchases of share futures contracts are defined as long positions.

***Forward Rate Agreements (FRA):***

Forward Rate Agreements (FRA) are agreements to pay or receive the difference between an agreed fixed rate of interest and the actual rate for a fixed future period of time. This difference is settled at the start of the future interest period. FRA contracts are particularly appropriate to the management of short term interest rate exposure. Sales of FRA contracts are defined as long positions.

***Interest rate futures:***

Interest rate futures contracts are related to government bond rates or short term reference interest rates. Interest rate futures are standardised contracts which are exchange traded and are subject to established clearing arrangements. Profits and losses on futures contracts are recognised daily, and are settled on the following day. Purchases of interest rate futures contracts are defined as long positions.

***Interest rate swaps:***

Interest rate swaps are agreements between two parties to exchange interest rate terms for a specified period. This is normally an agreement to exchange floating rate payments for fixed rate payments, and this instrument is used in the management of long term interest rate risk. Interest rate swaps are defined as long positions where the agreement provides for the receipt of a fixed rate of interest.

***Interest rate option:***

Interest rate options can be related to either bond yields or money market rates. The purchase of interest rate options related to bonds (also known as bond options) confers a right (but not an obligation) to buy or sell bonds at a pre-determined price. Interest rate options can be used as a flexible instrument for the management of both long and short term interest rate exposure. Purchases of options to buy bonds (call options) and sales of options to sell bonds (put options) are classed as long positions.

***Forward foreign exchange contracts:***

Forward foreign exchange contracts relate to the purchase or sale of a currency for an agreed price at a future date. Foreign exchange forward contracts are used to hedge the currency exposure arising from currency denominated securities, bank deposits, subordinated loans and insurance reserves. Spot currency transactions are also classified as forward contracts.

# Companies in Storebrand

as at 31.12.1998

<i>NOK million</i>	Interest	Currency	Share capital
<b>Storebrand ASA</b>		NOK	1,385.7
<b>Storebrand Skadeforsikring AS</b>	100%	NOK	1,380.6
Europeiske Reiserforsikring AS	100%	NOK	7.9
Försäkringsaktiebolaget Storebrand Sverige	100%	SEK	95.0
- Kovan Förvaltning Aktiebolag	100%	SEK	0.1
Storebrand Nybygg AS	100%	NOK	1,120.0
- Storebrand Filipstad AS	100%	NOK	1.0
<b>Storebrand Livsforsikring AS</b>	100%	NOK	1,361.2
Storebrand Eiendom AS	100%	NOK	1.0
Storebrand Pensjonstjenester AS	100%	NOK	3.7
Aktuar Consult AS	100%	NOK	0.1
Aktuar Systemer AS	100%	NOK	4.1
Scanvik Corporation	100%	USD	8.0
Storebrand Kjøpesenter Holding AS	100%	NOK	12.0
AS Værdalsbruket*)	74.9%	NOK	4.8
- Trones Bruk AS	100%	NOK	2.0
<b>Storebrand Fondsforsikring AS</b>	100%	NOK	29.6
<b>Storebrand Bank AS</b>	100%	NOK	100.0
Storebrand Finans AS	100%	NOK	20.0
<b>Storebrand Fondene AS</b>	100%	NOK	1.2
Storebrand Luxembourg SA	99.8%	LUF	5.0
<b>Storebrand Kapitalforvaltning ASA</b>	100%	NOK	12.0
<b>Storebrand Investment Management AS</b>	100%	NOK	15.0
<b>Storebrand Leieforvaltning AS</b>	100%	NOK	10.0
<b>Storebrand Felix kurs- og konferansesenter AS</b>	100%	NOK	1.0
<b>Storebrand Helseforsikring AS**)</b>	50%	NOK	30.0
<b>Fair Financial Ireland plc.***)</b>	5.3%	DKK	42.3

\*) Storebrand ASA owns 24.9% and Storebrand's total interest is 99.8%.

\*\*\*) Operation jointly controlled with Deutsche Krankenversicherung AG

\*\*\*) Co-operative venture with Head & Company L.L.C.

# *The company's objectives*

Storebrand is Norway's leading commercial provider of financial welfare services. Storebrand helps over a million customers with insurance, investment management and banking services, and offers them the protection of insurance against health and environmental risks.

Storebrand aims to be accessible to customers, to provide them with efficient settlement of claims and to help simplify their everyday financial requirements. A high level of skill ensures that Storebrand offers competitiveness in products and prices.

Storebrand provides insurance products for both individuals and groups which complement public welfare provision. Storebrand takes co-responsibility for improving the environment, increasing welfare and promoting quality of life.

Storebrand will create value for customers and shareholders by operating in the markets which offer the best long-term return.

## *This is Storebrand*

Storebrand is a "one-stop" supplier of mutual funds, banking and insurance. Storebrand is the largest insurance company in Norway, and a leading provider of financial security and financial services, both to private individuals and to businesses.

Storebrand contributes to improving its customers' financial position, simplifying their everyday financial requirements and giving them the protection of insurance against unforeseen events. The prevention of accidents is accordingly a major goal for Storebrand, whether these involve people, physical assets or the environment.

Storebrand serves around 40% of the Norwegian non-life insurance market and around 30% of the life insurance market in Norway. Storebrand is the largest manager of private savings in Norway, and one of the country's largest investors in real estate.

### **The group's operations**

Storebrand operates as an integrated financial group, with its principal operations in the areas of non-life insurance, life insurance, investment management and banking. The group's operational structure serves the group's customers and the market through the following market areas:

- Non-life Retail
- Corporate Life and Non-life
- Financial services retail
- Marine and Energy
- Investment management

In addition to these market areas, the group operates Storebrand Bank, which is a strongly growing business, and it has also recently expanded into health insurance through the establishment of Storebrand Helseforsikring AS together with Deutsche Krankenversicherung AG.

Storebrand serves its customers through insurance offices, agencies, franchised offices and local financial advice offices. This ensures that the Storebrand group has a solid presence throughout the country. The re-organisation of Storebrand's customer service and sales functions continued throughout 1998, and is intended to improve customer service, telephone accessibility and the sales activity in general. An extensive re-organisation of the claims processing function, which was started 1998, will lead to a significant improvement in customer satisfaction.

Storebrand has a wholly-owned subsidiary in Sweden, Försäkringsaktiebolaget Storebrand Sverige, which is active in the commercial insurance market. Storebrand Helseforsikring AS started to market its health insurance products in the Swedish market in the latter part of 1998. In Autumn 1998 Storebrand, working together with the American investment company Head & Co., established a telephone and computer-based insurance company in Denmark called Fair Forsikring AS.

Storebrand has significant international insurance operations in marine and energy insurance.

# Addresses



Storebrands new head office at Filipstad Brygge in Oslo.

## **Out of hours emergency number (toll free in Norway):**

Tel.: 800 82 200

## **Non-life insurance customer service:**

Tel.: 810 01 111

## **Life and pensions customer service:**

Tel.: 810 01 301

## **Banking and savings customer centre:**

Tel.: 810 00 888

## **Internet address:**

<http://www.storebrand.no>

## **Head Office:**

Filipstad Brygge 1  
P O Box 1380 Vika  
0114 Oslo  
Telephone: +47 22 31 50 50  
Telefax: +47 22 31 53 00

## **Group companies:**

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Haakon VIIIs gt. 6  
P O Box 1380 Vika  
Haakon VIIIs gt. 6  
0114 Oslo  
Telephone: +47 23 11 90 90  
Telefax: +47 23 11 90 10  
Claims centre: +47 81 00 13 03

*Försäkringsaktiebolaget Storebrand Sverige*  
Engelbrektsplan 2  
P O Box 5502  
S-114 85 Stockholm  
Telephone: +46 8 679 01 00  
Telefax: +46 8 611 15 06

*Fair Forsikring*  
Fredericiagade 16  
DK-1310 København K  
Telephone: +45 70 10 10 09  
Telefax: +45 33 69 45 45  
Internet: <http://www.fair.dk>

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*Design: Anne Guttormsen, Interaction reklamebyrå*  
*Photo: Fotograf Ørnehund AS, Fin Serck-Hanssen, Kim Müller*  
*Prepress: ReclameService as*  
*Print: Aktietrykkeriet a.s*  
*Printed on environmentally friendly paper*

# Art, communication and creativity

## Cover:

*Sol LeWitt (1928)*  
**Wall Drawing #839 (segment), 1998**  
*Asymmetric, coloured wall pyramid 2.20x34.53 m*

## 4

*Ludvig Eikaas (1920)*  
**Self-portrait in red, 1966**  
*Colour etching (14/30) 31x24 cm*

## 10

*Bjarne Melgaard (1967)*  
**Untitled ("Mr. Black Pearl"), 1996**  
*Pastel on paper 105x80 cm*

## 13

*Fin Serck-Hanssen (1958)*  
**Owl, 1991/1997**  
*Colour photograph (3/5) 185x185 cm*

## 14-15

*Steinar Elstrøm (1955)*  
**Untitled (series), 1995-1997**  
*Oil on canvas 50x50 cm*

## 16

*Kjell Torriset (1950)*  
**Purple Congo, 1987**  
*Acrylic on canvas 200x220 cm*

*Knut Rumohr (1916)*  
**Composition, 1963**  
*Tempera on canvas, 80x100 cm*

## 17

*Reidar Aulie (1904-1977)*  
**Medal for long and faithful service, 1938**  
*Oil on canvas 50x61 cm*

## 18-19

*Hanne Borchgrevink (1951)*  
**Red roof, 1998**  
*Oil on canvas 20x20 cm*

**Childhood home, 1998**  
*Acrylic on canvas 20x20 cm*

**House with window, 1998**  
*Oil on canvas 20x20 cm*

## 21

*Thorvald Hellesten (1888-1937)*  
**Composition, ca. 1912-1914**  
*Oil on canvas 261x346 cm*

## 22-23

*J.C. Dahl (1788-1857)*  
**Landscape with figures - Naples, 1820**  
*Oil on canvas 23x34 cm*

**Landscape study, 1824**  
*Oil on canvas 21x36 cm*

## 24

*Charlotte Wankel (1888-1969)*  
**Composition, 1926**  
*Oil on canvas 62x44 cm*

Art has played an important role in Storebrand's corporate culture for many years. The move to the group's new head office at Filipstad Brygge gave us the opportunity to take this a step further. Our aim was to update the group's involvement in this area, and to add a broader social perspective reflecting our increasing involvement in society at large.

Storebrand's objective was to build up an art collection with the emphasis on today's modern art, an area which has perhaps still not yet won universal acceptance. Both Norwegian and international works of the highest quality were sought, with both well-known and less well-known artists being represented. The collection also contains works which offer an historical perspective from artists such as J.C. Dahl, Thorvald Hellesten, Ragnhild Keyser, Anna-Eva Bergman, Jean Heiberg. This serves to recognise that art is not only *of its time* but also has a relevance *over time*.

Art plays an important role in both reflecting and challenging the times and the society in which it is created, and this means that today's art works convey something about the human condition – its opportunities and limitations, its conflicts and utopias.

Steinar Gjessing, curator of the Contemporary Art Museum in Oslo, advised Storebrand on building up its collection, most of which is now on display in the new head office building. In selecting works for the collection Steinar Gjessing looked principally for character and clarity of artistic expression rather than just assembling a representative selection of current work. Considerable importance was also attached to integrating the major works in Storebrand's existing collection with the more recent additions.

There is only space in this Annual Report to show just a few of the 500 works which now make up Storebrand's collection, but later this year the full collection will be made available on CD-ROM as a virtual art gallery.



Åge Korsvold



# *Annual Report 1998*





# Storebrand

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