



Press Release

Helsinki, Oslo & Stockholm, 23 June 1999

Pohjola New Partner in the Nordic Property & Casualty Insurance Group

Pohjola will be the third partner in the premier Nordic property & casualty insurance group together with Skandia and Storebrand.

The ownership in the new company ("Newco") will be distributed as such that Pohjola will hold 25 per cent of the capital, Skandia 42 per cent, and Storebrand 33 per cent. The voting rights will be distributed among the partners by one-third each.

Pohjola is Finland's second-largest property & casualty insurance company, with a market share of 26 per cent and a strong position in all insurance segments. Nearly 60 per cent of property & casualty premium volume, totalling SEK 5.0 billion (FMK 3.4 billion), is derived from commercial lines, with the remainder coming from personal lines.

Pohjola's involvement in Newco represents a significant strengthening of Newco's leading position in the Nordic market. Combined 1998 pro forma written premium will be approximately SEK 23.4 billion (FMK 15.9 billion), combined 1998 pro forma total assets will amount to approximately SEK 51 billion (FMK 35 billion), and 1998 solvency capital (shareholders' equity plus deferred tax) will be approximately SEK 13.9 billion (FMK 9.4 billion). Newco will have an estimated pro forma market share in Nordic P&C insurance of approximately 20 per cent, with a customer base of approximately 4.5 million.

Newco is expected to yield annual cost savings of MSEK 540 (MFMK 365), realized over the course of three years. With continued consolidation of the Nordic insurance market, additional savings are expected.

The business concept is to provide customers with customized, flexible and innovative insurance solutions at competitive prices.

Newco will be an integrated P&C organization and will apply a Nordic approach to operations. This entails, among other things, that it will achieve synergies in joint product and IT platforms and adopt a co-branding strategy.

A key ambition of Newco is to further enhance its capability to attract and develop qualified employees. Newco's position and growth prospects will lead to new career opportunities for the employees.

The intention is to prepare Newco for a stock market listing not later than 2001.

Newco will have its headquarters in Stockholm and Centers of Excellence at various Nordic locations. These will have pan-Nordic responsibility for their respective operations.

The president of Pohjola's property & casualty insurance company, Veli Kalle Tavakka, will be a member of Newco's executive management and head of Major Clients. Pohjola will be represented in Newco's board by Iiro Viinanen, President and CEO of Pohjola, and by Pirkko Alitalo, Executive Vice President and Chief Investment Officer of Pohjola.

Comments

Iiro Viinanen, Chief Executive Officer, Pohjola

"After many years of successful cooperation with Skandia, it feels immensely satisfying to have the opportunity – together with Storebrand – to form a new, innovative P&C insurance company with the Nordic region as a single market. Newco will be able to offer the most comprehensive range of insurance products and will have an exceptionally strong position in the Nordic market. Via Pohjola, Newco will also gain a stronger platform for possible expansion eastward and in the Baltic region."

Åge Korsvold, Chief Executive Officer, Storebrand, and Chairman of Newco

"When we announced our intention to create a new, Nordic P&C insurance company together with Skandia on 22 February, we strongly emphasized our desire to create a Nordic P&C insurance company. It is therefore very gratifying that we can now at this early stage initiate cooperation with Pohjola and thereby come considerably closer to our goal."

Lars-Eric Petersson, Chief Executive Officer, Skandia

"The structure that we are now creating together with Pohjola and Storebrand for our P&C insurance operations is strategically very interesting. Through a Nordic approach, Newco will be able to develop an unmatched effectiveness, much to the benefit of our customers, employees and owners alike."

Bo Ingemarson, Chief Executive Officer, Newco

"For nearly four months Skandia and Storebrand have been working closely together in order to be able to commence operations immediately following the granting of the requisite regulatory approvals (licence). During this time, I have only grown more firm in my view that we are right in approaching P&C insurance from a Nordic perspective. With Pohjola's participation in Newco, I have grown even more convinced. It is particularly gratifying that Pohjola is joining us and actively participating in our work already during the preparation phase. This will improve our common prospects for

thoroughly equipping Newco with the experience and cutting-edge competencies that exist in Pohjola."

Questions regarding this press release can be directed to:

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Media and Analyst Conferences:

Press conferences will be held today in Helsinki at 11:00 at Pohjola's head offices, Lapinmäentie 1, in Stockholm at 14:00 at Skandiasalen, Sveavägen 44, and in Oslo at 14:00 at Storebrand's Representantskapssal, Filipstad Brygge 1.

A teleconference for analysts will be held today at 16:00 (Swedish time). Further information on the teleconference will be sent out separately this morning.

Background

Market Development

The structure of the European financial services markets is changing. As a result of regulatory harmonization, new technology and alternative distribution methods, previously national markets are converging on a regional basis. The Nordic countries are far advanced in the process. Over the longer term, the establishment of a single, integrated European market is likely.

With the business going electronic, information-based processes and strategies have become the norm. Finally, the increasing use of technology is transforming the cost structures of financial services firms into fixed-cost systems. With increasing resources invested in IT-based product development and distribution, predictive modelling and customer databases, the need for – and potential to achieve – economies of scale and scope has risen. In the future, achieving low unit costs and efficient service delivery will require a higher premium volume and a larger customer base than what has been available in the relatively sparsely populated Nordic countries. A pan-Nordic strategy will generate substantial benefits for P&C companies in Sweden, Norway, Finland and Denmark.

Newco is a natural and logical combination which makes it possible to achieve greater effectiveness and strength than what would have been possible for Pohjola, Skandia and Storebrand as stand-alone players. Newco will capture major cost savings and revenue growth and provide an effective vehicle for strategic cooperation and organic growth.

Benefits

Cost Savings

Newco will facilitate coordinated production, marketing, product development and sharing of support functions such as risk management, finance, procurement and IT services on a Nordic basis. In addition, operational focus will, in itself, contribute to a reduced expense ratio.

The cost savings expected to be generated by Newco have been estimated at MSEK 540 (MFMK 365). The expected normalized savings amount to approximately 9 per cent of the total Nordic 1998 pro forma expense base.

Over time, additional savings and revenue synergies will be realized through product standardization, system integration, coordinated marketing and distribution, and shared development costs.

In conjunction with the formation of Newco, provisions will be made to cover costs incurred as a result of the integration process.

Market Position

The merger of Pohjola's, Skandia's and Storebrand's P&C insurance operations will create an undisputed leading player in the Nordic P&C insurance market which will also have the size and scope required to successfully compete with the leading European insurers.

Based on pro forma 1998 figures, Newco will hold a 20 per cent share of the Nordic P&C insurance market. The combination of Storebrand's and Skandia's marine and energy lines will make Newco a formidable global competitor in that segment.

Service and Product Offering

Newco's business concept will be to provide customers with customized, flexible and innovative insurance solutions at competitive prices. Furthermore, the merger will contribute to an even more rapid development of products and services. By using the best service and product standards of each country, the foundation has been created for even better value growth. With a combined customer base of 4.5 million and premium volume of SEK 23.4 billion (FMK 15.9 billion), economies of scale and scope will be achieved, ensuring low per-unit costs and a rapid product development pace to the benefit of Pohjola's, Skandia's and Storebrand's P&C customers.

Benefits to Employees

The prospects for the majority of employees in their respective P&C business lines will be improved because of the enhanced competitive position and growth prospects of Newco. However, the merger will initially result in overlapping functions and work processes. As a result, a limited reduction of staffing levels will be required. This will mainly be achieved through natural attrition. Over the longer term, however, job security and career prospects will improve.

Strategy

Newco will be the premier P&C insurance company in the Nordic markets. The company's strategic aim is to utilize market opportunities, economies of scale and skill transfer made possible by a pan-Nordic presence. Newco will not participate in the international reinsurance market.

Business Development

Newco will strive to develop distribution alliances, and additional partners will be sought. Coordination of Newco's call and service centres and Internet solutions will contribute to improved service levels. IT-supported product development will receive additional resources.

Dividend Policy and Financial Goals

Newco will establish a dividend policy which provides an efficient capital structure and which offers shareholders a competitive return.

The profitability objective is that the return over a cycle should equal the yield of a ten-year Swedish government bond plus 6 percentage points. Return is defined as the operating result after paid tax divided by average net asset value.

The dividend policy will be determined by Newco's shareholders' equity and will be limited to the level necessary in order to secure the target solvency margin. Beyond this, the result after tax will be distributed to the owners.

Personnel

The number of employees of Newco will initially amount to approximately 5,600. Merger-related personnel reductions are expected to occur during the three-year period following the formation of Newco. To the extent possible, natural attrition will be relied upon to meet Newco's requirements.

Integration

A joint Executive Committee ("the Committee") was established on 22 February 1999 to prepare for the integration of Skandia's and Storebrand's P&C operations and to achieve the planned savings targets. The Committee is now being expanded to include members from Pohjola.

Stock Market Listing

The partners intend to apply for a stock market listing of Newco. This is expected to take place in 2001.

Board and Executive Management

Board

The Board of Newco will consist the Executive Committee, which currently comprises the following members:

Åge Korsvold, Chairman
Pirkko Alitalo
Bo Ingemarson
Idar Kreutzer
Lars-Eric Petersson
Ulf Spång
Iiro Viinanen

Executive Management

Bo Ingemarson, Chief Executive Officer
Per-Erik Hasslert, Chief Information Officer
Knut Francke, Head of Personal Lines
Gunn Ovesen, Head of Group Staff

Jan Svensson, Head of Small and Medium-Sized Corporates
Veli Kalle Tavaka, Head of Major Clients
The Executive Management will be complemented with additional members.

Choice of Legal Domicile

The decision to legally domicile in Sweden was based on advice of independent advisors to provide maximum operating and capital efficiency to Newco.

Regulatory Approval

The formation of Newco is conditional upon customary regulatory approval of the supervisory and competition authorities.

Financial Position of Newco

Pro Forma Accounting Procedures

The pro forma accounting procedures detailed below are included to provide an overview of Newco's size and structure, and do not represent a formal presentation of Newco's accounts. Anticipated synergies and restructuring costs have not been taken into consideration.

The pro forma accounts are stated in Swedish kronor (SEK).

The pro forma financial information included here has been obtained from the respective companies' accounts. Under Norwegian accounting standards, claims settlement costs are considered as an operating expense, whereas under Swedish standards they are included under claims incurred. This means that operating expenses and claim costs are not consistently calculated. However, the operating result should be the same.

The investment return has been calculated for Skandia and Storebrand as the equivalent of 5.0 per cent of the sum of technical provisions and solvency capital (shareholders' equity plus deferred tax), and 5.5 per cent for Pohjola. The investment return percentages have been calculated based on the investment portfolios that the respective companies contribute to Newco. The solvency ratio has been calculated as 55 per cent of net premiums (before changes in the premium reserve) for Skandia and Storebrand, and 65 per cent for Pohjola. For the sake of simplicity, a tax rate of 28 per cent has been used.

Summary Pro Forma Accounting 1997/98

	Pohjola		Skandia		Storebrand		Newco	
SEK billion	1998	1997	1998	1997	1998	1997	1998	1997
Gross premiums written	5.0	4.5	8.7	8.4	9.7	9.0	23.4	22.0
Net premiums written	4.6	4.1	7.3	7.0	8.4	7.9	20.3	19.0
Net premiums earned	4.2	4.1	7.2	7.0	8.1	7.8	19.8	18.9
Net claims	3.5	3.4	6.3	6.2	6.0	6.1	15.8	15.7
Net operating expenses	0.9	0.9	1.8	1.7	2.3	2.1	5.0	4.7
Investment income	0.7	0.7	1.1	1.0	0.8	0.8	2.6	2.5
Operating profit	0.4	0.5	0.2	0.1	0.7	0.4	1.3	1.0
Total assets	12.9	12.1	22.0	20.8	15.9	16.2	50.8	49.1
Net technical reserves	9.9	9.5	15.7	14.7	11.3	11.8	36.9	36.0
Net asset value	3.0	2.7	6.3	6.1	4.6	4.4	13.9	13.1
<i>Claims ratio</i>	84.2%	84.0%	87.7%	88.6%	73.5%	77.8%	81.0%	83.1%
<i>Expense ratio</i>	22.5%	21.0%	25.1%	24.3%	27.8%	27.4%	25.7%	24.9%
<i>Combined ratio</i>	106.6%	105.0%	112.7%	112.9%	101.3%	105.2%	106.7%	108.0%
<i>Investment return</i>	5.50%	5.50%	5.00%	5.00%	5.00%	5.00%	5.13%	5.12%

Accounting for Skandia excludes Vesta, Skandia's Norwegian subsidiary, which is being prepared for a stock market introduction. Vesta's gross premium income was SEK 5.2 billion (4.8) in 1998, net claims were SEK 3.8 billion (3.5), operating expenses totalled SEK 0.9 billion (0.9), net technical reserves amounted to SEK 7.9 billion (7.6), and solvency capital was 2.4 billion (2.5).

Timetable

Press conference, Helsinki, 23 June, 11:00

Press conference, Stockholm, 23 June, 14:00, and conference call with analysts, 16:00

Press conference, Oslo, 23 June, 14:00

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Pohjola

Skandia

Storebrand