KREDITTILSYNET

ANNUAL REPORT 2001

ORGANISATION CHART

Per 15.02.2002

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PREFACE

THE YEAR 2001 saw an ever weaker international economy and declining share markets, not least after the terror attacks in the United States. Prospects for the Norwegian economy were also affected.

Towards the end of the year Kredittilsynet wrote to key financial institutions:

/In a letter of 3 December 2001 Kredittilsynet strongly urged life insurance companies to make end-year adjustments to promote their financial position. Falling share prices meant that as at 21 September the companies were left with almost no buffer capital beyond the statutory minimum. In the absence of moves by the authorities to adjust certain rules and a favourable turn of events in the share market, companies would have been compelled to sell off shares in a weak market to the detriment of customers, owners and the market in general. Essentially the problem was that companies achieved an adjusted return of a mere 3 per cent in 2000, but nonetheless handed out an 8 per cent return on customer funds by reducing their revaluation reserves. The companies therefore entered 2001 with low buffer capital in relation to the risk inherent in their share portfolios. Because of the weak share market customers cannot expect more than the guaranteed minimum interest rate for 2001. In 2002 buffer capital will need to be strengthened anew to enable companies to carry the risk and give their customers the best possible return in the years ahead.

/In a letter of 20 December 2001 to all banks Kredittilsynet asked the boards of directors to consider whether their specified, and particularly unspecified, loss provisions adequately reflected the risk inherent in their loan portfolios. In addition to the financial uncertainties faced and recent years' substantial credit growth, reference was made to the wide variations in banks' anticipated needs for loss provisioning that emerged in Kredittilsynet's survey in the autumn of 2001. Many banks can improve both systems and practices. With the growing uncertainty for the future it is important to apply sound judgement when determining loss provisions. Kredittilsynet also pointed out that banks should give due emphasis to the uncertainties ahead when considering dividends and equity capital needs.

INSTITUTIONS are themselves responsible for ensuring that their provisions and equity capital are sufficient to tackle both the most probable and other possible risk scenarios. Kredittilsynet will in the first instance ensure that institutions comply with laws and rules in effect and that they have the systems and capital needed to deal with the risk they assume. Kredittilsynet also considers it important to draw attention to developments that are particularly likely to jeopardise the individual institution or overall financial stability.

IT IS NOW 10 years since the major crisis in the Nordic banking sector. Although the Nordic countries' economies and financial institutions are now in a good state of health, the possibility that the banks could again become exposed to severe stress must not be forgotten. With the exception of parts of the insurance industry, the impact of the terrorist strikes against the United States on the international financial industry has so far been smaller than many feared at the outset. Despite the volatility, players in the securities market have come through without major problems in Norway as elsewhere. However, prospects for the international economy are uncertain given the economic slowdown or stagnation in the USA, Japan and Germany. In Norway the uncertainty primarily refers to the risk of lower oil prices,

and to the possibility that higher oil money spending combined with a weak international trend could result in substantial adjustment problems in industries and regions.

NEW INITIATIVES designed to create powerful Norwegian and Nordic financial conglomerates can be expected. The concurrent emergence of new "undergrowth", of new market players that fuel diversity and competition, should also be noted. There are signs of clearer profiling and specialisation in a number of markets. Kredittilsynet would stress that a strong and viable financial industry in Norway is dependent on expertise and business skills, together with a legislative framework in line with other EEA states and well-ordered collaborative relations between the financial sector and the authorities. Managing the enormous wealth created by the oil revenues entails opportunities and responsibilities for all parties.

IN AUGUST 2001 a number of banks and their customers encountered numerous problems when a data processing centre broke down. The failure of Enitel was a further example of the market's dependence on stable data and communications systems. Outsourcing and operational risk will need to be given greater attention both by the institutions themselves and by Kredittilsynet. Stringent requirements must be imposed on service providers and on institutional monitoring, especially where services are concentrated in the hands of a small number of players.

THE WIDENING scope of securities trading along with improved surveillance systems has brought a substantial increase in cases requiring investigation into possible contravention of rules of conduct. Mandatory sound recordings of assignments received by investment firms will be a useful tool to this end. Changes in legislation regarding insider trading should give better opportunities to combat unlawful insider trading. Alongside an increased effort by Kredittilsynet, the struggle against unlawful insider trading and other breaches of rules of conduct will also require efforts to be stepped up by the National Authority for Investigation and Prosecution of Economic and Environmental crime in Norway (ØKOKRIM).

NEW LAWS and regulations and market developments face Kredittilsynet with new and wider tasks. In 2001 we were handed responsibility for overseeing stock exchanges and authorised market places, including the electricity derivatives market. As from January 2002 a licensing requirement applies to agencies that buy and recover overdue payments for own account, and such agencies will be regulated by Kredittilsynet. Institutions offering the new pension schemes will require guidance and follow-up. The building of a single European financial market will bring increasing tasks in the years ahead, particularly in regard to the securities market and new capital adequacy rules requiring risk-based supervision. Given the broader range of tasks faced, it is important that relevant government agencies and the Storting consider at regular intervals whether such tasks should be performed by other agencies, allowing Kredittilsynet to focus on those tasks that the authorities consider most important.

Oslo, 25 January 2002

Erling Selvig
Board Chairman

Bjørn Skogstad Aamo
Director General

STRUCTURAL CHANGES AND LICENCES:

/KREDITTILSYNET ADVISES AGAINST LICENCE TO SAMPO

The Finnish banking and insurance conglomerate Sampo OYJ applied on 11 July 2001 for authorisation to acquire more than 50 per cent of the shares of Storebrand ASA, in accordance with an offer made to the shareholders. In its recommendation, Kredittilsynet deemed that recommending that Sampo OYJ be granted a licence to acquire less than 90 per cent of the shares of Storebrand ASA would be counter to the requirements set out in Norwegian legislation. On 1 October Sampo OYJ stated that it would not be extending the period of the offer further, and that it had not won acceptance for acquiring 90 per cent or more of the shares of Storebrand ASA. The Ministry of Finance accordingly ceased processing the application.

/"UNDERGROWTH" OF FINANCIAL INSTITUTIONS THICKENS

In 2001 Kredittilsynet recommended licences for three new banks (ACTA Bank ASA, Bankia Bank ASA and Landkreditt), six insurance companies (Bluewater Insurance ASA, ACTA Fondsforsikring ASA, Carnegie Fondsforsikring ASA, Prosjekt Fondsforsikring AS[1], NSB Forsikring AS and Landbruksforsikring AS) and granted licences to 15 new investment firms and one new management company for security funds.

PARAMETERS AND RULES:

/KREDITTILSYNET SURVEYS LOSS PROVISIONING PRACTICES OF COMMERCIAL AND SAVINGS BANKS

Thirteen Norwegian savings and commercial banks' application of current loss provisioning rules was surveyed in 2001. The survey revealed wide variation in banks' internal guidelines, in how they organise documentation, and in how they assess the need for specified and unspecified loss provisions.

/KREDITTILSYNET AND NORGES BANK WITH JOINT SUBMISSION ON NEW CAPITAL ADEQUACY RULES FOR BANKS

The Basle Committee on Banking Supervision has drafted a new capital adequacy framework for banks, and completed a second round of consultation in 2001. Kredittilsynet and Norges Bank issued a joint submission on 7 June 2001. A third revised proposal is expected in the summer of 2002 prior to implementation planned for 2005. The proposal will entail a substantial change of the Capital Accord dating from 1988, which sets out a harmonised international capital standard for banks.

/KREDITTILSYNET RECOMMENDS CHANGES TO THE RULES GOVERNING SUPPLEMENTARY PROVISIONS FOR NORWEGIAN LIFE INSURANCE COMPANIES

In a letter of 26 September 2001 to the Ministry of Finance, Kredittilsynet recommended adjustments to the rules to allow contingency fund resources to be taken to income, and to allow supplementary provisions to be used to meet capital adequacy requirements on a quarterly basis as opposed to an annual basis. Moreover, Kredittilsynet extended the timetable for strengthening disability provisions from the end of 2001 to the end of 2003. The overall effect of these measures added up to about NOK 6 billion, giving life insurance companies greater capacity to withstand a possible further fall in share values.

[1] A licence was granted after application from Orkla Finans ASA.

/INSIDER RULES OF SECURITIES TRADING ACT TIGHTENED

The Securities Trading Act's provisions prohibiting insider trading were tightened in 2001 in line with Kredittilsynet's recommendations made in 2000. These include lowering the threshold for information coming under the provision on misuse of inside information. A requirement to show due care when dealing with inside information in general was also added.

/KREDITTILSYNET ASSIGNED SUPERVISION OF STOCK EXCHANGES AND AUTHORISED MARKET PLACES

The new Stock Exchange Act went into force on 31 March 2001, placing stock exchanges and other authorised market places for financial instruments under Kredittilsynet's supervision. Nord Pool ASA has applied for a licence as a commodities exchange, and Kredittilsynet has forwarded the matter to the Ministry of Finance with a positive recommendation. While there were no authorised market places at the end of 2001, Kredittilsynet had received two applications for licences to operate as authorised market places for commodity derivatives.

/COMMODITY DERIVATIVES INCLUDED IN KREDITTILSYNET'S REMIT

The definition of financial instruments given in the Securities Trading Act was extended to include commodity derivatives. A number of the act's provisions will apply to such derivatives.

/CHANGES PASSED TO SECURITIES FUNDS ACT

In line with Kredittilsynet's proposal, fairly extensive changes were passed in the Securities Funds Act to accommodate changes adopted in the UCITS directive.

/KREDITTILSYNET PROPOSES REMOVAL OF AUTHORISATION SCHEME FOR PROVIDERS OF EXTERNAL ACCOUNTING SERVICES

Kredittilsynet proposed removing the authorisation scheme for providers of external accounting services. If the scheme is to continue, simplifications are proposed. The Ministry of Finance circulated a draft amending bill for comment with submissions to be returned by 15 January 2002.

/KREDITTILSYNET RECOMMENDS SIMPLIFICATIONS IN AUDITORS ACT

Kredittilsynet proposed to the Ministry of Finance simplifications in the requirements as to provision of security, the content of the register of auditors and approval of courses forming part of continued professional education.

SUPERVISION AND ADMINISTRATION:

/NORDIC SUPERVISORY COLLABORATION GATHERS MOMENTUM

In addition to a generally high supervisory activity in the form of on-site inspections in Norway, substantial resources were devoted in 2001 to Nordic supervisory collaboration under existing agreements with Nordic supervisory authorities. This was particularly true of supervision of the Nordea Group, with 22 meetings held in 2001 based on the cooperation agreement between the Swedish, Finnish, Danish and Norwegian supervisory authorities regarding oversight of the Nordic Baltic Holding Group, subsequently Nordea. Much effort was also put into overseeing If Skadeförsäkring based on an agreement with the Swedish financial regulator, Finansinspektionen.

/HALDEN MUNICIPAL PENSION FUND WITH HEAVY LOSSES ON INVESTMENT

An inspection of Halden municipal pension fund on 20 June 2001 brought to light major losses in the share portfolio and a deficit of close to NOK 80 million for 2000. Central provisions of the rules governing pension funds had been breached. Fund resources were not invested in an expedient and satisfactory manner. The board of the pension fund were asked to consider their position and thereafter stepped down. The matter was referred to ØKOKRIM[2].

/KREDITTILSYNET REVOKES LICENCE OF BOSTON ASSET MANAGEMENT ASA

On 9 October 2001 Kredittilsynet revoked Boston Asset Management ASA's licence to provide investment services: 1) *discretionary management of investors' portfolio of financial instruments on an individual basis and as authorised by the investor* and 2) *marketing of financial instruments*. The background to the revocation was offences brought to light in connection with the company's asset management on behalf of Halden municipal pension fund.

/KREDITTILSYNET ORDERS ARTHUR ANDERSEN & CO TO STEP DOWN AS AUDITOR FOR SPAREBANK 1 SR-BANK

Kredittilsynet ordered Arthur Andersen & Co to step down as auditor for SpareBank 1 SR-Bank following breaches of the rules of the Auditors Act requiring independence in relation to consultancy services. The order was appealed and the matter referred to the Ministry of Finance for final consideration.

/IT SYSTEMS SEEN AS A SUBSTANTIAL OPERATIONAL RISK FOR NORWEGIAN FINANCIAL INSTITUTIONS

As previously, Norwegian banks in 2001 suffered serious interruptions in systems access and production due to breakdowns at key data processing institutions. On 2 August 2001 all systems run by EDB Teamco AS for a majority of the country's savings banks came to a complete halt. Kredittilsynet conducted an on-site inspection at EDB Fellesdata AS / EDB Teamco AS as a result of which it issued critical remarks.

/SURVEY SHOWS CONTINUED LOW BORROWING SECURED ON SECURITIES

Kredittilsynet conducts annual surveys of loans for security purchases that are secured on the purchased securities. In view of the trend in share markets, an additional survey was carried out in March 2001. A survey in September 2001 showed that bank lending secured by securities had fallen from 3.1 per cent of total lending at end-September 2000 to 3.0 per cent at end-September 2001. In the same period banks' overall lending for purchase of securities rose from NOK 28.5 billion to NOK 30.5 billion.

/RISING SHARE OF HOME LOANS WITH HIGH LOAN-TO-VALUE RATIO

Since 1994 Kredittilsynet has conducted surveys of bank's practices as regards lending secured by mortgage on a dwelling. The results for the 2001 survey show that the share of loans with a high loan-to-value ratio, i.e. where the loan is more than 80 per cent of a prudent valuation, have risen compared with the two preceding years. All in all almost a third of the portfolio comprised loans with a loan-to-value ratio in excess of 80 per cent. More than 7 per cent of the portfolio comprised financing in excess of 100 per cent, and only in very few cases was additional collateral furnished for loans with a high loan-to-value ratio.

[2] The National Authority for Investigation and Prosecution of Economic and Environmental crime in Norway

/KREDITTILSYNET CONSENTS TO SUSPENSION OF REDEMPTION CALLS FROM UNIT HOLDERS

As a result of the terrorist strike against the World Trade Center on 11 September 2001, a number of securities funds exposed to the US bourses were authorised to suspend unit holders' calls for redemption. Kredittilsynet consented to partial suspension of calculation and payment of redemption calls at securities funds exposed to Kværner bonds. Consent was justified with reference to Kværner ASA's financial position at the time in question which made pricing the bonds a very difficult process.

/KREDITTILSYNET FOLLOWS UP MEASURES AGAINST THE FINANCING OF TERRORISM

In its capacity as a link between Norwegian political authorities and the financial industry, Kredittilsynet initiated in the autumn of 2001 several measures to prevent the financing of terrorism in the wake of the terrorist strike against the World Trade Center on 11 September 2001. These included following up the UN sanctions committee's limited measures against the Taliban, and subsequent a provisional ordinance from the Norwegian government (adopted by the King in Council on Friday on 5 October 2001) concerning the prohibition of the financing of terrorism etc.

INTERNATIONAL COOPERATION:

/INSURANCE REGULATORS MEET IN OSLO

The 116th EU-EEA Conference of Insurance Supervisors was arranged in Oslo by Kredittilsynet in collaboration with the supervisory bodies in Iceland and in Liechtenstein in May 2001. The three EFTA countries are permanent attendees in an observer capacity.

/KREDITTILSYNET HOSTS CONFERENCE FOR INTEGRATED FINANCIAL SUPERVISION

Representatives for the nine integrated financial supervisory bodies that encompass both banking and insurance attended their third conference in Oslo in June 2001 to exchange experience.

/SUPERVISION OF THE EUROPEAN SECURITIES MARKET REORGANISED AND STRENGTHENED

As a follow-up to the Lamfalussy report on improving the efficiency of the European securities market, a European Securities Committee (ESC) has been established, bringing together representatives of finance ministries. Where ongoing supervision and technical rules are concerned, the Forum of European Securities Commissions (FESCO) has been converted to the Committee of European Securities Commissions (CESR), which is attended by Kredittilsynet. The CESR will inter alia function as an advisory committee to the Commission and will work for consistent implementation of community law in member states.

FUNCTIONS AND OBJECTIVES

KREDITTILSYNET is responsible for the supervision of banks, finance companies, mortgage institutions, insurance companies, pension funds, securities trading, stock exchanges and authorised market places, estate agents, debt collection, accounting and auditing activities.

Kredittilsynet's main objective is to contribute to:

/Satisfactory levels of capital strength, risk awareness, management and control in financial institutions under its supervision.
/Bring to light circumstances that threaten the stability of the financial system and to maintain a preparedness for dealing with problems in the financial sector.
/Compliance with laws and rules, a high ethical standard and orderly conditions among operators in the financial market.
/A regulatory framework that fosters smoothly functioning markets, both for supervised institutions and the users of their services.

"Kredittilsynet shall ensure that the institutions it supervises operate in an appropriate and proper manner in accordance with law and provisions issued pursuant to law and with the intentions underlying the establishment of the institution, its purpose and articles of association." (Financial Supervision Act, section 3)

Kredittilsynet's main functions are to:
/Supervise and monitor financial institutions and their activities
/Watch over sectors, markets and macroeconomic conditions
/Administer legislation
/Frame legislation
/Provide pro-active, specialist advice to the Ministry, supervised entities and the general public

INSTRUMENTS OF SUPERVISION

Kredittilsynet bases its work on internationally recognised standards and methods. This entails a combination of a broad set of instruments, including special measures that can be applied at supervised institutions pursuant to laws and regulations. The activities listed below span the instruments employed by Kredittilsynet. They provide the basis for annual activity plans where resources are allocated and where concrete objectives and performance requirements are set for the year in question.

The instruments include:

/On-site inspections
/Off-site supervision
/Surveillance of the macroeconomy and other developments
/Administration and enforcement of laws and regulations
/Framing and simplification of rules
/International cooperation
/Information, communication and technology
/Organisation development, leadership and administration

Board

Kredittilsynet is headed by a board of five members. Members and alternates are appointed by the King for a period of four years. The current period started on 30 January 1998.

Kredittilsynet's board was composed as follows in 2001:

Mr Erling Selvig, professor and dr. juris, chairman
Mr Asbjørn Rødseth, professor, deputy chair
Ms Eli Aas, advocate, board member
Mr Kolbjørn Almlid, divisional director, board member
Ms Hilde Myrberg, advocate, board member

Ms Lisbet Hjort, director, first alternate
Mr Morten Berg, director general, second alternate up to 6 April 2001
Mr Lasse Ekeberg, divisional director, was appointed new second alternate on 25 July 2001.

Mr Henning Strand, director at Norges Bank, was observer. **Mr Trond Eklund**, director at Norges Bank, was his alternate until 1 February 2001 when he was replaced by **Mr Thorvald Grung Moe**.

Two members elected by and among the employees supplement the board when administrative matters are dealt with. In 2001 the employee representatives were:

(up to 15 February 2001:)
Ms Aud Kogstad, senior adviser
Mr Kjell Engen, adviser

Alternates: **Ms Gry Hege Karlsen**, adviser, and **Ms Cathrine Rønning**, adviser

(from 15 February 2001:)
Ms Kjersti T. Trøbråten, special adviser
Ms Ellen Jakobsen, adviser

Alternates: **Mr Johan Arnt Mettevoll**, special adviser, and **Mr Stein Tore Næprud**, adviser

ELEVEN ORDINARY board meetings and one extraordinary board meeting were held in 2001. The board dealt with 43 administrative matters and 85 matters related to institutional supervision. The board received 117 matters of an informational nature.

Prioritised tasks in 2001

Kredittilsynet's supervisory activities are based on statutory tasks, signals given by the Ministry of Finance (inter alia in the annual letter of allocation) and Kredittilsynet's strategy. Kredittilsynet's prioritised tasks in 2001 were:

/Credit risk and financial strength
/Supervision of market risk
/Development of risk-based supervision
/Supervision of Norwegian and Nordic financial conglomerates
/Effective and sound administration
/Building up effective supervision of stock exchange activities and securities market infrastructure
/Follow up of conduct-related problems in the securities market
/New pension schemes
/Technological challenges
/Increased focus on international cooperation
/Development of Kredittilsynet's organisation
/Assessment of strategic issues

Administration, staff and organisation development

Kredittilsynet's director general is appointed by the King in Council for a period of six years. *Mr Bjørn Skogstad Aamo* was appointed for a new six-year period in February 1999 with effect from April 1999.

AS FROM 1 OCTOBER 2001 the director general's salary is NOK 820,000 per year, and the board chairman's fee in 2001 was NOK 100,000.

AT THE END OF 2001 Kredittilsynet had 165 permanent staff compared with 157 one year previously. Forty-nine per cent of the permanent staff were women.

THE INCREASE in the number of positions was partly a consequence of new tasks such as supervision of stock exchange activity and new pension schemes, and partly a necessary increase in resources in areas such as archives, public relations and on-site inspection.

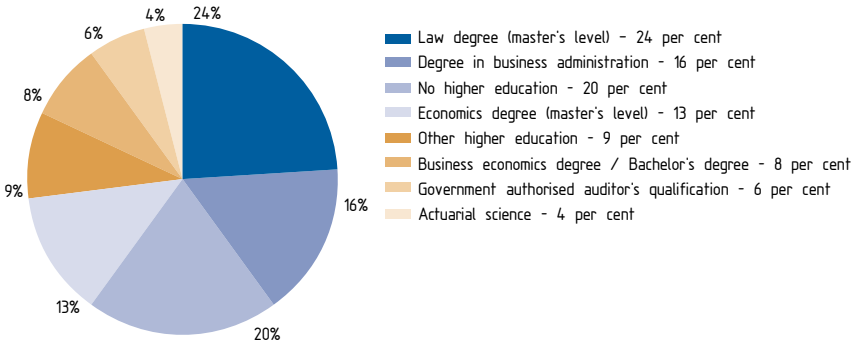
THIRTY-FIVE vacancies were advertised in 2001 compared with 31 in 2000. Eight of the advertised positions were internal compared with 10 in 2000. Applicants totalled 449 compared with 262 in 2000. Compared with 2000, the supply of applicants was appreciably higher from the autumn of 2001 onwards.

KREDITTILSYNET has in general a satisfactory supply of high-quality applicants, especially recent university and college graduates. Kredittilsynet also considers it important to recruit staff with broad experience from and knowledge of trades and industries, and attracted a good supply of expertise in 2001. At the end of 2001, 35 staff members had trade and industry experience. The supply of actuaries and accountants was somewhat less satisfactory. Eighty per cent of the staff have higher education.

A REVIEW of Kredittilsynet's job and pay structure was initiated in the autumn of 2000. The process continued in 2001, resulting in higher pay levels for staff with specialised skills and for advisers with high competence and long experience of supervision.

KREDITTILSYNET'S ability to recruit, further develop and retain highly qualified and capable staff, which is essential for achieving the institution's objectives, is not a matter of pay levels alone. Much emphasis is placed on facilitating competence-raising measures such as further education and visitor schemes. In the course of 2001 internal competence-raising measures were implemented, for example in the form of specialist seminars and courses in foreign languages and use of information and communication technology. A leadership development programme implemented in conjunction with the Administrativt forskningsfond ("Management Research Fund") in 2000, was taken further in 2001. Many staff members participated in external competence-raising measures. Leaves of absence were granted for further education and for stays at institutions at home and abroad.

CHART 1: STAFF EDUCATIONAL BACKGROUND AS OF 31 DECEMBER 2001



FLEXIBLE working time arrangements have also proved effective in attracting highly qualified staff who would otherwise not be attracted by the salary conditions offered.

KREDITTILSYNET has been assigned new tasks in recent years, and existing tasks have acquired a greater compass. More staff and office space are therefore needed. Floorage currently under lease offers little room for expansion. Open-office planning and sharing of large office rooms will be employed to make more efficient use of office space in 2002, as previously. Kredittilsynet is awaiting a clarification of its future tasks, above all whether it will retain supervision of external accounting services. Thereafter a decision will be taken regarding a more long-term solution to the space problem either involving extension of current floorage or by moving the entire institution to new premises. Kredittilsynet's expanding activities are reflected in the archives which recorded 29,474 documents in 2001 compared with 27,663 in 2000.

TABLE 1: CASE DOCUMENTS HANDLED BY KREDITTILSYNET 1991-2001

Sector	1991	1993	1995	1997	1999	2000	2001
Administration / support staff	284	834	556	480	594	686	1.116
Finance and insurance	4.902	7.187	7.020	8.141	6.497	7.098	6.696
Securities	1.323	1.872	2.920	3.850	3.798	4.908	6.833
Estate agency and debt collection	2.978	2.744	4.188	3.910	3.489	4.625	5.347
Accounting and auditing	1.257	3.360	4.981	4.356	11.101[3]	10.346[4]	9.482
Total	**10.744**	**15.997**	**19.665**	**20.737**	**25.479**	**27.663**	**29.474**

(It should be noted that documents in the financial and securities area are of substantially greater complexity and scope than in the other areas.)

FINANCES

Expenditure

Kredittilsynet's budget forms part of the government budget and is established by the Storting. The budget for 2001 totalled NOK 111.0 million including funds of NOK 1.475 million carried forward from 2000. It received an additional NOK 2.2 million in refunds of maternity and sickness benefits. Overall disposable revenues were accordingly NOK 113.2 million. The institution's expenditure totalled NOK 111.4 million, an increase of 5.6 per cent from 2000.

TABLE 2 shows Kredittilsynet's expenditure over the past three years.

TABLE 2: KREDITTILSYNET'S EXPENDITURE 1999-2001

Type of expenditure	1999	2000	2001
Salaries bill	**60.873**	**64.975**	**73.774**
Of which:			
Salaries and social costs	59.582	63.060	71.727
Stand-ins / subs.	688	1.207	1.436
Other emoluments (directors, cons. etc. / other fees)	603	708	611
Goods and services	**34.564**	**40.572**	**37.657**
Of which:			
Operating expenses	13.645	21.298	15.846
Information	3.060	2.718	4.081
Service travel and meetings	2.935	3.398	3.712
Inspections and other supervision	3.835	3.868	3.679
Organisation development, leadership and competence development	3.974	3.134	4.258
IT expenditure	7.115	6.156	6.081
Total expenses	**95.437**	**105.547**	**111.431**

Figures in whole thousands of kroner

Revenues

Under section 9 of the Financial Supervision Act, Kredittilsynet's expenses are to be covered by the institutions under its supervision at the start of the financial year. The Storting therefore adopts a revenue appropriation equal to the expenditure appropriation. The act requires

[3] 1999 was the first year that external accounting services were subject to supervision. Of 11.101 case documents, 6.177 referred to external accounting services.

[4] Of 10.346 case documents, 6.077 referred to external accounting services.

the expenses to be apportioned among the various institutional groups based on the extent of the supervision, and the expenses are therefore payable in arrears. The total amount levied for 2000 was NOK 104.2 million. The amount levied was smaller than actual expenses because the levy is based on the budget appropriation, because any transfer from the previous year is deducted and because part of the expenses are covered by the National Insurance Fund through refunds of maternity and sickpay outlays. The levy proposed by Kredittilsynet was approved by the Ministry of Finance on 20 June 2001. Supervised entities liable to pay the amount levied for 2000 number 8,402 compared with 8,033 in 1999. The apportionment of the levy among the various categories of supervised entities is shown in Table 3.

TABLE 3: TOTAL LEVY DISTRIBUTED ON SUPERVISED GROUPS

Supervised group	Percentage of total levy in 1999	Percentage of total levy in 2000
Banks	25,67	27,13
Insurance	26,09	25,71
Pension funds	5,15	4,80
Finance companies / Mortgage companies	4,89	3,71
Auditing firms / Auditors	5,17	5,04
External accountants	7,79	6,87
Securities market	14,67	15,98
Estate agencies	5,12	4,67
Debt collection	1,79	2,00
Holding companies	2,68	2,98
Miscellaneous	0,98	1,11
Total	**100,00**	**100,00**

TABLE 4: DISTRIBUTION OF EXPENDITURE 1995-2000. IN PER CENT OF TOTAL

Supervised category	Calculation base	Per cent of calculation base		
		1995	**1997**	**2000**
Credit institutions	Total assets	0,0038	0,0030	0,0024
Insurance	Premium income	0,0404	0,0324	0,0432
Investment firms[5]	Income from investment and ancillary services	0,4181	0,1563	0,1551
Management companies for securities funds	Total assets	0,0049	0,0027	0,0028
Estate agency	Commission earnings	0,3627	0,2477	0,1736
Debt collection	Debt collection income	0,4138	0,2121	0,1674
Auditors	Turnover	0,1629	0,1923	0,2147

TABLE 4 shows the size of the levy in per cent of the calculation base for various groups of supervised entities for the years 1995, 1997 and 2000. Although there are variations, the levy shows a falling tendency. This applies even through Kredittilsynet's expenses have increased substantially. The nominal increase in expenses from 1995 to 1997 was 13.8 per cent, and from 1995 to 2000 as much as 53 per cent.

[5] 1995: Brokers' commission. From 1997: Income from investment / additional services.

INFORMATION, COMMUNICATION AND TECHNOLOGY

Kredittilsynet views information, communication and technology as a strategic instrument of supervision. Kredittilsynet's shows its emphasis on communication both by listening to the institutions and their users, and by using information proactively in a preventative context. Information and communication are integrated into all supervisory work. The information effort is directed in the first instance at the institutions and sectors under supervision, and is based on the principles guiding the central government information policy. Kredittilsynet attaches importance to contact with sectors under supervision, and holds regular meetings with trade organisations. It similarly holds contact meetings with collaborating public authorities. In 2001 regular contact meetings were established with the Office of the Consumer Ombudsman and the Consumer Council.

THE MEDIA'S keen interest in economic and financial affairs in recent years means much time is spent responding to enquiries. A further challenge refers to developing information measures directed at institutions under supervision. This has necessitated strengthening Kredittilsynet's information function.

IN THE AUTUMN OF 2001 Kredittilsynet conducted a new user survey with a view to ascertaining views on various aspects of Kredittilsynet's work. The results will be applied in connection with the review of Kredittilsynet's strategy in 2002. See box article on page 17.

THIRTY-FIVE circulars were issued in 2001 compared with 29 in 2000, and 36 press releases compared with 46 in 2000. One press conference was held.

APPLICATION OF INFORMATION AND COMMUNICATION TECHNOLOGY

One of the rationales for employing technology is to simplify communication between Kredittilsynet and supervised entities, cooperating authorities and others. In the summer of 2001 Kredittilsynet established a new second generation website and a new intranet solution. The new Internet pages brought an appreciable improvement in the information provided by Kredittilsynet. The new and more user-friendly website means that circulars and other key information are available to users at all times. In 2002 solutions permitting active distribution of circulars and press releases etc., in electronic form, will be developed. The Internet will be a key distribution channel for information from Kredittilsynet in the period ahead.

WHERE ICT solutions are concerned, Kredittilsynet was in 2001 able to reap the full benefit of investments made in technical infrastructure in the two preceding years. The stage is now set for an integrated developmental and operational platform with substantial potential for efficiency improvements. More and more supervised institutions will be able to report electronically in due course.

SPECIAL TASKS:

Appeals – Register of Company Accounts in Brønnøysund

Kredittilsynet is the appeals body for decisions by the Register of Company Accounts to impose late filing penalties. Three hundred and twenty six appeals were processed in 2001 compared with 186 in 2000. The penalty was entirely or partly reversed in 60 cases, i.e. 18.4 per cent compared with 7.5 per cent in 2000. The increase in the number of appeals and the number of reversals can probably be explained by the fact that new accounting legislation, effective as from 1 January 1999, made it somewhat easier to cancel late-filing penalties that did not meet requirements of reasonableness.

HOW IS KREDITTILSYNET VIEWED BY ITS USERS?

In the autumn of 2001 Kredittilsynet carried out a survey among the institution's principal users, i.e. supervised entities and trade organisations. The survey had a qualitative slant, based on interviews with top managers, middle-level managers and junior officers who deal with Kredittilsynet. It encompassed all sectors regulated by Kredittilsynet. The survey also covered journalists' contact with Kredittilsynet. Respondents took a favourable view of the survey.

Fours years have passed since a similar survey was carried out, and it was now time to conduct a new survey of how Kredittilsynet's users view the institution's quality, service level and accessibility. The feedback provides Kredittilsynet with a basis for improving its overall effort and service to entities under supervision.

The report from the survey shows that respondents have great confidence in Kredittilsynet. Many of them point out that they have noted a change for the better in recent years. Kredittilsynet is perceived as a government body that performs its role with skill, but which is also formal in character and at times geared to detail. Respondents feel that Kredittilsynet has become more dialogue- and relationship-oriented. They note that Kredittilsynet has become more internationally orientated, and that this tendency needs to be strengthened. Respondents would like to see more proactive use made of information and communication technology. As regards the service provided by Kredittilsynet, respondents call for ease of access, high levels of competence (including an understanding of sectors), a good information service (including electronic services, for example in the form of a registry of precedents at the website), open and informal dialogue (preferably ahead of rule-framing) and a keen ear for users' needs and wishes.

The results from the survey will be utilised when reviewing Kredittilsynet's strategy, in activity planning and to create greater awareness and knowledge of user needs.

The survey was carried out by Research International Feedback in November and December 2001.

TABLE 5: PRINCIPAL SUPERVISED ENTITIES AS AT 31 DECEMBER 1996-2001

	1996	1997	1998	1999	2000	2001
Banks and financial instititutions						
Savings banks	133	133	133	131	130	129
Commercial banks	16	13	13	13	13	15
Postbanken	1	1	1	–	–	–
Foreign branches of Norwegian banks	12	12	12	12	12	10
Norwegian branches of foreign banks	3	6	6	8	9	8
Finance companies	38	38	34	35	35	35
Foreign branches of Norwegian finance companies	–	–	–	–	–	2
Norwegian branches of foreign finance companies	8	11	12	13	18	21
Mortgage companies	8	8	9	9	11	10
Norwegian branches of foreign mortgage companies	0	0	0	1	1	1
Insurance						
Life insurance companies	9	10	10	9	8	8
Unit-linked companies	–	6	6	6	6	8
Non-life insurance companies	52	53	52	51	52	53
Local marine insurance associations	19	18	15	15	14	14
Local fire insurance associations	39	39	38	22	21	20
EEA branches and foreign companies' general agents	18	13	17	21	29	29
Insurance brokers	44	40	41	41	44	49
Private pension funds	136	136	144	132	130	122
Municipal pension funds	31	29	28	26	30	29
Pension schemes	114	104	96	84	80	70
Holding companies						
Holding companies	–	11	11	12	13	11
Securities market						
Investment firms (previously stockbroking firms)	34	61	70	88	93	93
Management companies for securities funds	22	23	26	27	28	28
Clearing houses	1	1	1	1	1	1
The Norwegian Central Securities Depository	1	1	1	1	1	1
Stock exchanges	–	–	–	–	–	1
Authorised market places	–	–	–	–	–	–
Estate agency						
Estate agencies	348	381	407	428	479	507
Lawyers' practices incl. estate agencies	918	944	898	928	961	1.016
Co-operative building associations	–	–	–	–	77	67
Debt collection						
Debt collection agencies	127	123	122	117	115	113
Auditors						
Auditors	3.942	4.058	4.303	4.454	4.640	4.824
Auditing firms	448	468	493	489	507	514
External accounting services						
External accountants	–	–	–	6.961	5.544	5.856
External accounting firms	–	–	–	2.325	2.138	2.377

The Banks' Central Clearing House and Fellesdata are not under direct supervision of Kredittilsynet, but are relevant for Kredittilsynet's supervisory activity as providers of technical solutions to Norwegian financial institutions.

TABLE 6: NUMBER OF ON-SITE INSPECTIONS BY TYPE OF INSTITUTION 1996-2001

	1996	1997	1998	1999	2000	2001
Banks / finance[6]	50	40	47	43	42	51[7]
Holding companies	1	0	0	0	0	2
Insurance[6]	14	14	17	12	17	12[7]
Insurance brokers	3	2	2	4	3	6
Pension funds	9	8	7	13	12	5
Investment firms	15	19	25	23	25	20
Other securities institutions (incl. management companies for securities funds)	11	11	12	14	2	10
Estate agencies	43	23	27	68	62	60
Debt collection agencies	30	10	14	7	6	5
Auditors	134	123	82	128	80	73
Data processing centres	2	2	1	3	0	1
External accountants / External accounting firms[8]	–	–	–	47	147	62

TABLE 7: CASES HANDLED AFTER THE DELEGATION FROM THE MINISTRY OF FINANCE 1996-2001

	1996	1997	1998	1999	2000	2001
Cases pursuant to Savings Banks Act (No. 1 of 24 May 1961)	30	38	45	45	48	28
Cases pursuant to Commercial Banks Act (No. 2 of 24 May 1961)	23	30	28	45	29	13
Cases pursuant to Financial Institutions Act (No. 39 of 10 June 1988)	47	46	94	81	69	64
Cases pursuant to Insurance Activity Act (No. 39 of 10 June 1988)	71	113	95	74	37	37
Cases pursuant to Tax Act, delegated by Ministry of Health and Social Affairs, under rules on occupational pensions	–	–	3	3	19	1
Cases pursuant to the Guarantee Schemes Act (Act No. 75 of 6 December 1996)	–	–	–	–	2	0

[6] In 1996 and 1997 IT supervision of banking and finance was included under the categories Banks/finance and insurance.

[7] Of which two on-site inspections in banks and two in insurance which were conducted by the Swedish and Finnish supervisory authorities (Finansinspektionen), with participants from Kredittilsynet.

[8] Kredittilsynet took over the authorisation scheme for external accounting services in January 1999.

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/SECURITIES MARKET.....

KREDITTILSYNET'S supervision of institutions in the securities market comprises on-site inspections and off-site supervision. Kredittilsynet is also assigned administrative and legislative tasks. Supervision encompasses companies authorised to carry on activity under the Securities Trading Act, Securities Funds Act, Central Securities Depository Act and Stock Exchange Act. Important areas of supervision are the market players' financial position and operations and their compliance with rules governing their activities. Supervision also covers compliance with a number of general rules of conduct laid down in the Securities Trading Act.

SUPERVISION OF INSTITUTIONS IN THE SECURITIES MARKET

Investment firms

TABLE 8: INVESTMENT FIRMS

	1999	2000	2001
Firms with licence	88	93	93
New firms with licence	21	20	15
Firms with licence handed in	3	14	14
Firms with licence revoked	–	1	1
Firms licensed only to market financial instruments	17	18	13
Firms licensed only for discretionary asset management	10	6	9
Firms licensed both for discretionary asset management and marketing of financial instruments	13	18	18
Firms licensed for all investment services listed in Securities Trading Act section 1-2	14	6	12

On-site inspection

Kredittilsynet conducted 20 on-site inspections at investment firms in 2001. As in previous years the focus was on whether investment firms' boards of directors had prepared a business strategy containing clear objectives that are carried through in the firms' day-to-day business. Kredittilsynet also checked that management and control systems were in place to ensure that the board receives reports of deviations from internally established risk exposure limits. Routines for reporting to the board possible violations of the Securities Trading Act were also focused on. Kredittilsynet is concerned that companies should maintain routines to ensure that clients get the right price and to avoid unfair treatment of clients. In that connection the significance of correct recording of received assignments was emphasised. Since equity capital instruments were subject to substantial value falls over the year, special attention was given to companies' exposure to market and credit risk.

IN 2001, AS PREVIOUSLY, on-site inspections brought to light serious flaws in investment firms' recording of orders and turnover. One case, where it was shown that customers were unfairly treated and that the firm had been instrumental in unlawful short sales, was serious enough to prompt an order to rectify the circumstances.

ON 9 OCTOBER 2001 Kredittilsynet revoked Boston Asset Management ASA's licence to provide investment services: 1) *discretionary management of investors' portfolio of financial*

instruments on an individual basis and as authorised by the investor and 2) *marketing of financial instruments.* The background to the revocation was offences brought to light in connection with the company's asset management on behalf of Halden municipal pension fund. The investments resulted in far higher risk for the pension fund than the agreement provided for, and payments charged by the investment firm exceeded what had been agreed.

Off-site supervision

The number of investment firms under supervision has risen in recent years, creating a greater need to target firms for on-site inspection. Analysis of periodically reported data from supervised entities and selective procurement of information on an ad hoc basis are important tools in prioritising firms for on-site inspection.

ACCORDING TO figures for the third quarter of 2001 firms in general experienced a substantial fall in earnings compared with the previous two quarters. Some firms, mainly small and recently established, were followed up because their capital base was inadequate in relation to the minimum capital requirement. If earnings do not improve, some firms may have problems meeting the minimum capital requirement. This area will be followed up, and more frequent reporting from vulnerable firms will be considered.

Legislation and administration

In 2001 Kredittilsynet also concentrated on ongoing supervisory and administrative tasks, particularly the following:

Proposals for rule changes

Since the passage of the Securities Trading Act in 1997 Kredittilsynet has noted that some investment firms have unsatisfactory routines for receiving and registering orders. Kredittilsynet considers such routines to be very important, both for the firms' own internal control purposes and for public supervision. Reliable information about when and from whom orders are received, is vitally important both for checking compliance with rules applying in general to the securities market, such as the prohibition of market manipulation and insider trading, and in relation to rules that prohibit unfair treatment of clients. Against this background Kredittilsynet proposed new regulations requiring investment firms to make sound recordings of orders received by phone. Responsibility for adopting such regulations rests with the Ministry of Finance. As an extension to this proposal Kredittilsynet also proposed electronic registration of assignments and turnover. This proposal is intended to remedy the flaws common in manual statements, such as failure to include all required information.

KREDITTILSYNET proposed an addition to the Securities Trading Act, a new section 1-8, to provide a legal basis for rapid implementation of EU legislative acts in the securities field that do not require law changes. The proposal also aims to enable the passage of regulations to adapt Norwegian rules to agreed interpretations of directive requirements etc.

IN JULY 2000 the Council appointed a group of experts, the Lamfalussy Group, to study more efficient procedures for adopting legislative acts within the EU. The group's recommendation, dated 15 February 2001, was to make more use of commitology procedure and of regulations. The commitology procedure entails that directives and regulations to larger degree concentrate on overarching principles while adoption of regulations of a technical or implementational nature are delegated to the Commission in consultation with a committee. Assuming that these procedures work as intended, preparedness will be needed to for speedier implementation in national law. The proposal to establish a legal basis is intended to respond to this need.

KREDITTILSYNET took due note of the Office of the Public Prosecutor's dropping of the case against the previous CEO of Storebrand ASA. Kredittilsynet is still of the view that interpreting the law to mean that requirements on senior staff who manage and deal with securities can be less stringent than requirements on other employees is in principle detrimental. On this basis Kredittilsynet initiated steps to assess the need for changes in law provisions governing directors' and employees' own account trading in financial instruments. In early February 2002 Kredittilsynet sent the Ministry of Finance a proposal to clarify who comes under the Securities Trading Act's provisions on own account trading.

IN A SUBMISSION TO the Ministry of Finance, Kredittilsynet recommended, in line with NOS Clearing ASA (previously the Norwegian Futures and Options Clearing House), that the Securities Trading Act's definition of settlement activity be amended so as to cover not only derivatives and commitments related to loans of financial instruments, but also transferrable securities, units in securities funds and money market instruments. The definition is normative for what type of activity is to be regarded as settlement activity subject to licensing.

Commodity derivatives

The Securities Trading Act's definition of financial instruments was extended in 2001 to include commodity derivatives, although the act is not brought to bear in its entirety. Clearing of commodity derivatives at clearing houses has been made subject to licensing. The provisions on price manipulation, unreasonable business methods, requirements as to sound business practices, set-offs, and supervision and sanctions will apply to trading in commodity derivatives.

Proposal to amend the Investment Services Directive (ISD)

The EU Commission has launched a proposal to revise the Investment Services Directive (ISD). The objective is to make the single securities market more efficient ("single passport"), and strengthen the position of investors and market integrity. This is done through a comprehensive proposal for rules for sound business practices and by introducing more effective supervision. The Commission is expected to release a draft amending directive in the first half of 2002. Implementing the proposal in Norwegian law will require a number of law changes.

Management companies for securities funds

At the end of 2001 28 management companies were authorised to carry on management of securities funds. These companies managed a total of approximately 390 funds. In addition a number of foreign management companies have notified cross-border activities. Over the year one new company received a licence while two licences were revoked.

On-site inspection

On-site inspection of management companies for securities funds was stepped up in 2001. Nine such inspections were carried out in the course of the year.

KREDITTILSYNET drew attention to asymmetrical management fees. This refers to the practice of charging a fee over and above the fixed management fee if the return on the fund exceeds a particular percentage, index or other reference. The management company is not, however, charged if the return on the fund is lower than the target set. In one case Kredittilsynet ordered the additional fee to be returned to the unit-holders.

Off-site supervision

The form for management companies' quarterly reports to Kredittilsynet was revised as from the first quarter of 2001. Companies now have to ensure that violations of investment limits set in the Securities Trading Act and of the funds' articles of association are reported during the reporting period in which they took place.

KREDITTILSYNET'S overall impression is that this change in reporting practice, which requires checks to be made on a daily basis, has resulted in increased compliance with the investment limits. In one case Kredittilsynet considered the violations to be so serious that it ordered rectification under the Securities Trading Act section 2-8.

Legislation and administration

Alongside its ongoing administrative tasks, Kredittilsynet concentrated on the following in 2001:

Changes to the Securities Funds Act

In June 2001 relatively far-reaching amendments were made to the Securities Funds Act. The amendments build on recommendations put forward by Kredittilsynet in 1999. The amending act went into force on 1 August 2001 with the exception of provisions requiring new regulations prior to final commencement. These refer to management companies' right to employ differentiated management fees, securities funds' right to loan financial instruments, rules for outsourcing and regulation of marketing for non-UCITS funds. Kredittilsynet worked on framing new regulations in these fields.

Changes in UCITS

The European Commission has put forward two proposed changes to Council Directive 89/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (85/611/EEC). Both proposals were adopted on 4 December 2001.

ONE OF THE AMENDING directives applies to management companies for securities funds. The proposal will, when adopted, harmonise the framework conditions for securities funds with framework conditions for investment firms that provide discretionary management services. The other amending directive deals mainly with what products can be marketed across national borders as UCITS products. Key amendments to the directive were taken into account in the revision of the Securities Funds Act.

Revised proposal for regulations on securities funds' trading in derivatives

In 2001 Kredittilsynet drafted amendments to the regulations on securities funds' trading in derivatives. According to the proposal securities funds will be able hedge foreign exchange risk using derivatives. The stage is set for trading in unlisted derivatives, but these must either be cleared by a clearing house or be entered into with a qualified counterparty. The draft makes it clear that funds can use derivatives for some increase in portfolio risk. Trading in derivatives that seeks to gain control over the company that has issued the derivative's underlying financial instrument, is not permitted.

Postponement of valuation and redemption requests

As a result of the terrorist strike against the World Trade Center on 11 September 2001, a number of securities funds that were exposed to US stockmarkets were authorised to suspend redemption requests from unit holders. Kredittilsynet authorised partial suspension of valuation and redemption of fund units by securities funds exposed to Kværner bonds. It did so with reference to Kværner ASA's financial position at the time in question which made pricing the bonds very difficult.

SECURITIES MARKET'S INFRASTRUCTURE

Kredittilsynet regulates the Central Securities Depository (VPS) and NOS Clearing ASA (previously the Norwegian Futures and Options Clearing House). Oslo Børs ASA received its required licence under a new Stock Exchange Act and was placed under Kredittilsynet's supervision in the spring of 2001. Nord Pool ASA, which operates a market place for power derivatives, applied for a licence as a commodity derivatives exchange, and Kredittilsynet forwarded the application with a positive recommendation to the Ministry of Finance for decision. In the autumn of 2001 Kredittilsynet received an application from Nordic Electric Clearing House ASA (NECH) to operate a clearing house for commodity derivatives. Kredittilsynet forwarded the application with a positive recommendation to the Ministry of Finance for decision.

IN 2001 KREDITTILSYNET approved three securities settlement systems pursuant to the Payments Systems Act. The act implements Council Directive 98/26/EC (the Finality Directive).

THE COMPANY Enitel AS went bankrupt in the autumn of 2001. The company delivered communication systems, i.e. lines and operating services, to VP-nett. VP-nett is the network that gives investment firms / stock exchange members access to the Oslo Børs's trading system and information from Oslo Børs Informasjon AS, and is used to communicate with the Central Securities Depository and NOS Clearing. Kredittilsynet closely followed events leading to Enitels' winding up, and was in close touch with infrastructural institutions to safeguard the stability of the operating systems. Provision of operating services to VP-nett is now in the hands of a new provider.

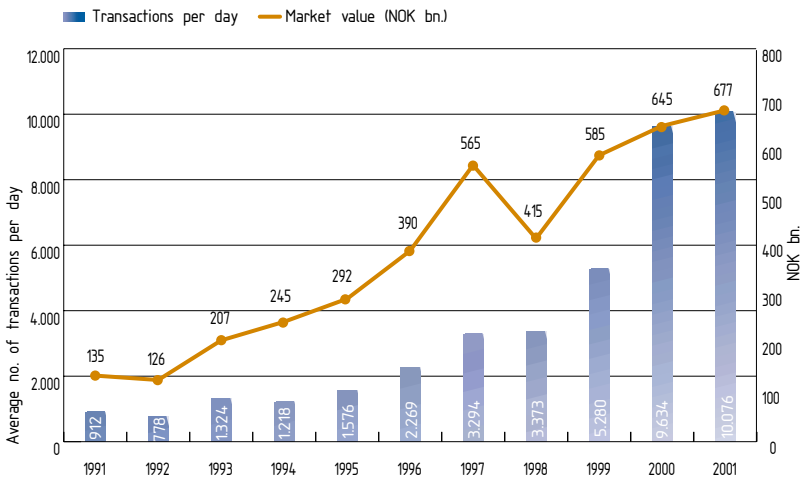
NOS CLEARING ASA was inspected in 2001. Kredittilsynet particularly examined the company's and the NOS group's management and control systems, including organisational set-up, risk assessment and internal controls.

SUPERVISION OF COMPLIANCE WITH THE GENERAL RULES OF CONDUCT IN THE SECURITIES TRADING ACT

On 1 July 2001 Act No. 43 of 15 June 2001 on amendments to the Securities Trading Act (No. 79 of 19 June 1997) went into force. The aim of the changes is to improve the effectiveness of, clarify and tighten the prohibition against insider dealing / trading and the rules laid down to prevent such trading. The amendment lowers the threshold for information coming under the provision on misuse of inside information. Moreover, a requirement to show due care in dealing with inside information in general is added. The provisions on primary insiders' duty to investigate were assigned to a separate provision. Concurrently the earlier prohibition against trading by primary insiders in certain periods was lifted. Changes were also made in the provisions on notifiable securities trading by primary insiders. Moreover, Kredittilsynet was assigned authority to order relinquishment of gain.

Supervisory tasks and resources

CHART 2: TURNOVER AND NUMBER OF TRADES AT OSLO BØRS



Source: Oslo Børs

THE INCREASING NUMBER of trades and turnover volume at Oslo Børs in recent years (chart 2) also affects resources spent on supervising compliance with the general rules of conduct in the Securities Trading Act. Ongoing supervision has been strengthened via the conversion of the market conduct unit into a section in its own right. It was resolved to add a further staff member to the section by the start of 2002. The section's tasks involve enforcing the general trading rules laid down in chapter 2 of the Securities Trading Act, including the prohibition of insider dealing / trading and price manipulation. Compliance with provisions dealing with confidentiality and prohibiting advice, along with special rules for primary insiders, is also monitored by this section. Its activity is accordingly targeted at investors, issuers and their external partners, including investment firms. The aim is to bring to light and prosecute unlawful activities in the securities market, and through external activities to promote measures that will have a preventative effect in relation to criminal offences.

AFTER ENTERING INTO a new cooperation agreement with Oslo Børs in 2001, Kredittilsynet has been given responsibility for following up breaches of the duty to disclose acquisition of major shareholdings. Moreover, under amendments to the Securities Trading Act, Kredittilsynet is responsible for following up matters forwarded by Oslo Børs that concern gross or repeated violations of issuers' information requirement under the Stock Exchange Act. The amendments also require Kredittilsynet to monitor compliance with the law's conduct rules in the Securities Trading Act now governing trading and business associated with commodity derivatives.

Investigations and reporting of violations

In 2001 Kredittilsynet investigated a number of cases forwarded by Oslo Børs where there were suspicions of violations of the Securities Trading Act's rules of business conduct. An important aspect of this work is to check transactions prior to and around the time of publication of information likely to have a significant bearing on the pricing of securities. As in 2000, it was difficult in some cases to obtain information that could clarify the course of events to the point where a report could be made to the police. Cases forwarded by Oslo Børs requiring notification has risen substantially. In 2001 Kredittilsynet received 536 such cases from Oslo Børs. The increase is due to the fact that Oslo Børs's register of primary insiders was hooked up to the Central Securities Depository in November 2000. However, the figure is not representative for the number of actual violations of the notification requirement. Cases dealt with so far show that no violation was committed in about half the cases. In 2001 19 persons and firms were reported to the police for violation of the notification requirement. Reports were made in a total of 36 presumed violations. In 115 first-time minor violations, warnings were issued that new violations would be reported to the police. The remaining cases received in 2001 were still being processed by the market conduct section.

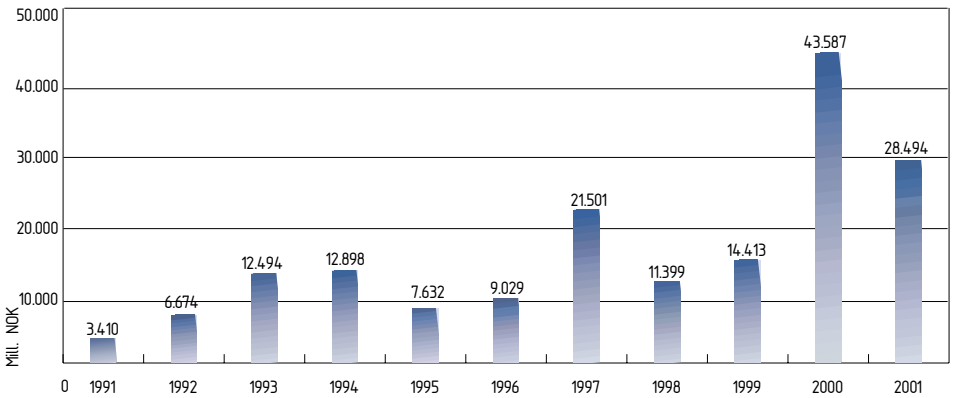
THREE CASES involving concrete suspicion of illegal insider trading and/or violation of confidentiality were referred to ØKOKRIM, along with three cases involving price manipulation. One of the latter was settled by imposing a fine in lieu of prosecution. The largest number of cases in 2001 referred to violation of primary insiders' duty to notify their own transactions to Oslo Børs.

A NUMBER OF cases came to public knowledge via the media. One such case involved suspicion that a broker and his client had violated the Securities Trading Act's provisions on insider trading and price manipulation. The broker was suspected of violating the Securities Trading Act's rules on confidentiality and rules prohibiting unlawful advice. In addition to investigating transactions in listed securities, work of a preventative nature accounts for a substantial part of the activity. This includes lectures, preparation and communication of statements and circulars, and contact with issuer companies and their advisers on matters of topical interest.

Collaboration with Oslo Børs and ØKOKRIM

In the course of 2001 work progressed on further developing the collaboration between Kredittilsynet, Oslo Børs and ØKOKRIM. This involved holding joint seminars for staff of the three institutions. The aim is to improve the efficiency of overall market surveillance. Legal issues were discussed as well as priorities in relation to the resource situation. With the entry into force of the new Stock Exchange Act there was a need to review the guidelines laid down in the previous collaboration agreement between Oslo Børs and Kredittilsynet. Under the new Stock Exchange Act bourses will operate on ordinary business principles as public limited companies and will have looser links with the public administration. Kredittilsynet and Oslo Børs ASA aim to continue their existing collaboration under the new act.

CHART 3: SHARE ISSUES (VOLUME) AT OSLO BØRS



Source: Oslo Børs

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/BANKING/FINANCE
/INSURANCE.....

SUPERVISION of banking, finance and insurance is intended to secure satisfactory financial strength, risk awareness, management and control at institutions. It comprises on-site and off-site supervision, in addition to which Kredittilsynet is assigned administrative and consultative tasks as well as responsibility for framing rules.

OFF-SITE ANALYSIS

Off-site supervision of credit institutions and insurance companies involves overseeing and analysing their profitability, risk and financial strength. Quarterly reports are published on Kredittilsynet's website. In its macroeconomic surveillance Kredittilsynet follows developments in the economy that may affect stability in the financial markets.

BANKING RESULTS for 2001 were weaker than the two previous years. Slower growth in lending to businesses and injections of core capital served to raise capital adequacy somewhat in 2001. Lower activity levels meant that both losses and defaults rose somewhat in 2001, but were still fairly modest for the banking sector overall. The weak trend in Norwegian and international security markets up to the autumn of 2001 led to weak results and weaker financial positions for the year to end-September. This applied to non-life insurance companies, pension funds and above all life insurance companies. Thanks to steps taken by the authorities and the share market recovery in the last quarter, financial positions improved somewhat. A closer analysis is provided in this report's Theme section: Current trends and analyses.

OFF-SITE analysis focused on the trend in losses and defaults in banks and other credit institutions. Special attention was given to identifying institutions that may be vulnerable to a negative trend in parts of the economy owing to high lending growth, an impaired financial position and rising defaults and losses. Importance was given to the use of stress tests. A close look was taken at banks' loans to risk-prone sectors, of banks' loan-to-value ratios and credit practices in general in the field of home loans, and at banks' financing of loans secured on shares and other securities.

BANKS' LOSS provisioning has been at a low level in recent years. Against the background of the uncertainty in the international and Norwegian economy and recent years' substantial credit growth, Kredittilsynet in a letter of 20 December 2001 asked the banks to assess their specified and unspecified provisions in relation to portfolio risk. It pointed out that the uncertain outlook should be given weight when banks consider dividend payments and shareholders' equity at year-end. The letter was published on Kredittilsynet's website.

THERE WAS a strong focus in 2001 on off-site supervision of insurance companies' risk and financial strength. Life insurance companies' financial situation was monitored by means of extraordinary reporting, meetings with the institutions and use of stress tests designed to assess companies' vulnerability on a continual basis. Legislative changes were made in the course of the year. Non-life insurance companies and pension funds were also subject to proactive off-site supervision.

DUE TO THE UNCERTAINTY in evidence in security markets and life insurance companies' weak results and low buffer capital, Kredittilsynet urged companies by letter of 3 December 2001 to take steps to improve their financial position at year-end. Attention was drawn to the importance of a long-term strategy to build up sufficient buffer capital to withstand sudden falls in share values without having to reduce share investments. The letter was published on Kredittilsynet's website.

IDENTICALLY WORDED letters were sent to all Norwegian pension funds in September 2001. Kredittilsynet reminded the pension funds of their obligations if a situation arose in which they were unable to meet the statutory minimum requirement or met the requirement by an inadequate margin.

THE NORWEGIAN financial market is dominated by financial conglomerates comprising companies in all traditional sectors. Monitoring overall risk and risk-bearing capacity in mixed financial groups was given emphasis in 2001.

AS PART OF ITS macroeconomic surveillance, Kredittilsynet watches current indicators of financial vulnerability both in the financial sector and among firms and households. In 2001 surveillance focused on the increased uncertainty in the international economy and international security markets and the danger of adjustment problems in some sectors, particularly if the international economic downturn continues. A seminar on the trend in property markets, especially markets for commercial properties, was held.

KREDITTILSYNET supervises financial institutions' compliance with various statutory requirements. In collaboration with Norges Bank and Statistics Norway, it devotes much effort to maintaining and further developing systems used by financial institutions to report data.

FOLLOW-UP OF SANCTIONS AGAINST THE TALIBAN

In circular 24/2001 dated 26 September 2001, Kredittilsynet issued "Regulations on limited sanctions against the Taliban – freezing of assets and other financial resources". The regulations contain a duty to freeze assets and other financial resources belonging to persons or entities named in lists drawn up by the United Nations. In a letter of 14 November 2001 to the Ministry of Foreign Affairs (via the Ministry of Finance), Kredittilsynet called for authoritative, consolidated and updated lists to be obtained, including on the Internet.

Against the background of the terror strikes in the United States on 11 September 2001, the UN Security Council adopted on 28 September of the same year (resolution 1373) a series of concrete measures to combat international terrorism. Norway is obliged under international law to implement these measures, and has done so by provisional ordinance of 5 October 2001. The ordinance requires financial institutions to report to ØKOKRIM any suspicion of terror-related transactions. The ordinance was announced in Kredittilsynet's circular 25/2001 of 9 October 2001.

ON-SITE INSPECTION

Seventy-three inspections were carried out in 2001 compared with 74 the previous year. They were distributed on 44 banks, three finance companies, two life insurance companies, eight non-life insurance companies, five pension funds, six insurance brokers and two holding companies. Three IT inspections were carried out.

IN CONNECTION WITH the Nordic supervisory collaboration on Nordea and If Skadeförsäkring Holding AB, Kredittilsynet also participated in four inspections under the auspices of the Swedish and Finnish financial regulators respectively.

ON-SITE INSPECTIONS of the largest conglomerates and of large banks and insurance companies form a part of the regular follow-up of these institutions. Special officers are assigned responsibility for each group and/or institution, and inspection programmes are prepared at the start of each year. On-site inspections at these institutions are generally limited to particular risk areas or business segments.

THE REMAINDER of the candidates for on-site inspections are selected on the basis of early-warning analyses and other information. Since the smaller institutions are inspected relatively rarely, the focus is on their overall business.

THE MAIN PURPOSE of on-site inspections is to ensure that institutions have appropriate leadership and sufficient financial strength, and to assess the quality of their management and control systems. Central aspects of the inspection effort in 2001 are described in the following.

Banking

Regarding medium-size banks, the general impression gained from inspections is that they have increased their credit risk in recent years through a greater focus on and growth in the corporate segment. Savings banks also appear to an increasing degree to be expanding out of their primary market areas. So far the assumed increase in credit risk has only in small measure been reflected in higher defaults and heavier losses. Banks' systems for managing and monitoring credit risk have in general improved in recent years. The largest banks in particular have come a long way in terms of developing credit management models.

STRONG LENDING growth and changing saving patterns affect banks' balance sheet composition. Greater dependence on borrowing in the money and bond markets set stricter requirements as regards management and control of liquidity risk. The general impression is that more banks are facing problems in getting a firm grip on managing liquidity risk. For management guidance purposes attention during inspections is drawn to the international standard established in the liquidity sphere by the Basle Committee on Banking Supervision, i.e. Sound Practices for Managing Liquidity in Banking Organisations, February 2000.

Non-life insurance

While a general improvement has been noted in underwriting results as a result of premium increases, keen competition continues among market players. Distribution of insurance products by banks has become a significant factor. Inspection reports warn against precipitate

growth. Moreover, a high level of reinsurance has been noted on volume products such as car insurance. While this entails lower requirements as to technical provisions, it also delays the build-up of equity capital.

MARKET PARTICIPANTS in the reinsurance market were losing money for a long time prior to the events of 11 September 2001. Reduced reinsurance capacity and higher prices can therefore be expected. The challenge facing non-life insurance companies will be to implement necessary price increases at a pace that enables the companies to withstand a period of substantially higher exposure for own account.

DURING INSPECTIONS at mixed groups that include insurance, Kredittilsynet drew particular attention to the restrictions inherent in the general confidentiality rules. Where outsourcing of services is concerned, Kredittilsynet emphasised that the directors' responsibility for the company's operations, including internal control, also applies in relation to contract partners.

Life insurance companies and pension funds

Compliance with the asset management regulations was a central theme of on-site inspections of life insurance companies and pension funds. There was particular focus on the institutions' buffer capital and their ability to withstand a value fall in security markets. The amendment of 20 July 2001 to the asset management regulations entails stricter requirements on the board of directors of institutions in terms of management and monitoring of market risk, including carrying out stress tests and assessing whether buffer capital is adequate in relation to actual exposure.

THERE IS A TENDENCY for more and more life insurance companies and pension funds to outsource asset management to specialised management companies. As a result the operational risk associated with asset management being taken over by investment firms specialising in discretionary asset management is under less direct control of the life insurance companies and pension funds. In Kredittilsynet's view it is crucial that sufficient competence and resources should remain in the company, enabling management and control of asset management to be taken care of by the company itself. During inspections the importance of an updated management agreement that clarifies the management mandate was stressed, as was the reporting requirement.

IN 2001, AS PREVIOUSLY, there proved to be a need to inspect pension funds to help build up their internal management and control systems. Many pension funds have employed poor internal control routines, both as regards compliance with laws and regulations, and as regards managing and monitoring their own risk exposure.

Insurance brokers

Reports from inspections of insurance brokers point above all to weak financial positions, in some cases negative equity capital as well as poor routines for client accounts and flawed routines for provision of information to policyholders. They also point to the need for independence in relation to insurance companies and for a clearer divide between broker and agent activities.

Halden municipal pension fund

An inspection was carried out at Halden municipal pension fund on 20 June 2001. The fund's accounts for 2000 showed a deficit of NOK 48 million after the fund's share portfolio had lost almost NOK 80 million of its value. The deficit was of such a magnitude that the fund's equity capital and capital base had been exhausted, and the fund's poor underwriting position was exacerbated.

IN KREDITTILSYNET'S view Halden municipal pension fund violated central provisions of the rules governing pension funds. Steps were not taken to ensure that assets covering underwriting provisions at all times were invested in an appropriate and satisfactory manner in relation to the type of insurance commitment involved and the need for safety, risk spread, return and liquidity. The board of directors failed to adhere to the deadline for adopting the annual report and accounts. Neither did they immediately present a plan to Kredittilsynet detailing how the pension fund intended to achieve underwriting balance after the exacerbated underwriting deficit was brought to light.

AFTER THE INSPECTION Kredittilsynet's assessment was that in important respects the board of directors lacked the competence needed and had shown a lack of respect for central provisions of the rules in force. Kredittilsynet deemed it necessary to appoint a new board of directors for Halden municipal pension fund. This was acted upon, and a new board was appointed in September 2001. Halden municipality decided to inject NOK 60 million into the pension fund. The pension fund applied to Kredittilsynet for approval to have municipal properties transferred to the pension fund as a contribution to equity capital.

IT risk

Operational risk associated with the use and operation of IT systems represents a substantial risk factor for Norwegian financial institutions. Risk has been concentrated in recent years since computer systems are now largely run under the auspices of EDB Business Partner (Fellesdata/Teamco) – based, however, on different operating platforms.

IN 2001, AS IN 2000, Norwegian banks experienced serious interruptions of systems access and production due to problems at key data-processing institutions. The most discussed and dramatic interruption was at EDB Teamco on 2 August 2001, when a majority of the country's savings banks saw their systems come to a complete halt. Cash dispensers and Internet banks, for example, were down for almost two days. About one-half of all bank customers in Norway were affected in varying degrees. It took a week for the banks to resume normal operation. Data were successfully recreated and faulty transfers and interest losses were avoided. The harmful effects appear to be limited to loss of good repute and the uncertainty created among bank customers. Had events followed a different course, the consequences could have been severe. Kredittilsynet was briefed on the technical causes of the incident, and was informed in dialogue with the management of EDB Business Partner ASA of various steps taken in the wake of the breakdown. An inspection was also carried out at EDB Fellesdata AS / EDB Teamco AS.

Investigation of loss provisioning practices

In 2001 a survey was carried out of practices as regards loss rules. It took the form of on-site inspections at 13 Norwegian savings and commercial banks. Previous inspections had brought to light variations in the way institutions applied the rules, affecting both specified and unspecified provisions.

THE SURVEY SHOWED that the majority of banks employed general guidelines that gave little guidance beyond what follows from the loss regulations themselves. Practices varied as regards what commitments were included in the category "other problem commitments". In only a minority of banks was there a direct link between identification of commitments for loss assessment and the bank's risk classification system. In most banks unspecified loss provisioning was not documented. At the turn of the year 2001/2002 Kredittilsynet drafted new loss regulations with a view to forwarding them to the Ministry of Finance early in 2002.

Nordic supervisory collaboration

Nordic Baltic Holding's (later Nordea) activities in four Nordic countries prompted the Nordic supervisory authorities in 2000 to sign a collaboration agreement on supervision of the group, including the Vesta group. MeritaNordbanken was authorised in 2001 to acquire all the shares of Christiania Bank og Kreditkasse (CBK). The agreement was subsequently extended to include the Kreditkassen group.

UNDER THIS AGREEMENT a supervisory group has been set up to ensure the regular preparation of an overall risk assessment and an integrated supervision plan for the Nordea group. Reports from on-site inspections of the Nordea companies are exchanged between the supervisory authorities of Sweden, Denmark, Finland and Norway.

THE SUPERVISORY GROUP set up four sub-groups with responsibility for, respectively, overall risk assessment, underwriting issues, allocation of capital on risk groups and accounting matters. Kredittilsynet has a representative in each group.

THE RISK GROUP finalised an overall risk assessment of the Nordea group in June 2001 which was dealt with by the supervisory group the same month. The report was considered by the heads of the four Nordic supervisory bodies at a meeting of Nordic regulators on 20 August 2001. Based on the report, the four heads had discussions with Nordea's group management. The Swedish regulator, Finansinspektionen, sent a follow-up letter to Nordea in October 2001.

THE AGREEMENT from 1999 between Finansinspektionen and Kredittilsynet regarding supervision of If Skadeförsäkring Holding AB regulates the exchange of information between the supervisory authorities. It allows Kredittilsynet to attend all important meetings that Finansinspektionen has with If Skadeförsäkring Holding AB, and to participate in Finansinspektionen's on-site inspections at If Skadeförsäkring Holding AB, including If Skadeforsikring NUF and If Reiseforsikring NUF. The aim now is to have the agreement revised and signed by the Finnish supervisory authorities as well, since Sampo's non-life business was taken over by If Skadeförsäkring Holding AB in January 2002.

ADMINISTERING RULES

Banking/finance

Nordea Group

Kredittilsynet approved the Nordea Group's coordination of its insurance business in Norway on 11 October 2001. The coordination was achieved by merging four insurance companies: Vesta Liv AS with Norske Liv AS, and Vesta Link AS with K-Fondsforsikring AS. The merged companies are wholly owned by Vesta Liv Holding AS which is itself owned by the non-life insurance company Vesta Forsikring AS. Plans were subsequently announced to split the non-life and life business into two sub-groups under the Danish insurance group Tryg-Baltica and to sell off the non-life business. Norske Liv AS and K-Fondsforsikring AS were previously owned by Christiania Forsikring AS which is a subsidiary of Christiania Bank og Kreditkasse ASA, now known as Nordea Bank Norge ASA.

Bergensbanken ASA

Upon the advice of Kredittilsynet, the Ministry of Finance authorised the winding up of banking operations at Bergensbanken ASA through the transfer of Bergensbanken's operations to the owner, Svenska Handelsbanken AB, in the shape of the latter's Norwegian branch. Conditions imposed were designed to promote a proper, orderly relationship with Bergensbanken's customers, including information about the switch from the Norwegian to the Swedish insurance set-up.

ACTA Bank ASA

In line with Kredittilsynet's recommendation, the Ministry of Finance in 2001 granted a licence to establish the commercial bank ACTA Bank ASA, and to establish a financial group with ACTA Holding ASA as the group spearhead. ACTA Bank ASA will in principle be a pure Internet bank targeting the middle and upper segment of the private market.

Bankia Bank ASA

In line with Kredittilsynet's recommendation, the Ministry of Finance in 2001 granted a licence to establish the commercial bank Bankia Bank ASA, which will be a niche bank focusing on savings products and card business.

Landkreditt

Kredittilsynet recommended to the Ministry of Finance that Landkreditt be licensed to establish a commercial bank as a subsidiary through an intermediate holding company. Landkreditt needs dispensation to be able to own a bank. In Kredittilsynet's view the intentions behind the 10 per cent ownership restriction will be fulfilled if the bank is owned by Landkreditt. Kredittilsynet also deemed that there was nothing to prevent Landkreditt as a mortgage institution from assuming risk as owner of a bank, subject to further conditions. The licence application was in the first instance turned down by the Ministry of Finance, but after an appeal Landkreditt was granted temporary dispensation from the ownership restriction rules by letter of 7 December 2001. The licence was granted subject to further conditions.

Other recommendations

Developments have taken place in the market as regards systems for payment of inexpen-

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sive goods and services. These are often goods or services offered over the Internet or via other electronic channels (WAP and UMTS). The systems enable payment of goods and services using prepaid cards, mobile phones or other electronic aids. The maximum prepayment will be NOK 1,000. In keeping with Kredittilsynet's recommendation, Vivectra AS, E-Trade Technology AS and ContoPronto AS have received a licence from the Ministry of Finance to engage in such business.

Insurance

In line with Kredittilsynet's recommendation, the Ministry of Finance in 2001 authorised the following:

/establishment of **Bluewater Insurance ASA** to operate marine and transport insurance. The company will offer specially adapted products to maritime industries.

/establishment of the captive insurance company **NSB Forsikring AS**.

/establishment of the unit-linked insurance company **ACTA Fondsforsikring ASA** which will operate in life insurance class III (unit-linked life insurance). The company has notified the establishment of branches in Sweden and Finland.

/establishment of the unit-linked insurance company **Carnegie Fondsforsikring ASA**, applied for by Carnegie Asset Management Holding Norge ASA.

/establishment of **Prosjekt Fondsforsikring AS**, applied for by Orkla Finans ASA.

Landbruksforsikring AS

After an application from Norsk Landbrukssamvirke, Kredittilsynet recommended to the Ministry of Finance that a licence be granted to establish the non-life insurance company Landbruksforsikring AS. The company will focus on insurance products and loss prevention focused on the agriculture sector. Licence was granted after application from Norsk Landbrukssamvirke.

Sampo/Storebrand

The Finnish banking/insurance group Sampo, in the shape of Sampo OYJ, applied on 11 July 2001 for permission to acquire more than 50 per cent of the shares of Storebrand ASA.

THE APPLICANT failed to substantiate that it would in the near future be in a position to acquire more than 90 per cent of Storebrand's shares and thus be able to force the redemption of the remaining shares, thereby fulfilling the requirement of 100 per cent ownership of financial institutions in a group relationship. Kredittilsynet therefore found that it could not recommend temporary dispensation to own less than 90 per cent of the shares of Storebrand ASA.

The Norwegian Shipowners' Mutual War Risk Insurance Association

Kredittilsynet recommended to the Ministry of Finance that The Norwegian Shipowners'

Mutual War Risk Insurance Association should not be authorised to convert from an association to a limited company given the economic assumptions regarding dissolution and distribution of technical provisions that the application entailed. The Association subsequently asked for processing of the application to be halted.

Skandia Life

Skandia Life's branch in Norway has for several years offered unit-linked annuity insurance with a redemption fee that runs counter to Norwegian regulations. Despite repeated requests from Kredittilsynet, the product was not brought into line with the rules in force in Norway. In March 2001 Kredittilsynet asked the Financial Services Authority (FSA) in the United Kingdom to take the necessary action against the company. In May 2001 the FSA stated that they did not find cause to tackle such action. In September 2001, in conformity with the insurance directives, Kredittilsynet warned the company that further sales of the product would be prohibited unless the product was brought into line with Norwegian rules.

IN OCTOBER 2001 the company reported that it would alter the product to bring it into line with Norwegian rules. In a letter of 24 October 2001 Skandia Life was given until 31 March 2002 to make the necessary changes.

Occupational injury insurance

Occupational injury insurance has been a problem sector for the insurance industry for several years. The negative trend resulting from the steadily rising claims ratio now looks to have stagnated as a result of relatively sharp premium increases in the industry of late. Figures obtained by Kredittilsynet for the six largest companies showed a decline in the accrued gross claims ratio from 251 per cent in 1999 to 165 per cent in 2000.

THE TECHNICAL calculating committee in non-life insurance is in the process of drawing up a technical account for occupational injury insurance. Industry organisations, the Norwegian Confederation of Trade Unions and the insurance sector, including reinsurance companies, have expressed great expectations of a technical account for this class of insurance. Work on the account has proved more demanding than expected. The first official version, of 31 December 2000, was finalised at the end of 2001. This account covers the six largest companies providing occupational injury insurance in Norway.

RULE CHANGES

Confidentiality

The Norwegian Financial Services Association (FNH) expressed objections to Kredittilsynet's circular no. 11/2000 on confidentiality. After renewed assessment in a letter of 27 April 2001 to the FNH and the six largest financial groups, Kredittilsynet broadened the right to exchange "neutral client information" within a financial group, to accept other forms of consent than written communication in order to curtail the scope of the confidentiality requirement and to modify the confidentiality requirement in regard to existing customer relationships for unitholders in securities funds.

Articles of association

As a result of amendments to the companies legislation, Kredittilsynet considered it appropriate to adjust the so-called standard articles of association for banks, finance and mortgage companies and insurance companies. Financial institutions whose articles are already approved, can themselves decide whether or not to bring them into line with the new standard articles of association.

Banking/finance

Capital adequacy

Regulations no. 875 of 22 October 1990 on minimum standards of capital adequacy for financial institutions and investment firms were amended on 1 April 2001 to allow loans secured by mortgage on a house to within 80 per cent of a prudent valuation to be given a 50 per cent risk weighting. Since the third quarter of 1998 loans secured by mortgage on a house to within 60 and 80 per cent of a prudent valuation had received a 100 per cent risk weighting. The change as from the second quarter of 2001 improved the capital adequacy ratio by about 0.2 percentage points for commercial banks and 0.5 percentage points for savings banks.

AS A GENERAL RULE a minimum capital ratio of 7 per cent is required when raising subordinated loan capital with a fixed term. In keeping with Kredittilsynet's proposal, the Ministry of Finance expressed in a letter of 12 February 2001 its support, based on the risk borne by the particular institution, for core capital requirements to be applied more flexibly to the raising of time-limited subordinated loan capital. A minimum requirement of 6 per cent core capital applies to institutions carrying substantially lower risk than the average, while in other cases a requirement between 6 and 7 per cent is imposed on a discretionary basis.

KREDITTILSYNET continues its practice whereby early repayment of subordinated loan capital is approved only in cases where capital adequacy is excellent, or where the capital will be replaced with other capital of at least equal quality. Moreover, the stage is set for approval of early repayment of subordinated loan capital in cases where core capital adequacy is higher than 7 per cent. In cases where core capital adequacy is between 7 and 8 per cent, and the loan capital will not be replaced with new capital of at least the same quality, Kredittilsynet will adopt a strict line. Where supplementary capital is concerned, emphasis will be given to both size and mix of the institution's subordinated loan capital after repayment.

Insurance

Monitoring market risk

Kredittilsynet established by regulations of 20 July 2001 provisions on monitoring market risk at insurance companies and pension funds. The regulations amend regulations of 23 April 1997 on insurance companies' asset management. The amendment became effective on 1 October 2001 and applies equally to pension funds.

KREDITTILSYNET issued a circular clarifying Kredittilsynet's understanding of the new provisions on monitoring of market risk in insurance companies and pension funds. The circular describes the change in the regulations, and gives insurance companies and pension funds advice and guidelines for implementing the analysis systems needed to assess market risk as required by the regulations.

Articles of association

In 2001 Kredittilsynet revised the standard articles of association individual enterprises' private pension funds, for private group-pension funds and for municipal pension funds.

ONE REASON for revising the standard articles of association for private pension funds was the commencement of the Company Pensions Act on 1 January 2001. The main reason for revising the standard articles for municipal pension funds was changes made to the main collective pay agreement. Moreover, adjustments were made to group structures in the municipal sector, including a clearer definition of what entities can be encompassed by one and the same pension fund.

CONCURRENTLY all sets of articles were reviewed and adjustments and editorial changes made based on experience gained with previous standard articles of association. Moreover, changes were made to the standard articles of association in light of a new provision in the pension funds regulations requiring notification of articles of association.

PROPOSALS FOR RULE CHANGES

Mixed financial groups

Kredittilsynet participated in a working group appointed by the EU Commission to prepare a directive on supervision of mixed financial groups. The proposal, which is now being considered at the political level in the EU system, proposes rules for reporting intra-group transactions as well as a wider right for the supervisory authorities of one country to participate in on-site inspections in other countries in the EEA.

IN 2001 KREDITTILSYNET forwarded a proposal for regulations on annual accounts for mixed groups to the Ministry of Finance for adoption.

Capital adequacy

In a letter of 1 February 2001 to the Ministry of Finance, Kredittilsynet assessed various capital adequacy issues. Council Directive 98/32/EEC opens the way for assigning loans secured by mortgage on commercial properties that meet certain criteria a risk weight of 50 per cent. In the period 1987–1993 losses in this segment were high. In Kredittilsynet's view, the

competitive drawbacks of maintaining a risk weight of 100 per cent would also be limited. Against this background, Kredittilsynet recommended retaining the existing risk weighting on this type of commitment.

THE SAME DIRECTIVE opens the way for securities secured on a mortgage portfolio on certain conditions to be assigned a risk weight of 50 per cent when computing the capital adequacy requirement. Kredittilsynet recommended a closer consideration of this issue once the Bank Law Commission's recommendation on the rules for securitisation becomes available.

IN A LETTER of 1 February 2001 Kredittilsynet reviewed certain provisions of Council Directive 89/647/EEC that are not implemented in Norway. Kredittilsynet recommended that the risk weight of 20 per cent should also include claims secured on securities issued by Norwegian municipalities and claims secured on securities issued by a foreign government sector where certain conditions are met. It also recommended that claims secured on deposits in another credit institution in the OECD be assigned a weight of 20 per cent. Kredittilsynet further recommended that the provision on applying the host country's weighting rules to claims on or guaranteed by other countries' regional or local authorities, should not be implemented.

KREDITTILSYNET'S proposal on these issues was circulated for comment by the Ministry of Finance on 7 March 2001 with the deadline for submission set at 7 June 2001. The matter has yet to be finalised by the Ministry of Finance.

Proposed new rules for computing capital adequacy

The Basle Committee on Banking Supervision has drafted new guidelines for computing banks' capital adequacy. Since 1999 the committee has completed two rounds of consultation in which Kredittilsynet and Norges Bank have issued joint submissions. A third revised proposal is expected in 2002, prior to implementation planned for 2005. The proposal will entail a substantial change in the Capital Accord from 1986.

THE PROPOSAL is intended to replace the existing capital requirements in respect of credit risk. In addition a new capital requirement is introduced for operational risk. The existing capital requirement in respect of market risk is unaffected. The proposal does not touch on the rules for the definition and mix of the capital base.

IN PARALLEL WITH the Basle Committee, the EU Commission is revising the capital adequacy rules for credit institutions and investment firms. The revision is abased on the Basle Committee's proposal but gives special emphasis to dealing with issues that are important in the EU context. The plan is to implement the directive in national law in 2005. Kredittilsynet and Norges Bank issued a joint statement on the EU Commission's proposal.

Former CEO of Storebrand ASA and the own account trading provisions

Kredittilsynet took due note of the Office of the Public Prosecutor's dismissal of the case against the previous CEO of Storebrand ASA, cf. description under Securities Market, page 24.

PROPOSALS FOR NEW RULES AND CONSULTATIVE STATEMENTS

Kredittilsynet has issued consultative statements on the following studies:

Banking/finance

Act on electronic money

After an approach from the Ministry of Finance, Kredittilsynet drafted a law to implement the directives on electronic money. Electronic money is defined as monetary value represented by a claim on the issuer and stored by an electronic device, issued against payment of an amount not smaller than the value that is issued and accepted as payment by undertakings other than the issuer. Kredittilsynet recommends that the E-Money Directive be implemented via a new act on issuers of electronic money.

IMPLEMENTATION OF the directive in Norway entails regulation of hitherto unregulated activity. It is assumed that regulation of such activity will clarify the relationship to existing regulation of banking activity (including the monopoly on deposits) and other financing activity.

KREDITTILSYNET proposes that no absolute limit should be set for the highest permissible value of issued electronic money, but that a condition should be attached to authorisation to the effect that the issuer cannot issue electronic money to a value higher than a specified amount.

Insurance

Proposal for new life insurance legislation

In its interim report no. 7 (NOU 2001: 24) the Bank Law Commission proposed new life insurance legislation. Kredittilsynet's submission, which was forwarded to the Ministry of Finance, gave much emphasis to the issue of financial strength under new rules, and described a modified model for dealing with the general portfolio, where the life insurance company provides a guaranteed return.

Gender-neutral pension schemes in the private sector

Kredittilsynet participated in a government committee that examined methods for determining life insurance premiums. The scrutiny sought to illuminate how members' gender affects the relationship between premiums and gender. The committee advises that identical annual benefits can be achieved by requiring higher contributions for women than men. It is pointed out that the labour effects will be modest. The committee suggests some minor changes to the Contributory Pensions Act.

Medical information and insurance committee

The committee charged with studying insurance companies' use of medical information when writing insurance contracts and their use of physicians in connection with settlements pursuant to insurance contracts presented its recommendation, NOU 2000: 23 *Insurance companies' compilation, use and storage of medical information*, on 4 July 2000.

IN ITS SUBMISSION Kredittilsynet supported the committee's proposal that an insurance applicant's obligation to provide information should be confined to information of which

(s)he is actually aware. In Kredittilsynet's view an obligation must rest on the insurance applicant to supply the medical information he or she is aware of, which may have a bearing on the company's assessment of risk, irrespective of what type of information this may be. The Biotechnology Act should thus not prevent application of the general information requirement laid down in the Financial Contracts Act.

IN KREDITTILSYNET'S view a provision on a contracting obligation for insurance companies is unnecessary since this is taken care of by the requirement that the justification for rejection must be fair and objective, and that refusal shall not be unreasonable.

PREPAREDNESS FOR HANDLING CRISES

Kredittilsynet conducted a preparedness exercise in the autumn of 2001 based on a hypothetical bank affiliated to the Commercial Banks' Guarantee Fund. The aim of the exercise was to see how above all Kredittilsynet itself and the Guarantee Fund handled the problems of a medium-size commercial bank in a negative equity capital situation. The exercise brought to light a need to examine Kredittilsynet's own routines in view of the relatively brief time available to solve an incipient crisis in an individual institution. As a follow-up to the exercise, Kredittilsynet will review relevant laws and regulations with a view to possible adjustments.

RISK-BASED SUPERVISION

Developments in the financial sector in recent years have spurred a broad international debate on approaches to supervision of financial institutions. Several countries have revised their methods, or are developing them, in order to enhance insight into the institutions' risks and to improve the effectiveness and efficiency of supervision. The development of a new body of international rules is a proactive force in this sphere of supervision.

AFTER A PRIOR study phase, which included mapping equivalent efforts in other countries, Kredittilsynet started work in 2001 on developing a new framework to be used in the supervision of the eight to ten biggest financial groups. The framework will be an aid to identifying risks / risk areas and to implementing risk analysis. A structured and well documented risk analysis of the type envisaged here will help to improve insight into institutions' risk situation and their management of risk. It will promote more uniform analysis practices, and will promote consistent assessments and conclusions. The framework will in the first instance be applied to banks, but will also be modified to suit financial groups where insurance risks enter the picture.

THE PROJECT PERIOD is divided into a development and a test phase. After the complete framework has been tested at pilot banks in 2002, it will, according to the plan, be implemented in 2003. Although the framework is intended for the biggest institutions, it is assumed that the experience gained in this context will help to improve the supervision of other institutions too.

ANTI-MONEY-LAUNDERING MEASURES

When banks, life insurance companies, finance companies and insurance brokers are alerted about forthcoming inspections, they are asked for information on routines and guidelines designed to prevent money laundering, cf. the Financial Institutions Act section 2-17 and associated regulations. As a rule spot checks are made to verify that ID checks are carried out as required. Spot checks still show clear room for improvement at some institutions.

On commission from the Ministry of Finance, Kredittilsynet contributed to a consultative submission on statutory provisions to implement requirements of a provisional decree of 5 October 2001 on the reporting of suspicious transactions associated with financing of terrorism and EU's second money laundering directive (2001/97/EC). The submission, together with draft legislation on preventative measures against money laundering and financing of terrorism, was forwarded to the Ministry of Finance on 7 December 2001.

KREDITTILSYNET'S FOLLOW-UP OF FITNESS AND PROPRIETY REQUIREMENTS

Various requirements as to persons' fitness and propriety are applied in respect of virtually all businesses subject to supervision by Kredittilsynet. The requirements refer to private individuals as well as enterprises. Existing rules on fitness and propriety essentially implement the relevant EU directives in Norwegian law. Kredittilsynet's assessment of persons' fitness could be of major significance for those concerned. Hence much weight has been given to ensuring proper treatment of these issues at Kredittilsynet, and to instilling an understanding among the supervised entities and individuals concerned. As part of this effort, a circular was sent to virtually all businesses under supervision (Circular 29/2001, dated 28 November 2001, on testing fitness requirements). The interest organisations in question were invited to express their views.

Further information on Kredittilsynet's follow-up of fitness and propriety requirements is available at Kredittilsynet's website (www.kredittilsynet.no).

www.kreditilsynet.no

/AUDITING.....

KREDITTILSYNET'S tasks in relation to auditors comprise approval or licensing of individuals and firms in accordance with the legal requirements applying to profession as well as registration and supervision. Supervision encompasses entities listed in the register of auditors, and includes checking that their activities comply with laws and regulations and is conducted in an appropriate and satisfactory manner.

AUTHORISATION OF INDIVIDUALS AND FIRMS

Authorisation as an auditor requires approved theoretical training and three years of varied experience. In addition candidates must, after completing theoretical and practical training, take a practical examination to document their fitness to take on audit assignments. Kredittilsynet laid down regulations regarding the practical examination on 24 April 2001. The first such examination is expected to be arranged in 2005, since the Act's transitional provisions state that students admitted to the auditor study programme before the new Auditors Act went into force on 1 August 1999, can still receive authorisation without taking the practical examination provided that they satisfy the experience requirements under the previous act. Other requirements are continuing professional education (CPE), a permanent office location in Norway, residency in an EEA state and provision of the necessary security for any liability in damages. The security guarantee must be at least NOK 5 million. Moreover, 105 hours of CPE must be undertaken in key areas for auditors within the space of three years. Kredittilsynet approves course and other relevant activities in this respect.

TO ACHIEVE AUTHORISATION, auditing firms need to be more than 50 per cent owned by state authorised auditors, and the majority of board of directors must be state authorised auditors. Requirements laid down in articles of association and requirements as to financial probity also apply.

ADMINISTRATIVE ACTIVITY IN 2001

Among Kredittilsynet's key responsibilities in relation to the Auditors Act is authorisation of auditors. The number of authorised auditors and auditing firms in 2001 is shown in the table below.

TABLE 9: NUMBER OF APPROVED AUDITORS

				Approved in
Auditors	**31.12.1999**	**31.12.2000**	**31.12.2001**	**2001**
State authorised	1.824	1.902	1.998	117
Registered	2.630	2.738	2.826	179
Auditing firms	489	507	514	37

IN 2001 LAWS AND REGULATIONS were reviewed with a view to simplification. The outcome of this effort was a proposal from Kredittilsynet to the Ministry of Finance for simpler requirements in relation to provision of security and the register of auditors. The requirement that Kredittilsynet approve courses for CPE is likely to be removed. The Ministry of Finance circulated the amending bill for comment on 21 December 2001 with a deadline for submissions set at 22 March 2002.

SUPERVISORY ACTIVITY IN 2001

Seventy-three auditor inspections were carried out in 2001 along the same lines as previously. These were to a large extent follow-up inspections of auditors who had previously received criticism from Kredittilsynet, and of auditors reported to Kredittilsynet by public agencies, mainly the tax authorities. Thirty-two complaints against auditors were received in 2001 compared with 24, 43 and 31 in 1998, 1999 and 2000 respectively.

SUPERVISION ENTAILS checking that business is conducted in accordance with the requirements of law and regulations and with generally accepted auditing standards. This requires a thorough assessment of the appropriateness of auditing methods, whether the scope of audit procedures is sufficient, whether the auditor's assessments and conclusions accord with the result of the audit procedures and whether satisfactory supporting documentation for the audit is available.

IN 2001 AUDITS carried out at larger groups were inspected on a project basis. All the major auditing firms were involved. Inspections were confined to predefined themes, with special attention given to auditing of entities within the group in question. Kredittilsynet has yet to finalise this work and expects the process to be followed up in several areas in relation to the major auditing firms.

INSPECTIONS CONDUCTED in 2001 prompted decisions that set precedents for other cases. Kredittilsynet issued critical remarks regarding auditors' application of good judgement and due care, and in one case ordered an auditing company to step down as auditor since it had violated the rules of the Auditors Act concerning independence in relation to advisory services. However, this order was appealed against and has been referred to the Ministry of Finance for final decision.

TOWARDS THE END of the year the Ministry of Finance completed processing a number of appeals against decisions by Kredittilsynet concerning auditors. In all cases Kredittilsynet's decisions were upheld. The cases referred to withdrawal of auditors' licences and rejection of applications from municipal auditing institutions for authorisation as auditing firms.

THE AUTUMN OF 2001 saw the introduction of off-site supervision of all auditors and auditing firms. Besides serving statistical purposes, off-site supervision is designed to gauge auditors' knowledge of and compliance with the Auditors Act and general accepted auditing standards. Particulars which the Auditors Act requires to be included in the register of auditors were also obtained. Processing of the compiled information will be finalised in 2002.

TABLE 10: AUDITORS' LICENCES WITHDRAWN

	1995	1996	1997	1998	1999	2000	2001
State authorised auditors	0	0	0	0	1	4	0
Registered auditors	6	3	9	8	10	5	7
Approved auditing firms	–	–	–	–	–	–	2
Total	6	3	9	8	11	9	9

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/EXTERNAL ACCOUNTING SERVICES...

EXTERNAL ACCOUNTING SERVICES

KREDITTILSYNET'S tasks in relation to external accounting services comprise authorisation of individuals and firms in accordance with the legal requirements applying to this occupational group as well as registration and supervision. Supervision encompasses entities listed in the register of external accountants and includes checking that their activities comply with laws and regulations, and are conducted in an appropriate and satisfactory manner.

AUTHORISATION OF INDIVIDUALS AND FIRMS

The Authorisation of External Accountants Act regulates firms that provide accounting services for others on a commercial basis. Licensed external accountants need a higher qualification in economics equivalent to at least two years full time higher education and the equivalent of two years' relevant experience. Running the authorisation scheme is a major administrative task. As of 31 December 2001 the register of external accountants comprised 8,282 entities, of which 5,894 were individuals and 2,388 were firms. A very large number of applications, combined with numerous other approaches and enquiries, means that total processing time remains very long.

TABLE 11: POSITION - EXTERNAL ACCOUNTING SERVICES

	31.12.1999	31.12.2000	31.12.2001
Authorised external accountants	4.999	5.544	5.856
Authorised external accounting firms	1.829	2.138	2.377
Registered accountants with dispensation or extended transitional period	1.962	298	38
Registered firms with dispensation or extended transitional period	496	35	11

Rules

On 21 March 2001 Kredittilsynet adopted amendments to the Authorisation of External Accountants Regulations (No. 196 of 8 February 1999). The amendments, effective as from 1 May 2001, were designed to simplify Kredittilsynet's administrative tasks in relation to accountants. Kredittilsynet has been relieved of its earlier responsibility for approving continuing professional education (CPE), thereby reducing its workload in this field by about 200 cases per year.

KREDITTILSYNET reviewed the External Accountants Act in 2001. A proposal from Kredittilsynet to amend the act was circulated for comment by the Ministry of Finance with the closing date for submissions set at 15 January 2002. Kredittilsynet recommends terminating the entire authorisation scheme, or transferring it to a public agency other than Kredittilsynet. As an alternative Kredittilsynet recommends simplifying its administrative tasks in relation to external accounting services. Kredittilsynet also recommends terminating the process of renewing authorisation every fifth year, which will reduce the number of cases by about 1,500 per year.

THE PROFESSIONAL BODIES (The Norwegian Association of Authorised Accountants and The National Association of Accounting Consultants), adopted in the autumn of 2001 provisional "Generally accepted standards for book-keeping and accounting" and "Generally accepted standards for book-keepers and accountants". Kredittilsynet takes a positive view of the establishment of industry standards of this type.

UNLAWFUL EXTERNAL ACCOUNTING ACTIVITY

Kredittilsynet has noted that an appreciable number of accountants are engaged in external accounting activity without mandatory authorisation as accountants. Such activity was monitored by Kredittilsynet in 2001. In each case the degree of seriousness is assessed to ascertain whether a report should be made to the police. Unlawful external accounting activity is brought to light by reports to Kredittilsynet, through processing licence applications from individuals and through other investigations carried out by Kredittilsynet. Reports to Kredittilsynet of unlawful activity numbered 44 in 2001. Most such reports are from the tax authorities.

SUPERVISORY ACTIVITY IN 2001

Sixty-two on-site inspections involving 167 licensed external accountants were carried out in 2001. This compares with 147 inspections of 250 licensed external accountants in 2000. In 2001 the majority were follow-up inspections of accountants who had previously received criticism from Kredittilsynet, and of accountants reported to Kredittilsynet by the tax authorities. Twenty-eight reports concerning external accountants were received in 2001 compared with 51 in 2000. Inspections based on geographical selection were also carried out.

THE PRIMARY AIM of supervision is to ensure that providers of external accounting services observe a minimum standard in relation to professional conduct. Where law and regulations are not complied with, or professional conduct is regarded as unsatisfactory in other respects, Kredittilsynet may revoke an external accountant's licence. At on-site inspections Kredittilsynet examined how accountants organise their activity in relation to Kredittilsynet's circular no. 12/2000, and to whether licensed accountants operate in conformity with central aspects of the accounting legislation and the tax legislation in general.

BASED ON THE INSPECTIONS carried out, Kredittilsynet's overall impression is that external accountants' operations vary widely in quality, and that in some areas material flaws are a feature of the profession as a whole.

TABLE 12: NUMBER OF SANCTIONS – AUTHORISED EXTERNAL ACCOUNTANTS

	1999	2000	2001
Withdrawal of licence	0	2	6
Warning	0	11	14

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/ESTATE AGENCY.....

SUPERVISION of estate agents encompasses the activities of firms licensed to practise estate agency and lawyers whose estate agency is ancillary to their law business, as well as housing cooperatives that are licensed to provide estate agency services and ordinary housing cooperatives' brokerage of cooperative flats. Firms, lawyers and housing cooperatives are checked for compliance with the requirements of law and regulations, including observance of generally accepted estate agency standards. Supervision of estate agents takes the form of on-site inspection and off-site supervision. Kredittilsynet is also assigned administrative and consultative tasks, and responsibility for framing regulations.

HIGH ACTIVITY IN THE ESTATE AGENCY FIELD IN 2001

In the first half of 2001 the housing market still featured a high turnover and high prices, especially in the largest towns. Based on press coverage, on-site inspections and conversations with individuals, the impression is that turnover slowed somewhat in the autumn of 2001, at least in some segments.

THERE WERE 507 licensed estate agency firms at the end of 2001. Ninety-one new licences were issued in 2001, while 55 firms ceased their estate agency activity. At year-end 67 housing cooperatives and 1,016 lawyers had furnished security to engage in estate agency.

CHAIN FORMATION ON THE INCREASE

An increasing number of chains are being established with centralised functions. Estate agency chains now account for more than 60 per cent of all property sales. The number of estate agency firms owned or controlled by banks and by finance and mortgage companies is growing. The trend looks to be continuing both through new establishments and acquisition of existing firms. This group accounted for about 40 per cent of total transactions in 2001. A foreign franchise chain has entered the market and appears to be expanding.

A NEW TRADE ASSOCIATION, the Association of Real Estate Agency Firms (EFF) was established in 2001. This association represents businesses as opposed to The Norwegian Association of Real Estate Agents whose members are exclusively state authorised estate agents. All firms are eligible for membership in the EFF, including firms headed by a lawyer. Most firms where the person effectively in charge is a member of the Norwegian Association of Real Estate Agents are now affiliated to the EFF. Several of the major chains are organised in the association.

ESTATE AGENCY SERVICES provided via the Internet are based on the seller doing some of the work himself, thereby lowering the agent's fee. This has not, however, replaced the traditional services offered by estate agents.

ON-SITE INSPECTION

Kredittilsynet carried out 60 on-site inspections of estate agency firms, lawyers engaged in estate agency and housing cooperatives. One firm had its licence to carry on estate agency revoked due to highly censurable circumstances. Moreover, criticism was levelled at several firms because of unsatisfactory routines for documenting treatment of client funds. One person handed in his licence, thereby relinquishing the right to call himself a state authorised estate agent. This was after it was revealed that he had forged a title deed signature. The case was sufficiently serious for Kredittilsynet to revoke the licence had the estate agent not handed it in himself.

PROBLEMS INVOLVING administrative procedures and accounting treatment of client funds were brought to light at a number of housing cooperatives whose estate agency activity is confined to selling cooperative shares. This made clear to Kredittilsynet the particular necessity of inspecting housing cooperatives. Most firms appear by and large to comply with the minimum statutory requirements where actual estate agency transactions are concerned.

EQUITY CAPITAL SITUATION

Kredittilsynet has kept an eye on estate agency firms' equity capital situation as part of its off-site supervision. Based on reports for the first half of 2001, 23 firms that had reported negative equity were ordered to provide documentation showing that they had taken appropriate action and were once again in a positive equity capital position, as required by law. At the same point, mid-year, 49 firms' share capital was below the minimum of NOK 100,000 required by the Companies Act. Two firms petitioned for winding-up, and their licences to carry on estate agency were duly revoked. In one case the firm's licence was revoked because the security it had furnished expired during the winding up process.

LATE REPORTING

A fairly large number of estate agency firms disregard the mid-year reporting deadline. This prevents and delays Kredittilsynet's assessment of whether such firms fulfil central statutory requirements for continuing their activities, since their reports document their equity capital situation and contain an auditor's statement on the treatment and safekeeping of client funds. To promote punctual reporting a circular was sent to firms in 2001 announcing that revocation of licences would be considered in cases where firms repeatedly disregard the deadline for reports. In 2001, for the first time, Kredittilsynet issued to the press a collected overview of firms that had disregarded the mid-year reporting deadline.

LAW AMENDMENT PROPOSAL

In the autumn of 2001 Kredittilsynet proposed changes to the Estate Agency Act and associated regulations. The proposal, referring to a provision on fitness and propriety of owners of estate agency firms, is worded along the lines of a similar provision in the Securities Trading Act. Kredittilsynet recommends that a provision be included in the Act authorising Kredittilsynet to lay down regulations on, respectively, access to information in bidding rounds and the obligations of the person effectively in charge. Moreover, Kredittilsynet advocates that the proscription by the Estate Agency Act of all other economic activity be extended to all employees in an estate agency firm. The proposal was circulated for comment in November 2001.

PROPERTIES ABROAD

In the autumn of 2000 Kredittilsynet recommended changes to the Estate Agency Act that would make the Act inapplicable to firms engaged exclusively in selling properties abroad. The proposal, if adopted, will authorise the adoption of regulations imposing certain obligations on licensed Norwegian estate agents who meditate sales of foreign properties in Norway. The Ministry of Finance has circulated the proposal for comment. Kredittilsynet notes that the proposal has encountered scepticism on the part of several authorities.

KREDITTILSYNET notes that an increasing number of established estate agency firms are interested in brokerage of properties abroad, often through their own departments. Kredittilsynet also notes frequent press and Internet advertisements for properties abroad, and has made enquiries to assess whether this form of estate agency activity should be subject to supervision by Kredittilsynet. It is often asserted that the nature of such activity does not bring it within the compass of the Estate Agency Act, nor, therefore of Kredittilsynet. The sheer volume of borderline cases where genuine inspection is not feasible, could mean that the public has unrealistic expectations of the scale of supervision that can actually be performed.

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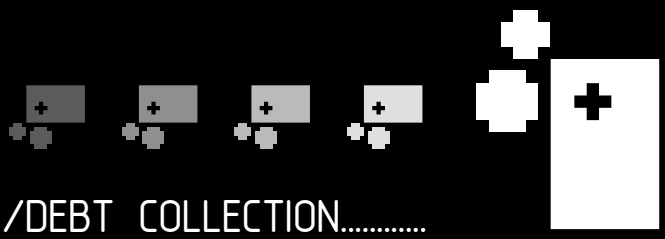

/DEBT COLLECTION.....

DEBT COLLECTION

SUPERVISION of debt collection agencies encompasses their financial position, treatment of client funds and debt collection performed on the basis of a personal licence. Collection of own claims and lawyers' debt collection activities lie outside the scope of Kredittilsynet's supervision. At on-site inspections Kredittilsynet checks that agencies operate in accordance with the requirements of law and regulations, including requirements as to correct treatment of recovered funds and, as far as possible, that agencies are run in accordance with generally accepted debt collection standards.

NUMBER OF DEBT COLLECTION AGENCIES STABLE

At the end of 2001 there were 113 debt collection agencies registered as operating on the basis of a personal licence issued by Kredittilsynet. Eight of these were new, and nine were housing cooperatives. Ten agencies closed down over the year, of which six were bought up by others. Sixty-one personal licences were issued. Two licences were revoked owing to circumstances brought to light through reports and inspections: in both cases the agencies' licence holders had failed to ensure that client funds were treated in accordance with the rules, and payments from principals were not used as required by the rules. At the end of 2001 a total of 397 active licence holders, i.e. licence holders utilising their licence in a debt collection agency, were registered.

PROFITABILITY IN THE TRADE

In general, debt collection agencies enjoy healthy profits. This is because they offer products that enable them to enter the collection process at an earlier stage, and because a broad product spectre gives access to a wide range of clients. Moreover, the court fee, which is the basis for calculating the debt collection fee, was raised from NOK 600 in 2000 to NOK 655 in 2001. Furthermore, the agencies have computer systems that make it possible to reduce the expenses per case dealt with.

ON-SITE INSPECTION

Five on-site inspections of debt collection agencies were carried out in 2001. Since agencies are not required to store documents in physical files, most safekeeping is electronic: computer systems promote correct administrative procedures in terms of deadlines, consistent wording of disciplinary responses and calculation of fees. The utility value of checking administrative procedures during on-site inspections has therefore diminished in recent years. At times routines contrary to legal requirements for dealing with client funds are revealed, although these are normally captured by examining reports filed by the agencies.

AN ON-SITE INSPECTION was carried out at Norway's biggest debt collection agency – Lindorff – in conjunction with the Data Inspectorate. The rationale behind this joint inspection was that debt collection involves wide use of personal data, and responsibility for enforcing the Data Protection Act rests with the Data Inspectorate. The joint inspection was a fruitful exercise, and especially relevant in relation to the major agencies which handle large numbers of cases and personal data.

LAW AMENDMENT PROPOSAL

In 2001 Kredittilsynet received a consultative letter from the Ministry of Justice recommending a reduction of debt collection fees and the establishment of a debt collection appeals body. Moreover, Kredittilsynet attended, as an observer, meetings between the Consumer Council in Oslo and the Association of Norwegian Debt Collection Agencies to pave the way for organising an appeals committee. Kredittilsynet expects that establishing such a committee will reduce the number of approaches to Kredittilsynet concerning debt collection agencies' administrative procedures. Kredittilsynet chose not to express a view on whether or not collection fees should be reduced since while it is responsible for supervising agencies' financial soundness, it also has debtors' financial interests to take into account.

AS FROM 1 JANUARY 2002 the activities of agencies that buy up and recover fallen-due monetary claims will become subject to supervision. The Act has also been amended such that all agencies wishing to engage in debt collection or purchase of claims must apply for the requisite licence. This amendment is scheduled to take effect in the course of 2002.

INTERNATIONALISATION of the financial sector entails ever increasing international activity for supervisory authorities, both globally and in the EU/EEA area. Supervision is essentially organised on the basis of the three main areas of banking/finance, insurance and securities. In addition, cooperation has been established between supervisory authorities and organisations across these three sectors, one of the aims being to promote greater financial stability. Kredittilsynet's participation in international meetings has accordingly increased in recent years.[9]

THE INTEGRATED supervisory model for the entire financial market continues to gain ground. Alongside the countries already participating in meetings between integrated supervisory authorities[10], at least six other European countries[11] have introduced or proposed to introduce integrated financial supervision. While banking supervision is being separated from the central bank in a number of countries, there is a need for close collaboration with the central banks on issues related to the development of financial markets. This applies particularly in regard to financial stability and macroeconomic surveillance. Kredittilsynet has accordingly given emphasis to contact with organisations such as the European Central Bank (ECB), the Basle Committee / Bank for International Settlements (BIS) and the International Monetary Fund (IMF).

COLLABORATION ON A GLOBAL BASIS

Collaboration on supervision across sectoral divides

In June 2001 Norway hosted the third international meeting of representatives for supervisory authorities responsible for supervision of both banking and insurance activities in countries with well-developed financial markets. The main aim of this forum is to exchange information on and experience with integrated financial supervision, including supervision of financial conglomerates. The forum does not aim to formulate international supervisory standards.

Banking/Finance

The Basle Committee[12] is responsible for coordinating global cooperation on banking supervision. Kredittilsynet receives relevant documents from the Committee and is invited to comment on them and to attend some of the Committee's activities. In June 2001 Kredittilsynet submitted together with Norges Bank a statement on the Basle Committee's second consultative document for new guidelines for calculating banks' capital adequacy. The Basle Committee has announced that it will produce a third and final document in the summer of 2002. The new guidelines will be effective as from 2005.

Insurance

Since its establishment in 1994 the International Association of Insurance Supervisors (IAIS) has been highly active. This organisation works inter alia for the harmonisation of insurance supervision, and has drawn up "Core Principles for Insurance Supervision". In the summer of

[9] See table 13.

[10] Australia, Canada, Denmark, Iceland, Japan, Korea, Norway, Singapore, the United Kingdom and Sweden.

[11] Hungary, Estonia, Ireland, Latvia, Austria and Germany.

[12] The Basle Committee comprises representatives for the banking supervision authorities and central banks in the following countries: Belgium, Canada, France, Italy, Japan, Luxembourg, the Netherlands, the United Kingdom, Switzerland, Sweden, Germany and the United States.

2001 Norway evaluated its own supervisory regime in relation to these international principles. The evaluation showed that the principles are largely implemented in Norwegian rules and supervisory practice. The IAIS has several sub-committees; Norway participates in the technical committee, a sub-group working on solvency issues, and a sub-group working on evaluation of accounting standards for insurance.

Securities

The International Organization of Securities Commissions (IOSCO) has so far adopted 19 resolutions to which Norway has acceded. Under the auspices of IOSCO Norway is a member of the European Regional Committee which meets twice yearly. Kredittilsynet also participates in a working group under the technical committee which deals with enforcement of IOSCO resolutions and collaborates on issues related to surveillance, enquiries, investigation and prosecution of criminal offences. Kredittilsynet is also a member of the Enlarged Contact Group for Supervisors of Collective Investment Funds (ECG) which meets once a year.

Other international forums

Kredittilsynet attended the meetings of the OECD Capital Markets Committee and Insurance Committee.

A SENIOR official from Kredittilsynet performed advisory assignments on banking supervision for the IMF in Gambia and Armenia. The aim of the assignments, each lasting 14 days, was to assist in developing supervisory methods that are in line with international standards.

KREDITTILSYNET also participated in a working group under the Joint Forum which compared supervisory principles across the securities, banking and insurance sectors. The report was completed in June 2001, and was forwarded to the three international supervisory organisations (IAIS, the Basle Committee, IOSCO), the Joint Forum and the Financial Stability Forum.

Money laundering

As part of the fight against money laundering, Kredittilsynet attended in 2001, as previously, several meetings of the Financial Action Task Force against Money Laundering (FATF) which exchanges experience with, and develops international standards for, anti-money-laundering measures.

COOPERATION WITHIN THE EU/EEA

In connection with the enlargement of the European Union the EU implemented in 2001 several peer reviews in applicant countries where teams of specialists from the EU countries evaluate the activities of the supervisory authorities in the banking, securities and insurance sectors in the applicant countries in question. In response to an approach from the EU, Norway participated in two such teams, for insurance supervision in Cyprus and for securities supervision in Slovenia.

Kredittilsynet attends meetings of EFTA's Working Group on Financial Services, a working group under one of EFTA's sub-committees that prepares cases in the financial sector, evaluates directives to be included in the EEA Agreement and updates the EFTA states on the

actions of EU agencies. Kredittilsynet chaired this working group in 2001. Political deliberations in working groups under the EU Council and the EU Parliament are reserved for EU members. However, as a general rule Norway attends meetings of those expert and working groups in the financial sphere for which the EU Commission has responsibility.

Banking

All EFTA/EEA countries have an observer present at meetings of the EU's Banking Advisory Committee (BAC). The Ministry of Finance and Kredittilsynet alternate in representing Norway at BAC meetings. The BAC and its Technical Sub Group, whose meetings are attended by Norway, is responsible for the EU work on new capital adequacy rules. Kredittilsynet also attends meetings of the liaison body Groupe de Contact (GdC) together with banking supervisory authorities from other EU/EEA countries.

IN THE GROUPE de Contact information is exchanged on a range of supervisory issues of mutual interest to the EEA countries. In 2001, as in 2000, much of its work was to prepare a common supervisory methodology to meet the requirements of the new capital adequacy regime to be implemented in 2005, especially referring to Pillar 2, Supervisory Review Process. The aim is to arrive at a uniform supervisory practice in areas that are not or will not be harmonised by directives, so that banks can avoid facing unequal competitive conditions resulting from differing supervisory practices.

KREDITTILSYNET has bilateral co-operation agreements, or Memorandums of Understanding (MoUs), with the banking supervisory authorities in France, Luxembourg, the Netherlands, the United Kingdom and Germany. Bilateral meetings were held with the banking supervisors in the Netherlands, the United Kingdom and Germany in 2001.

Insurance

All EFTA/EEA countries have an observer present at meetings of the EU's Insurance Committee. As in the case of the BAC, the Ministry of Finance and Kredittilsynet alternate in representing Norway at meetings of this committee. Kredittilsynet is also an observer at the EU-EEA Conference of Insurance Supervisors which meets twice yearly. The EEA/EFTA countries Liechtenstein, Iceland and Norway hosted the 116th conference that was held in May 2001 in Oslo, where Kredittilsynet had main responsibility for practical arrangements. At this meeting Norway took the initiative towards reviewing and streamlining the conference's working methods. The conference included a seminar on coordinating supervisory tasks related to insurance groups with cross-border operations. Under a cooperation protocol between the 18 EEA countries a separate working group was set up to coordinate supervisory tasks between the countries. In parallel with the conference, a seminar was held on coordination of supervision of insurance groups engaged in cross-border operations. At the conference Norway's representative was elected as the new chairman to replace the Dutch representative who had chaired the effort to negotiate the cooperation protocol and to set up the group one year earlier.

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Securities - EU/EEA

In July 2000 the EU appointed a group headed by Baron Alexander Lamfalussy of Belgium to assess measures for achieving a more efficient single European securities market. In February 2001 the group proposed streamlining the development and enforcement of the rules by having the basic principles of the legislation established in directives by the EU Parliament and Council, and delegating technical details to the EU Commission through the comitology process.

AGAINST THIS background the European Securities Committee was established, comprising representatives from the finance ministries. In order to attend to the formulation of technical details and ongoing supervision, the European Commission decided in June 2001 to establish a Committee of European Securities Regulators (CESR), which is a further development of The Forum of European Securities Commissions (FESCO). The CESR, whose meetings are attended by Kredittilsynet, will act as an advisory committee to the European Commission and will work for consistent implementation of community law in member countries.

IN ITS WORK on rules the CESR will consult the market and market participants in an open and transparent process to draw benefit from their expertise and achieve the best possible basis for assessing the consequences of the proposals. Understanding of the committee's work will also be promoted through such a dialogue. The CESR will produce an annual working programme giving the participants an overview of the various proposals. Consultations will take place at consultative meetings to which affected parties will be invited, and via the Internet to ensure that the information is available to all interested parties.

KREDITTILSYNET participates actively in working groups set up by FESCO/CESR. These are: the Expert Group on Standards for Investor Protection, Expert Group on Market Abuse, Expert Group on Primary Market Practices, Expert Group on Accounting, Expert Group on European Public Offers and Expert Group on Alternative Trading Systems. A permanent forum for exchange of information on market surveillance, CESRPOL, was established. FESCOPOL/CESRPOL held three meetings in 2001, one of which was in Oslo.

Cross-sectoral cooperation on supervision

Kredittilsynet is a member of the Mixed Technical Group, an expert group under the EU Commission that drafts proposals for regulating financial conglomerates, i.e. groups comprising several types of financial institutions.

Collaboration with the European Central Bank (ECB)

The European Central Bank, ECB, will play an important role for financial stability in Europe. In conjunction with Norges Bank Kredittilsynet has established a pattern of half-yearly meetings with the ECB on financial market issues. Two meetings were held with the bank in 2001.

NORDIC SUPERVISORY COOPERATION

Kredittilsynet attends regular, annual supervisory meetings in the Nordic region that address topical issues of mutual interest. The 2001 meeting was held in Reykjavik, and the meeting in June 2002 will be held in Bergen. Additional meetings are held for the various areas of supervision such as banking, insurance and securities as well as administration.

THE NORDIC countries' financial supervisory authorities operate a cross-border cooperation agreement. The agreement covers general cooperation on supervision of banking, insurance and securities, and contains provisions on information exchange and cooperation on joint supervision on a consolidated basis.

IN ADDITION to the general agreement on supervisory cooperation in the Nordic region there are agreements between the respective authorities on supervision of If and Nordea. The agreements embody joint planning and implementation of inspections.

UNDER THE agreement on supervision of Nordea a separate supervisory group has been set up that includes representatives from the respective authorities and will ensure that a regular risk assessment is made of the entire group. The group's first risk assessment report was finalised on 26 June 2001. The parties undertook to promote exchanges of personnel between the countries. An extensive regime of meetings and information exchange was also planned for.

TABLE 13: OVERVIEW OF INTERNATIONAL MEETINGS ATTENDED BY KREDITTILSYNET 1996-2001

	No. of meetings 1996	No. of meetings 1997	No. of meetings 1998	No. of meetings 1999	No. of meetings 2000	No. of meetings 2001
EU- and EEA related meetings, conferences and working groups (banking, insurance, securities, accounting, auditing)	48	54	48	57	62	69
Bilateral meetings	8	9	8	8	11	19
Nordic meetings	9	12	8	14	16	38[13]
IAIS and other international meetings, insurance	2	5	9	16	16	13
IOSCO and other international meetings, securities	6	6	6	8	6	5
ICBS and other international meetings, banking supervision and financial stability	3	2	4	10	8	9
Other international meetings, accounting and auditing	3	7	6	5	6	–
Other international meetings (pan-European / Integrated supervision)	–	1	1	3	13	9
OECD	5	6	5	5	4	2
IT / Money laundering	7	5	8	9	4	11

[13] Twenty-two of these meetings were related to the supervision of Nordea.

TABLE 14: OVERVIEW OF INTERNATIONAL ORGANISATIONS AND EU-/EEA-RELATED COMMITTEES IN WHICH KREDITTILSYNET PARTICIPATES AS A MEMBER OR OBSERVER

BANKING/FINANCE

ICBS (International Conference of Banking Supervisors)
OECD's Financial Markets Committee
BAC (Banking Advisory Committee)
GdC (Groupe de Contact)
Nordic Supervisory meetings

INSURANCE

IAIS (International Association of Insurance Supervisors)
OECD's Insurance Committee
EU's Insurance Committee
EU Insurance Supervisory Authorities' Conference
Conference of European Insurance Supervisory Services
Nordic Supervisory meetings
Nordic-Baltic Supervisory meetings

SECURITIES

IOSCO (International Organization of Securities Commissions)
ECG (Enlarged Contact Group on Supervision of Collective Investment Funds)
CESR (Committee of European Securities Regulators)
Nordic meetings

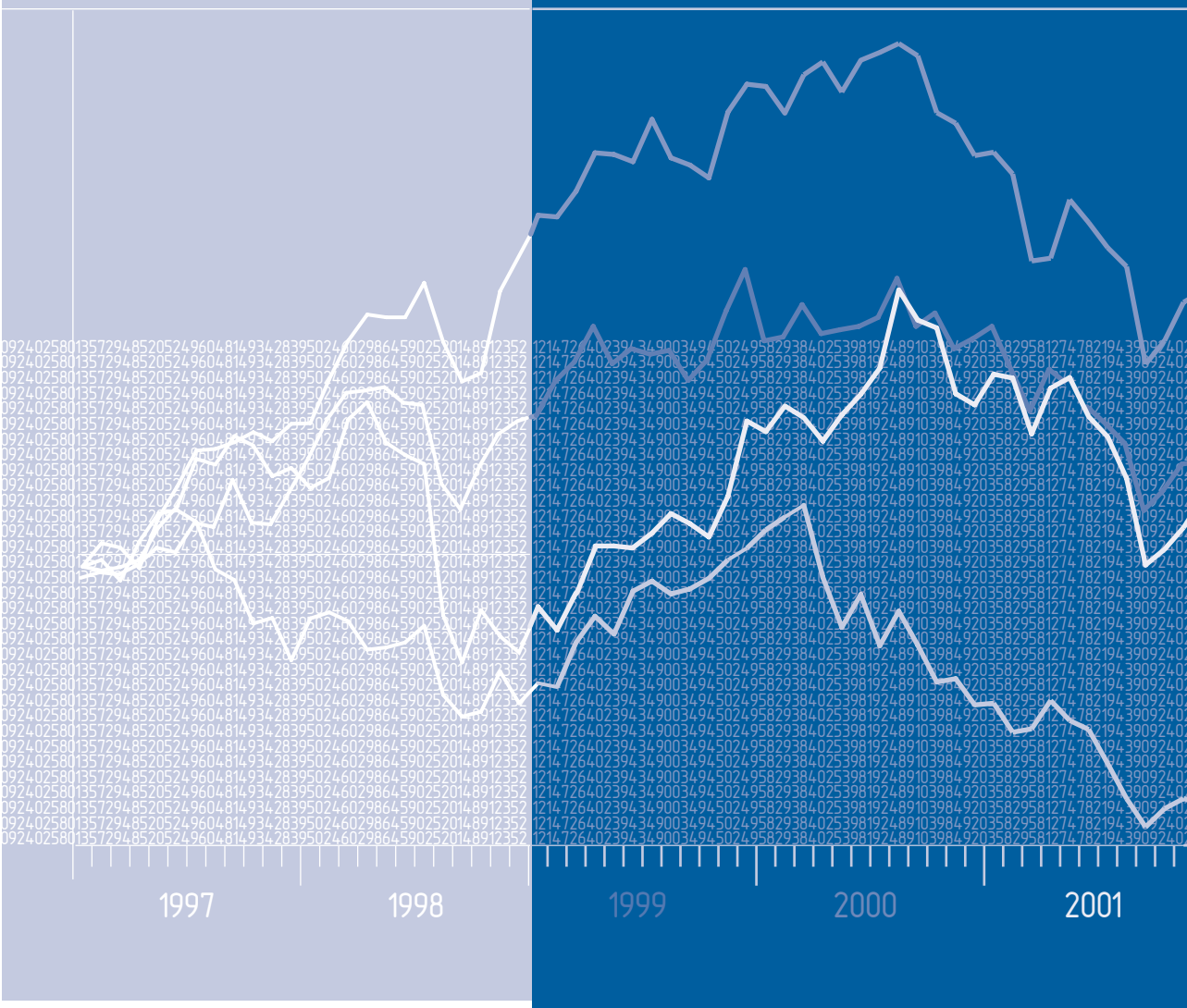
ACCOUNTING AND AUDITING

European Committee on Auditing
Nordic meetings

MONEY LAUNDERING/IT

FATF (Financial Action Task Force on Money Laundering)
Nordic meetings

/THEME SECTION.....



Summary
The slowdown of growth in the international economy that started in the second half of 2000 continued through 2001, and was further reinforced by the terror strikes in September 2001. Growth projections for 2002 were gradually adjusted down, both for the US, the Euro area and Japan. The timing of a recovery was pushed back to the end of 2002 at the earliest. Weaker growth and increased uncertainty led to wide fluctuations and falls in international share markets. Substantial fiscal and monetary policy impetus was provided in the course of 2001, above all in the US but in due course in other countries too. Both long and short interest rates fell during the year. International share markets picked up towards year-end, however. Growth in the Norwegian economy was moderate in 2001 due to slower growth in investment and lower demand for Norwegian export products. However, continued high capacity utilisation in the Norwegian economy, accompanied by low unemployment, high cost growth and high credit growth, meant that Norwegian interest rates were not appreciably reduced in the course of the year.

THE TURBULENCE in the international economy and in security markets affected Norway's insurance industry. Norwegian life insurance companies reported poor results in 2001, and their buffer capital was virtually exhausted after the sharp slump in share markets in the wake of 11 September 2001. However, due to action taken by the authorities and a market recovery as from end-September the companies saw no need to sell off large share volumes. Non-life insurance companies are less vulnerable to steep securities market falls than life insurance companies because of somewhat lower exposure and higher buffers. Non-life insurance companies also reported poor results in 2001, however. Since Norwegian banks are little affected by falling share values, their results for 2001 were only marginally poorer than in the preceding buoyant years. Banks' credit growth edged back in 2001, and core capital adequacy rose somewhat. Banks' loan defaults and loan losses grew, but remained at low levels. However, several banks still showed steep credit growth in 2001, increasing their vulnerability to a possible economic downturn.

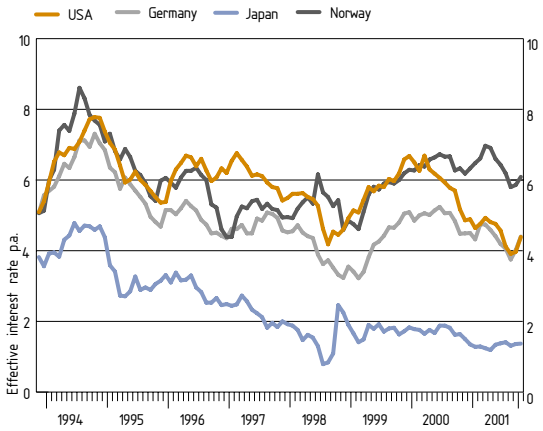
MARKET DEVELOPMENTS

Security markets

In 2001, for the first time since 1974, output fell simultaneously in the US, Germany and Japan. The cooling down of the world economy in 2001 was sharper than expected, and reactions in the aftermath of the terror strikes against the US on 11 September 2001 exacerbated the economic downturn. This was reflected in world share markets and, apart from the transient recovery in April and May 2001, share prices fell from September 2000 onwards. In the ten days following the attack on the US, the world index fell just over 12 per cent. However, after the bottoming out on 21 September 2001 share values recovered, and by the start of November reference indices in most countries were already back to levels in effect prior to the terrorist strikes.

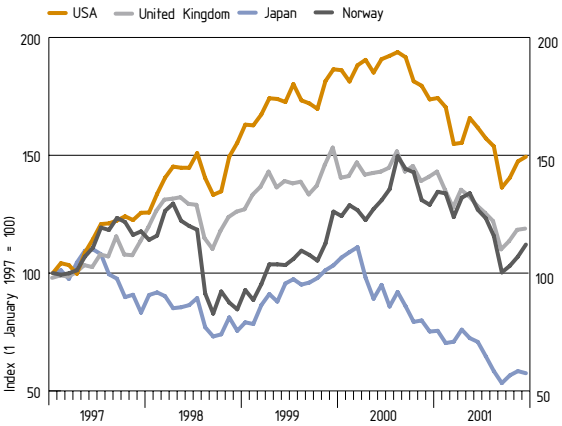
THE NORWEGIAN share market largely shadowed the international market, and between the end of 2000 and the trough on 21 September the main index at Oslo Børs dropped almost 33 per cent. The events in the US greatly affected the Norwegian market, and in the ten days following the strike the reference index fell 21 per cent. Sub-indices varied, however.

CHART 4: LONG INTEREST RATES (5-YEAR) IN USA, GERMANY, JAPAN AND NORWAY



Source: EcoWin

CHART 5: STOCK INDICES IN USA, UNITED KINGDOM, JAPAN AND NORWAY



Source: EcoWin

IN CONTRAST to most countries, Oslo Børs's reference index at the end of 2001 was still below the level in effect prior to the terrorist strikes. The negative trend in the world economy led to downward pressure on prices of several important Norwegian exports such as oil and aluminium. This pushed down expectations of future earnings of several stock exchange locomotives. Moreover, Norges Bank, prompted by high capacity utilisation and consequent danger of high price growth in the Norwegian economy, found no room for stimulatory measures in the form of an interest rate reduction until December 2001.

SEVERAL CENTRAL BANKS lowered their key rates in the first half of 2001. Fears of a serious downturn as a result of the terrorist strike against the US led to further, steep, interest rate reductions. In the US the interest rate was cut to 1.75 per cent – the lowest level since

1961. Many other central banks followed suit. As early as at the start of 2000 long US rates began to edge down, and the terrorist action spurred a further fall. Belief in a continued decline in the share market and in short interest rates caused 10-years US bond rates to fall below 4.5 per cent in early October 2001. The autumn rise in the share market pulled long rates up somewhat. The fall in long rates in the US was followed by lower interest rates in all major international markets.

LONG INTEREST RATES showed wider fluctuation in Norway than elsewhere. A marked increase, peculiar to Norway, was evident in the first half of 2001 – probably reflecting sharply rising prices and a share market recovery in this period. From summer onwards, however, the pattern was more in keeping with the international trend. Both the share market and domestic prices are crucially significant to long interest rates. Lower long rates probably reflect the slower growth in the Norwegian economy that was in evidence in the first three quarters of 2001.

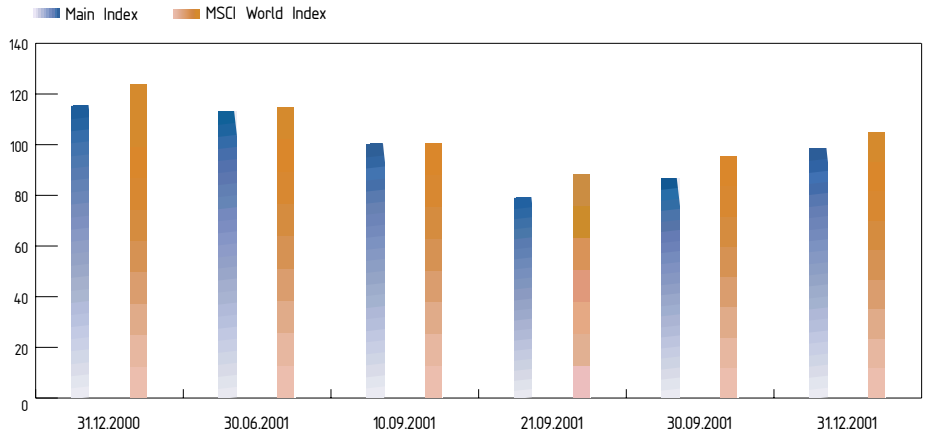
Impact of the terrorist strike on financial markets

The terrorist attacks did not result in appreciable problems for the financial infrastructure. In the US security trading halted for a few days. As a result some Norwegian security funds with exposure in the US were unable to post correct prices for US securities, prompting suspension of redemption rights in these funds. The Norwegian payments system operated as normal after the terror attacks.

NORWEGIAN non-life insurance companies were not directly affected by the attacks. Claims are largely covered by the major international reinsurance companies, and this will lead to a further increase in reinsurance prices over and above the increase that would have been seen in the absence of the terrorist attacks. Moreover, reinsurance companies will no longer offer coverage against terrorist attacks for certain items. This could mean that Norwegian insurance companies will be unable to offer their clients coverage against terrorist attacks. Airlines' insurance coverage was severely reduced in the wake of 11 September 2001, causing the authorities in Norway and elsewhere to step in as guarantors. Price increases and changes in reinsurance terms and conditions will for the most part affect non-life insurance companies from 2002 onwards.

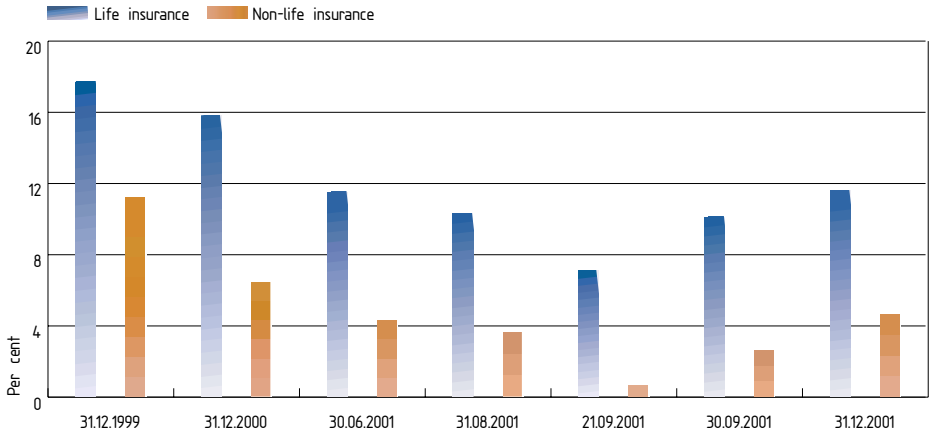
THE IMPACT of the terror strikes on Norwegian financial institutions was largely indirect. The share market slump brought negative results for insurance companies. Life insurance companies in particular experienced an arduous buffer capital situation, partly because their buffer capital was smaller in relation to assets under management at the outset, and partly because their share component was higher than among insurance companies. As of 21 September life insurance companies' buffer capital totalled a mere NOK 2.2 billion, compared with NOK 23 billion at the end of 2000. With little or no buffer capital beyond the statutory minimum capital requirement, several such companies could have been forced to sell off further share volumes if the negative trend continued. This would have affected their chances of providing clients with a satisfactory return in the long term, and might also have been unfortunate for the Norwegian share market.

CHART 6: SHARE INDICES AND WORLD INDEX (10.09.2001=100)



Source: EcoWin

CHART 7: BUFFER CAPITAL IN PER CENT OF TOTAL ASSETS*



Source: Kredittilsynet

*Preliminary reports for life insurance companies and estimates for the three largest non-life insurance companies.

THE AUTHORITIES took action in 2001 to strengthen life insurance companies' ability to meet the capital requirements. The steps taken enabled the companies to withstand additional losses of NOK 6 billion without falling below the minimum capital requirements. As a further step Kredittilsynet urged the companies to strengthen their financial position by bringing in fresh equity capital. The above measures combined with rising share values since 21

September 2001 enabled buffer capital to reach a level of NOK 18 billion by year-end. Despite their difficult financial position, no life insurance companies needed dispensation from the capital adequacy requirements.

PENSION FUNDS also saw a marked weakening of financial positions as a result of the share market slump. Companies were compelled to inject new capital into a number of pension funds. For banks and financial institutions with small shareholdings the impact of the events of 11 September 2001 was negligible. Banks, on the other hand, are affected by possible consequences of changes in growth in the real economy.

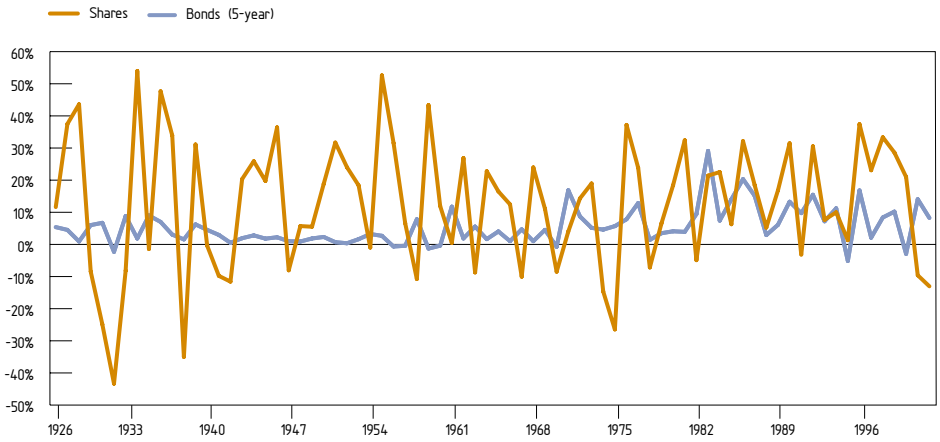
Security markets in a long-term perspective

Rates of return on bonds and shares show wide variation in historical terms, as seen in chart 8a. Average return in the period 1926-2001 for US shares was 12.5 per cent and for US bonds 5.5 per cent. Since 1926 return on shares has been negative in 22 of these years, on average every third year, while bond returns have been negative in eight years, i.e. almost every tenth year. In four periods, most recently in 1973-1974 and in 2000-2001, return on shares has been negative for two consecutive years or more, compared with only two periods in the case of bonds.

FOR SHARES the highest and lowest rate of return is, respectively, 54 per cent (1933) and a negative 43 per cent (1931). For bonds the corresponding figures are 29 per cent (1982) and a negative 5 per cent (1994). In 2001 share prices in the US fell by about 13 per cent (S&P-500). In this case the changes from trough to peak are bigger since the figures in the chart are confined to changes within a calendar year.

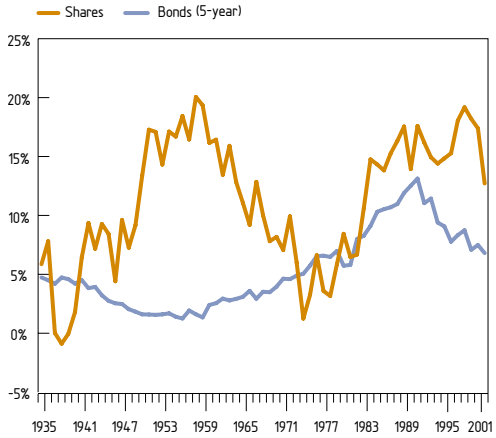
WHEN RATES of return are calculated over longer periods the impression is that share prices tend to return to a long-term positive rate. Calculations of rates of return over ten-year periods (revolving) between 1926 and the present, show the lowest average figure for shares in a ten-year period to be a negative 1 per cent, while the highest is a positive 20 per cent.

CHART 8A: ANNUAL RETURNS FOR SHARES AND BONDS IN USA 1926-2001



Source: Ibbotson Associates and Datastream

CHART 8B: AVERAGE ANNUAL NOMINAL RETURN PAST 10 YEARS; REVOLVING



Source: Ibbotson Associates and Datastream

ALTHOUGH, historically speaking, there seems to be a tendency for positive long-term rates of return in the share market, next year's development cannot be predicted on this basis. In recent years there has been discussion about whether or not international share values are too high, especially in sectors associated with "the new economy". After the share market slump in the period to September caused the ratio of share prices to company earnings in the US to fall from historically very high levels, the ratio recovered in the last part of 2001. Weaker US business earnings in 2001 pushed up the ratio between share price and earnings. There is much uncertainty in the share market. The market could in particular react negatively to information interpreted as implying increased danger of continued weak growth and lower productivity growth. Lower growth in productivity may be a result of the fact that various safety requirements introduced in the wake of the events of 11 September 2001 lay claim to substantial resources, without making a positive contribution to production. It is also possible that risk premiums demanded by share investors have risen.

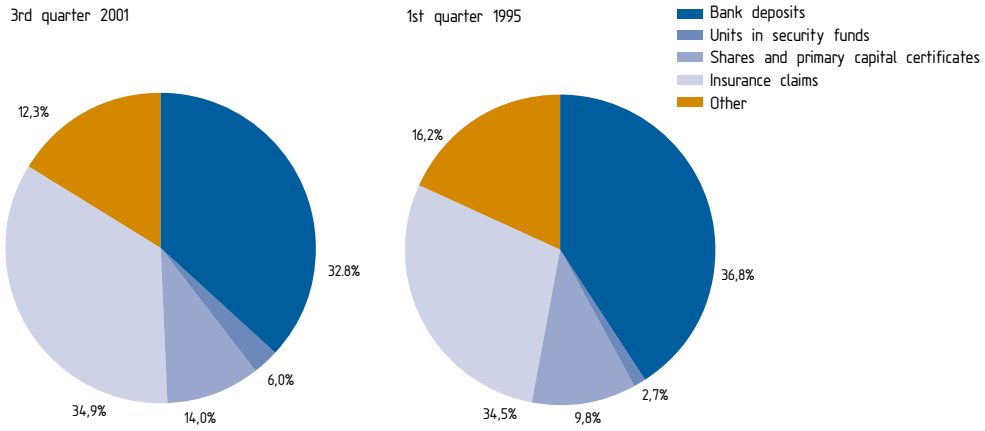
CO-VARIATION between US, Japanese and European share markets has increased. Reactions in the Norwegian market to international turbulence are often stronger than in other countries. This was seen when share prices dropped in the US in 1987, during the ERM breakdown in 1992, in 1998 and again in the autumn of 2001. Oslo Børs, for example, plummeted 45 per cent during the Russian crisis in the autumn of 1998, while Morgan Stanley's world index fell about 21 per cent. Moreover, it takes longer for the Norwegian market to regain lost value. This was seen in 1998, and again in 2001. One reason could be the relatively larger share of commodity-based companies, including oil, on Oslo Børs, where earnings are sensitive to changing conditions in the international economy. There seems to be no support for the view that the large share of foreign investors on Oslo Børs (about 30 per cent) has a destabilising effect.

Savings market

Households' disposable income has risen strongly in recent years. Although debt has grown more quickly than incomes in recent years, the savings rate has remained at a high level. Households' net financial asset position declined somewhat in 2001, partly as a result of the share market slump, but nonetheless measured more than 55 per cent of disposable income at the end of the third quarter. This is markedly higher than in the 1980s. Concurrently rising house values have sharply increased the value of residential assets over the past eight years.

CHART 9: HOUSEHOLDS' FINANCIAL ACCOUNTS, 2001

CHART 10: HOUSEHOLDS' FINANCIAL ACCOUNTS, 1995

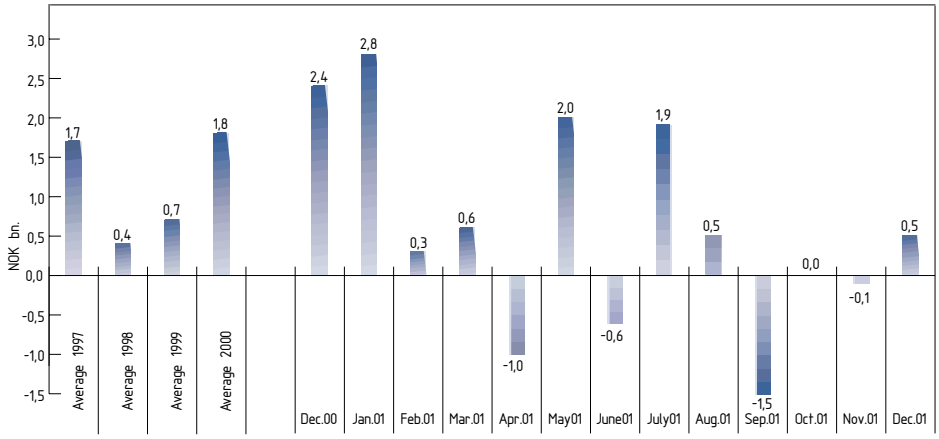


Source: Norges Bank

THE COMPOSITION of households' financial wealth has shown a clear-cut switch in recent years from traditional bank deposits to shares and investment in security funds. Household sector savings in the securities market accounted for 20 per cent of the sector's overall financial wealth at the end of the third quarter of 2001, compared with 11 per cent in 1990 and 12.5 per cent in 1995. In particular units in security funds showed growth, from just under 3 per cent in 1995 to 6 per cent at the end of the third quarter of 2001. This is largely matched by a falling share of bank deposits.

ASSETS UNDER management in Norwegian-registered funds totalled NOK 131.9 billion at end-2001. At end-2000 the figure was NOK 142.2 billion. The decline across the year is largely ascribable to the share market slump. More than half of the assets under management were invested in equity funds, a third in money market funds. In keeping with the positive trend in the share markets, a high monthly net subscription (i.e. new subscription less redemption of fund units) in Norwegian-registered funds was registered in 2000. In 2001 net subscription was lower and showed wider variation. This probably reflects market turbulence, and in particular the events of 11 September 2001. The household sector's changed saving pattern means that households are more exposed to securities market swings. Even so, the trend in wealth investment in the direction of greater emphasis on the securities market is expected to continue.

CHART 11: TOTAL NET SUBSCRIPTION IN NORWEGIAN SECURITY FUNDS (NOK BN)

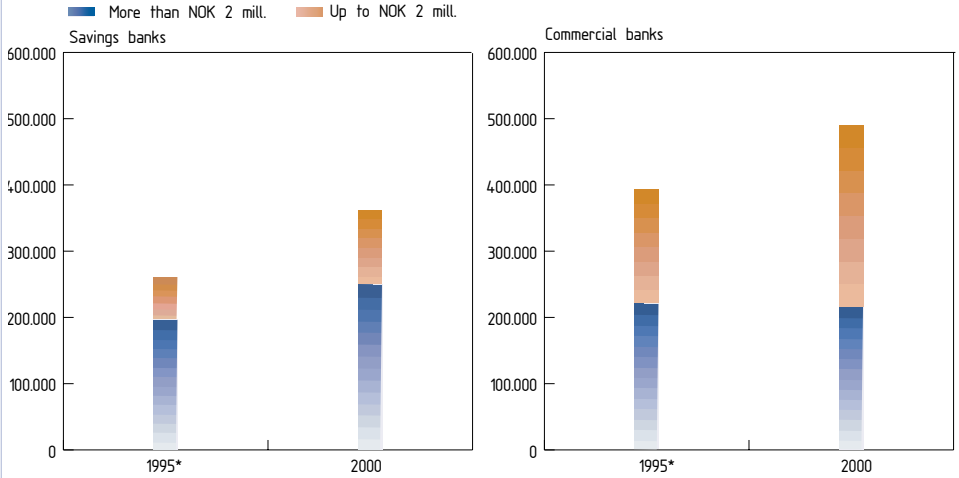


Source: Norwegian Mutual Fund Association

Large bank deposits

The Norwegian Act on Guarantee Funds from 1996 confers on all depositors a guarantee of up to NOK 2 million per institution. Deposits from financial institutions are not covered. The banks' guarantee funds were established to secure depositors' funds in Norwegian banks, and participation by banks in their particular guarantee fund is mandatory. Chart 12 and 13 illustrate the trend in gross lending and deposits by size of account, including deposits from and loans to financial institutions. The share of deposits in excess of NOK 2 million in savings banks rose from 30.9 per cent in 1995 to 37.7 per cent in 2000. For commercial banks the share rose from 52.1 per cent to 63.4 per cent. Deposits from financial institutions rose in the same period, so that part of the increase in deposits in excess of NOK 2 million refers to deposits from financial institutions. The trend in the direction of a greater share of large deposits may also indicate that parts of the growing financial wealth continue to be deposited with banks.

CHARTS 12 AND 13: TOTAL DEPOSITS IN NOK MILLION, SAVINGS BANKS AND COMMERCIAL BANKS

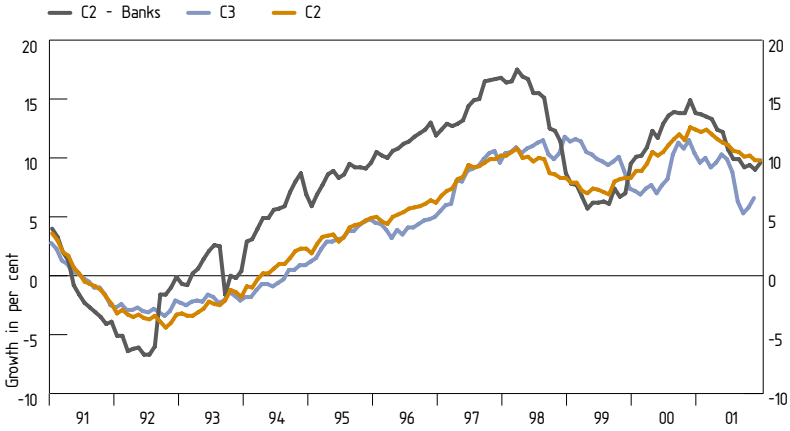


Source: Kredittilsynet
* 1995 is adjusted for the price increase in the period.

Credit markets

Domestic growth in credit to households, enterprises and municipalities (C2) has been high in recent years. The twelve-month rate of growth showed a falling tendency through 2001. In December growth was at 9.8 per cent compared with 12.4 per cent in December 2000. Growth in C2 was, however, still substantially higher than nominal GDP growth, and remained high towards end-2001 despite somewhat lower activity levels in the Norwegian economy. Total credit (C3), including credit from foreign sources, has also been high in recent years, but fell in 2001 from 10.8 per cent at end-2000 to 7.0 per cent at end-November 2001. Growth in total credit to Mainland Norway (excl. petroleum and shipping) also fell, measuring 7.3 per cent at end-November 2001.

CHART 14: CREDIT GROWTH



Source: Norges Bank

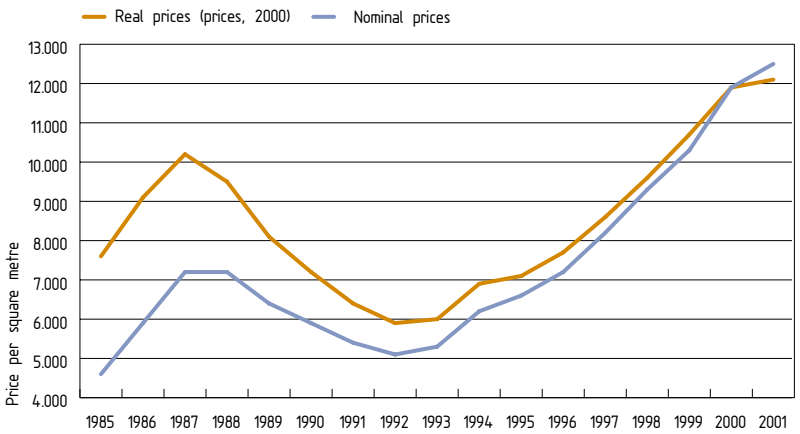
AMONG BORROWERS, it is above all non-financial enterprises that have reduced borrowing growth, with growth cut roughly by half over the past year to 7.6 per cent in December 2001. The decline is related to lower activity levels and investment rates, as well as increased uncertainty and lower expected future earnings in a number of sectors. High employment and high activity in the housing market with a continuing rise in prices contributed to quickening credit growth in 2001, from 10.3 per cent at end-2000 to 11.4 per cent in December 2001.

NORWEGIAN BANKS account for almost two-thirds of domestic credit, and the sector is of major significance for domestic credit growth. In December 2000 credit from banks grew 13.8 per cent, but in keeping with the economic slowdown growth subsided to 9.6 per cent in December 2001. More than half of total bank lending was secured by mortgages on dwellings, while loans to commercial property operations accounted for about 16 per cent.

Property market

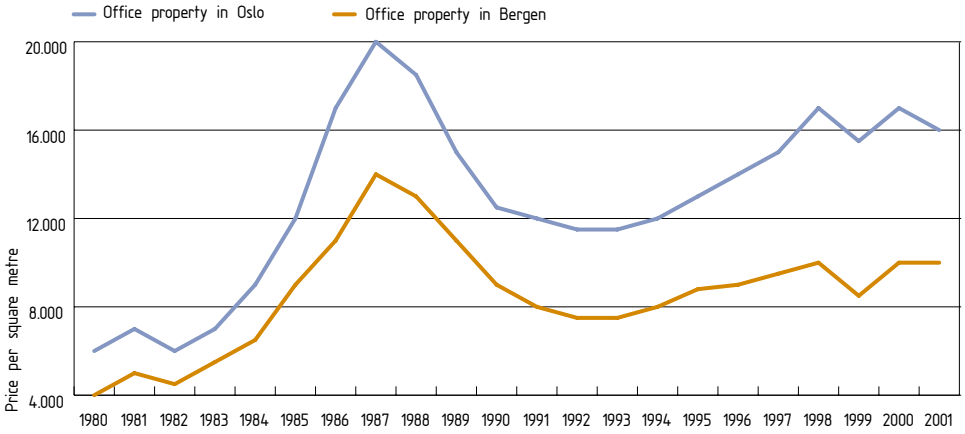
The vigorous growth in house prices declined somewhat in 2001. Between the fourth quarter of 2000 and the fourth quarter of 2001 prices rose 6 per cent. The increase from the third to the fourth quarter of 2001 was 2 per cent (seasonal adjusted). In real terms the level of house prices at the year-end 2001 was 23 per cent higher than in the peak year 1987. There was a large increase in building starts in 2001. The trend in house prices ahead is uncertain. The current high price level, the scope of new construction and the uncertain economic outlook suggest slower price growth, while the household sector's sound financial position, the prospect of somewhat lower interest rates and factors such as the increasing number of single-person households and urbanisation suggest continued high price growth. The trend in house taxation will also play a part. Regional differences in the property market can be expected, and unemployment has a key role in this respect. In areas where the export industry is important for employment, failing demand for dwellings may be particularly noticeable.

CHART 15: PRICES, 2000 OF EXISTING HOMES



Source: NEF/ECON

CHART 16: PRICES OF COMMERCIAL PROPERTIES



Source: OPAK

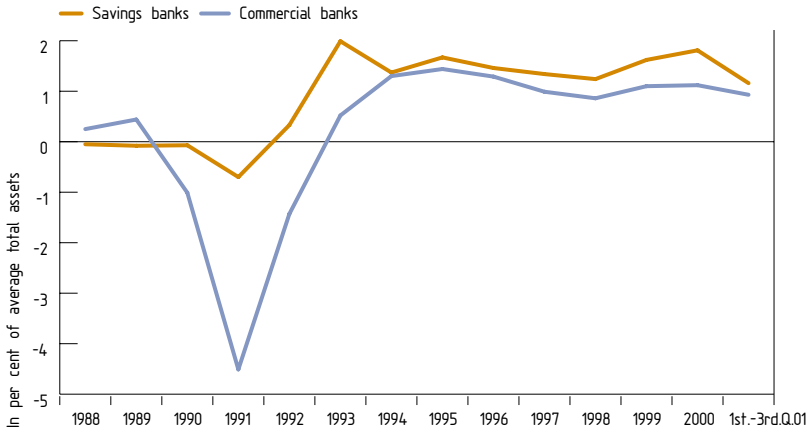
THE TREND in the market for commercial property was clearly weaker than in the house market in 2001. While prices for office premises in Oslo started to fall, in other towns in Norway they levelled off. Turnover of commercial property was very low in the autumn. A rise in vacant floorage contributed to lower rental prices, which is likely to continue ahead. However, the stage is set for wider price differentials between desirable and less desirable premises.

FINANCIAL INSTITUTIONS

Banks

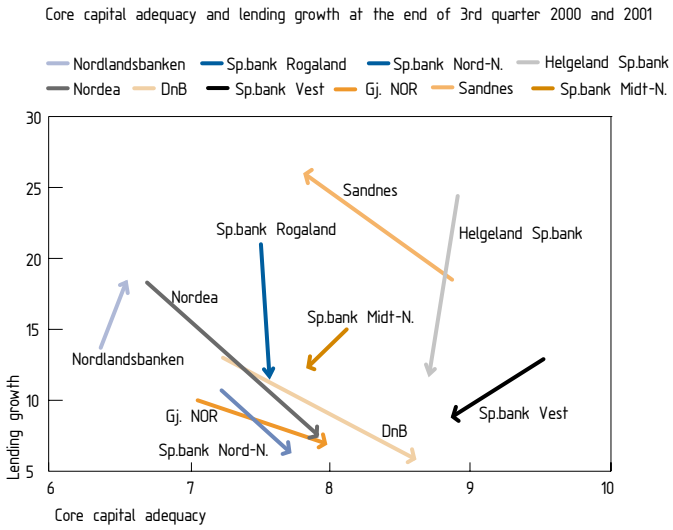
Commercial and savings banks both recorded weaker profits in 2001 than in the previous year. Due to major one-time gains in 2000 savings banks in particular showed markedly reduced profits before tax. But, even apart from this, there was a clear decline in pre-tax operating profit among savings banks. Both groups improved their overall capital adequacy. This was due both to retained earnings achieved in 2001 and to share and other capital brought in from external sources. The change in the capital adequacy rules in the second quarter of 2001 referring to risk weighting of home loans between 60 and 80 per cent of property valuation also helped to improve banks' capital adequacy. The three largest banks (DnB, Nordea and Union Bank of Norway) reduced their lending growth and improved their capital ratios (chart 18). Other medium-size banks improved their capital ratios. On the other hand, the strong expansion at several smaller and medium-size banks served to weaken core capital adequacy in these banks.

CHART 17: DEVELOPMENT IN THE BANKS' RESULTS BEFORE TAX



Source: Kredittilsynet

CHART 18: CORE CAPITAL ADEQUACY AND LENDING GROWTH*



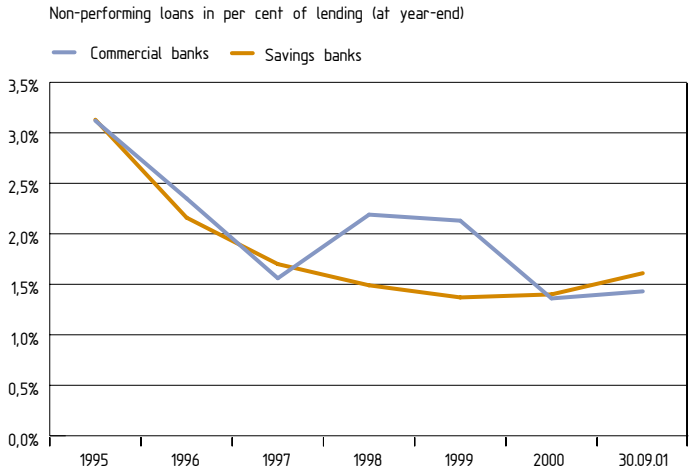
Source: Kredittilsynet

IN RECENT YEARS net interest revenues have accounted for about 70 per cent of total operating revenues (excluding gains on securities and foreign exchange) in the case of commercial banks and 80 per cent for savings banks. The competitive situation has put banks' margins under pressure in recent years. Despite the upturn in the second half of 2001, savings banks' net interest revenues were at a lower level than in the same period of the previous year. Commercial banks maintained the previous year's level.

NORWEGIAN BANKS' exposure to market risk is low, and total losses on shares after three quarters of 2001 were therefore limited. A weak market trend contributed to lower revenues from secondary market trading in shares. Bank *lending secured by securities* entails risks associated with securities market fluctuations, and calls for careful follow-up by the banks. Kredittilsynet's survey of a large number of banks showed that loans secured by securities accounted for 3 per cent of overall lending. Banks that were relatively more heavily exposed to such lending than the average appear to have better routines for proper handling of such credits. The scale of payments problems in respect of loans in the portfolio in question was small, even after the weak market trend in the period to September 2001.

THE SOUND BANK results of recent years are in part ascribable to the very low level of loan losses. Of late there have been signs of a slight increase in losses among some medium-size and small banks. Given the more uncertain economic outlook ahead, loss risk can also be expected to grow. This is confirmed by the recent rise in the volume of loans defaults, particularly among medium-size and small banks. In terms of total lending the level remains low. In a letter of 20 December 2001 Kredittilsynet asked the banks to assess whether their loss provisions were adequate in relation to risk in their loan portfolio.

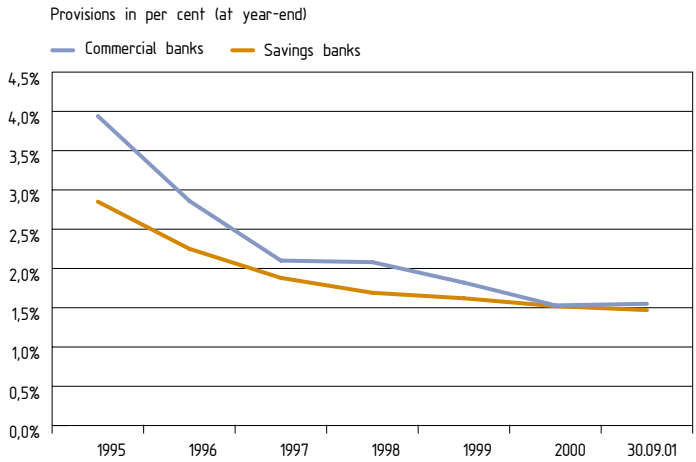
CHART 19: DEVELOPMENT IN NON-PERFORMING LOANS



Source: Kredittilsynet

KREDITTILSYNET'S *home loan survey* in the spring of 2001 showed a higher proportion of bank loans to home buyers with a high loan-to-value ratio than in the previous year. Almost a third of the portfolio showed a loan-to-value ratio in excess of 80 per cent of a prudent valuation of the mortgaged property. The proportion of loans with a loan-to-value ratio in excess of 100 per cent also increased. The risk that banks will incur major losses on home loans is limited, although the continued strong growth in lending to the household sector may increase the risk somewhat. On the other hand, easy access to home loans involving

CHART 20: DEVELOPMENT IN PROVISIONS



Source: Kredittilsynet

high loan-to-value ratios could put the individual borrower at risk. Moreover, recovering such loans could involve costs and discomfort for banks. With expectations of a relatively weak trend in the economy, and some growth in unemployment, it is important that banks' credit practices take sufficient account of the possibility that borrowers could suffer income reductions.

IN 2001 KREDITTILSYNET investigated banks' exposure to particularly *cyclically exposed industries*, in the first instance shipping, shipbuilding, offshore, oil and gas, ICT and fish farming. Bank lending to ICT enterprises remains at a low level. However, the risk on these loans has risen markedly. Banks' exposure and risk in relation to the offshore industry rose substantially, although here too overall exposure is low. In the case of the other industries banks' evaluation of risk showed little change from the previous year. Banks' exposure to fish farming is relatively modest, and their exposure to travel and tourism accounts for about 6 per cent of their total gross lending.

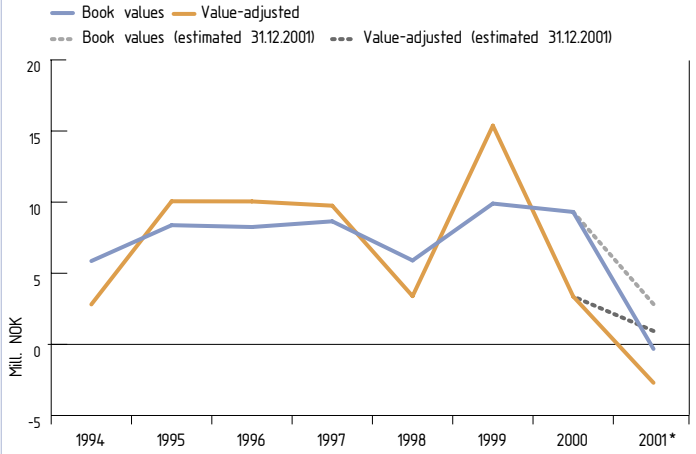
A VERY LARGE proportion of Norwegian banks' business loans refers to commercial properties. Weaker growth in the economy and possible higher unemployment, combined with completion of projects started under a more favourable economic outlook, could create a larger share of vacant floorage. This could increase banks' credit risk and in the longer term translate into higher losses.

Life insurance companies

Life insurance companies' results are greatly affected by developments in security markets. The trend in these markets has led to a sharp reduction in the companies' earnings on financial assets. For the first to third quarter of 2001, value-adjusted return on capital, which takes account of changes in fluctuation reserves, was a negative 3.1 per cent (annualised). This compares with a positive 3.4 per cent in 2000 and as much as 15.4 per cent in 1999. The value-adjusted result showed a loss of NOK 17.4 billion for the first three quarters of 2001 compared with a profit of NOK 3.5 billion in the same period of 2000. The share market reco-

very in the fourth quarter, at just over 13 per cent on Oslo Børs, and close to 10 per cent internationally (world index), will produce somewhat better results for 2001 as a whole. Chart 21 illustrates this picture using estimates for return on capital.

CHART 21: DEVELOPMENT IN LIFE INSURANCE COMPANIES' CAPITAL YIELD*



Source: Kredittilsynet
* Unbroken lines (2001) apply to after the first three quarters (annualised).

ALL LIFE INSURANCE companies depleted their fluctuation reserves in 2001. After a substantial reduction in the third quarter, buffer capital increased through the fourth quarter to reach about NOK 18 billion at the end of 2001. Some companies reduced their shareholdings somewhat in the third quarter of 2001 in order to maintain a satisfactory capital adequacy ratio. Alltogether, life insurance companies' share component was reduced by 7 percentage points in the third quarter to 18 per cent of assets under management. After the upturn in the fourth quarter the share component was 20 per cent.

TABLE 15: DEVELOPMENT IN BUFFER CAPITAL 4. QTR 1999 TO 4. QTR 2001 - LIFE INSURANCE COMPANIES IN TOTAL*

	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Surplus core capital	4.135	4.535	4.291	4.206	4.440	4.301	5.460	4.918	**6.711**
Supplementary provisions**	8.712	9.517	9.535	9.555	10.603	10.048	10.043	4.662	**10.145**
Fluctuation reserves	27.065	26.265	19.436	17.396	7.917	752	987	0	**1.242**
Buffer capital	**39.912**	**40.316**	**33.263**	**31.157**	**22.960**	**15.101**	**16.490**	**9.580**	**18.098**

Source: Kredittilsynet
* Based on preliminary reports.
** This includes supplementary provisions up to a level not exceeding the guaranteed minimum interest for the year, less supplementary provisions used to calculate core capital.

FOR LIFE INSURANCE companies, market risk related to developments in international security markets, especially share markets, is high. Table 16 illustrates the results of a stress test defined by a 20 per cent fall in Norwegian and international share markets and a simultaneous upturn of 1 percentage point in long interest rates. The test gives an indication of the scale of market fluctuations that life insurance companies can withstand before their buffer capital is depleted and they no longer meet the minimum capital requirements.

TABLE 16: STRESS TESTS FOR LIFE INSURANCE COMPANIES AT 31 DECEMBER 2001 AND 21 SEPTEMBER 2001

	Buffer capital prior to stress test	Fall in value of shareholding		Fall in value of bond holding		Buffer capital after stress test
NOK million		Norwegian	Foreign	Norwegian	Foreign	
Stress test as at 31.12.	**18.098**	-5.703	-8.710	-1.964	-3.912	**-2.192**
Stress test as at 21.09.	**2.211**	-4.585	-8.018	-1.433	-3.296	**-15.123**

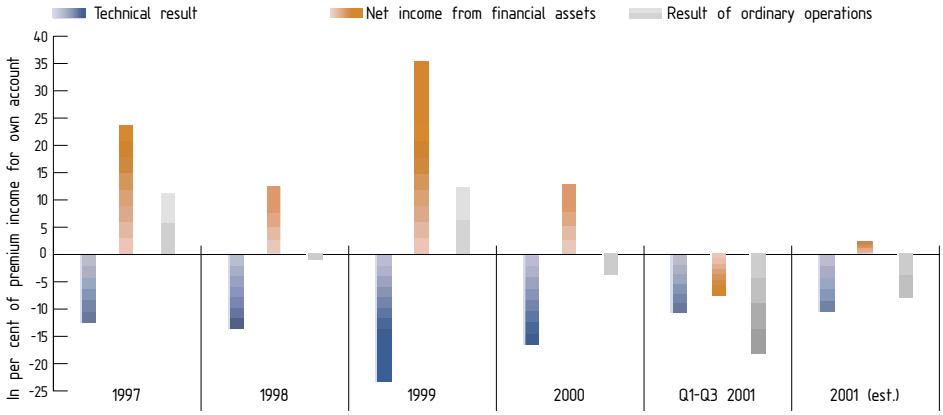
Source: Kredittilsynet

COMPANY STRESS TESTS are performed on the basis of the companies' buffer capital as of 31 December 2001 and 21 September 2001 respectively. The upturn in buffer capital after the markets bottomed out on 21 September 2001 meant that the companies, based on the situation at the end of 2001, could collectively cope with a 20 per cent fall in the share market. In the event of a simultaneous interest rate rise of 1 percentage point, this would not be the case. As seen in table 16, the companies were far from able to withstand a further market slump after 21 September 2001.

Non-life insurance companies

The sharp fall in share markets in 2001 led to substantial losses in the non-life insurance industry. Improved underwriting results could only to a small extent make up for the steep fall in financial revenues. This confirms, for non-life insurance companies too, that exposure to security markets is crucial for individual years' results.

CHART 22: RESULTS, NON-LIFE INSURANCE COMPANIES



Source: Kredittilsynet

The three biggest non-life insurance companies. Calculated return on technical provisions is deducted from the results of the technical account.

UNDERWRITING results in 2001 entail a marked improvement compared with the two preceding years when underwriting results were very weak. In light of their poor performances the companies raised prices both in 2000 and 2001, leading to an improvement in the ratio of claims expenses to premium earnings. The premium increases together with very limited cost growth brought a marked improvement in the ratio of operating expenses to premium earnings. For the impact of the events of 11 September 2001, see the discussion above. The share market recovery in the fourth quarter will produce an improved result for the year for 2001 compared with the result after the first three quarters, as indicated by the projection in chart 22.

Investment firms

Investment firms' operating revenues vary with the developments in security markets. Overall operating revenues for all firms for the first three quarters of 2001 came to NOK 5.3 billion, or NOK 0.9 billion less than in the same period of 2000. Overall operating profit reported by investment firms after the first three quarters of 2001 amounted to about NOK 650 million. Operating profits do not include investment firms tied to banks since their operating expenses are not directly comparable with other investment firms' operating expenses.

BROKER'S COMMISSION on trading in equity capital instruments in investment firms was 36 per cent lower in the first three quarters of 2001 than in the same period of 2000. Revenues from issuance and advisory activities dropped 25 per cent. Overall assets under management totalled NOK 374.7 billion at the end of the third quarter of 2001, of which 27 per cent referred to equity capital instruments, 66 per cent to debt instruments and 6 per cent to bank deposits.

Risk faced by financial groups

Mixed financial groups have seen a substantial increase in their share of the Norwegian financial market in terms of total assets in recent years. Whereas in 1998 there were seven mixed groups with market share of 62 per cent, at the end of the third quarter of 2001 there were five groups with 63 per cent of the market. Hence the Norwegian market is dominated by mixed groups.

NORWEGIAN LAW is intended to prevent financial problems in one operative company in a group from directly feeding through and translating into problems in other parts of the group. This applies in the first instance in the relationship between banking and insurance. The groups' overall profitability and financial strength will be affected nonetheless. The risk of problems in one company in the group spreading to other group companies was illustrated by the negative trend in insurance companies after the share market slump. Insurance companies' financial strength at the end of the third quarter was materially weakened. Banks, on the other hand, are less exposed to sharp falls in security markets. Hence a particularly negative trend in share markets in the first instance affects profitability in groups with substantial operations in life and non-life insurance.

IN THE PRESENT SITUATION market risk in particular is high. Thanks to the rules in force and the mixed groups' legal structure, the direct spread of contagion to the banking arm in the event of solidity problems in non-life and life business will be limited. At Union Bank of

Norway and Den norske Bank negative insurance results have no direct consequences for the banks' accounts. In the SpareBank 1 Group the banks are affected through their ownership interests in the group. However, confidence in the banking arm of a group could suffer as a result of a negative out-turn in the insurance arm. In a situation of declining share markets and general economic downturn the danger of a concurrent materialisation of market and credit risk will also be present.

Structural changes in financial markets

The European banking and insurance market has seen substantial structural changes over time. Deregulation of financial markets, new technology and demographic changes have confronted financial institutions with new competitive challenges. Strategies chosen to meet these challenges have been mergers, takeovers and formation of alliances between banks, but also between banks and insurance companies. Activity in this sphere has been greatest in North America, although it has also grown in Europe. The biggest mergers and takeovers in Europe have for the most part taken place inside the particular country, which has helped to build up a strong national financial sector.

AS ELSEWHERE in Europe the Nordic financial market has for some time been the object of extensive restructuring. The structural changes have featured formation of financial groups offering a broad range products. Although the bulk of the mergers and takeovers in the Nordic financial sector have taken place within the particular country, the strategy of the largest Nordic players in recent years has gone in a Nordic direction. The process has come farthest in the non-life insurance and banking market.

TABLE 17 shows the structural evolution of the Norwegian financial market from 1995 to 2001. A substantial consolidation has taken place over time. In 1995 the Norwegian financial market featured three mixed groups with a market share of 25 per cent of the total sector. In the years up to 1998 a substantial consolidation took place across sectoral divides, and the number of mixed financial groups rose to seven. Compared with 1995 the market share of the mixed groups rose considerably in all markets. By 2001 the number of mixed groups was down to five, with a market share of 63 per cent of the total financial sector. Den norske Bank took over Skandia's asset management operation in January 2002, giving Den norske Bank a substantial share of the Nordic asset management market.

TABLE 17: MARKET SHARES* FOR MIXED FINANCIAL GROUPS IN PER CENT OF FINANCIAL SECTOR 1995-2001**

1995		1998		2001	
		DnB	17	DnB	19
CBK	12	CBK	11	Nordea/CBK/Vesta	12
Sparebanken NOR	8	Sparebanken NOR	10	Gjensidige NOR	15
Gjensidige	5	Gjensidige	6		
		Storebrand	7	Storebrand	6
		SpareBank 1 / Collaborating s. banks	8	SpareBank 1 / Collaborating s. bank	10
		VÅR	1		
Total financial groups	**25**		**62**		**63**

Source: Kredittilsynet
* Third quarter 2001
** In terms of total assets.

TABLE 18 shows that concentration is greatest in securities, life insurance and banking where mixed groups' market share is about 70 per cent. In the other Nordic countries concentration in the banking sphere is far stronger. In the non-life insurance market, groups have market share of 46 per cent of assets under management. Market shares based on gross premiums due are somewhat higher. At the present time the Gjensidige NOR group is the closest to a pure mixed group in which both insurance and banking account for a substantial part of overall assets under management. The other groups have a clear preponderance either in banking or insurance.

TABLE 18: MARKET SHARES FOR MIXED FINANCIAL GROUPS AS AT 30 SEPTEMBER 2001 IN PER CENT OF TOTAL MARKET

		Finance and mortgage				Total financial
% Total assets	Bank	companies	Securities	Non-life*	Life	group
DnB	24	5	21	0	17	19
Gjensidige NOR	15	11	21	28	15	15
Nordea/CBK/Vesta	15	8	10	13	6	12
SpareBank 1 / Samarb. sp.b.	14	1	11	5	3	10
Storebrand	2	0	9	0	27	6
Total financial groups	**70**	**25**	**72**	**46**	**69**	**63**

Source: Kredittilsynet
* Market share in non-life insurance is 49 per cent measured as share of gross premium income.

NORWEGIAN financial institutions operate in an increasingly open and international market. Deregulation of financial markets, the general internationalisation of business and industry and the evolution of services based on new technology, have made it simpler and more attractive for foreign institutions to carry on business in Norway.

TABLE 19 shows that foreign institutions are playing a bigger role in Norway. This is especially true of banks, finance and mortgage companies and non-life insurance companies. In the banking market branches of foreign banks and foreign-owned banks have acquired substantial influence, and account for 26 per cent of aggregate total assets in the banking market. This share rose markedly when Fokus Bank and Kreditkassen were bought up by foreign banks. The market share of foreign subsidiaries and branches has grown in the case of finan-

ce and mortgage companies too. International competition in the insurance market has come a lot farther in non-life insurance, especially reinsurance, than in life insurance. This is essentially because non-life products are simpler to sell across national boundaries, whereas life products need to a greater degree to be adapted to each country's tax rules. Storebrand's sale of its non-life insurance business to If, of which Storebrand is a co-owner, entailed a substantial consolidation in the Nordic non-life insurance market, and foreign companies' market shares in the Norwegian market rose appreciably.

TABLE 19: FOREIGN BRANCHES AND SUBSIDIARIES IN PER CENT OF TOTAL ASSETS FOR THE SECTORS

	1995	1998	2001*
Banks	4	5	26
Finance and mortgage companies	7	9	20
Life insurance	0	6	6
Non-life insurance (of gross premiums due)	17	21	49

Source: Kredittilsynet
*Third quarter 2001

FURTHER, foreign takeovers of Norwegian financial groups seem unlikely in the short term. The government still holds a blocking stake in Den norske Bank, which itself holds a blocking stake in Storebrand. The savings banks in the SpareBank 1 Group cannot be bought up for the time being, and even after the possible conversion of Gjensidige NOR to limited company status a takeover is unlikely since the new foundation and the non-life company will hold sizeable blocking stakes. Den norske Bank has signalled its interest in merging with Storebrand.

Outlook ahead

The situation for Norwegian financial institutions seems satisfactory even allowing for the somewhat lower activity anticipated in the Norwegian and international economy ahead. Some increase in banks' loan losses can be expected, and market risk among insurance companies will be high. However, the authorities' leeway in fiscal and monetary policy makes room for stimulatory measures should the economy and price inflation prove weaker than projected. A far-reaching setback in the real estate and housing market is therefore unlikely.

HOWEVER, there is considerable uncertainty about economic developments ahead, and the possibility of a far more negative international picture than that projected by forecasting institutes cannot be ruled out. This could have negative consequences for exposed industries and regions. The increased use made of the oil revenues over the government budget could exacerbate the problems of adjustment. Increased turbulence in international security markets will also have direct repercussions for institutions facing high market risk.

LIFE INSURANCE COMPANIES' buffer capital was seriously impaired in the first three quarters of 2001. The upturn in share markets after 21 September 2001 and action taken by the authorities improved the companies' financial position. However, uncertainty in international security markets is considerable. Buffer capital needs to be strengthened to prevent steep market falls from reducing share components to less than favourable levels for customers and owners alike in the long term.

NON-LIFE INSURANCE COMPANIES' results were very weak after three quarters of 2001 due to the poor share market trend. There are signs of improved underwriting results on the back of premium increases and other steps taken by the companies in 2000 and 2001. The increase in reinsurance premiums as result of the events of September 2001 will, however, counteract the tendency for improvement. Non-life insurance companies are somewhat less exposed to market risk than life insurance companies, and the weakening of their financial positions in the event of stock market declines is less marked.

BANK RESULTS after three quarters of 2001 show somewhat weaker profits than in the two preceding years, when results were excellent. Growth in bank credit is edging down, and core capital adequacy is somewhat improved. The debt and interest burden among households and in particular enterprises is rising, however, and a substantial credit risk may have accumulated after several years of high lending growth. Although still low, defaults and losses are increasing. The uncertain outlook for the Norwegian and international economy ahead suggests that this trend may continue. The high lending growth in several small and medium-size banks continued in 2001, and their financial positions were impaired.

THE NORWEGIAN financial market is dominated by large mixed financial groups. Although Norwegian banks are not directly affected by share market falls, the profitability of mixed groups, of which the banks are part, is vulnerable. In only one of the three Norwegian-owned, bank-dominated mixed groups would impaired earnings in the insurance arms directly reduce the banks' profits. Hence there is little danger that the banks in these groups would be affected by serious contagion in the first instance.

THE INTERNATIONAL financial industry is still marked by consolidation within national borders, except in some regions, such as the Nordic one. Moreover, most of the consolidation is within the same industry. Another strong tendency is for takeovers/mergers to dominate in relation to alliances and organic growth. Expectations of a new capital adequacy regime may lead to further consolidation. In the Nordic region the next development may be a large non-Nordic bank taking over one of the bigger Nordic institutions. Further Nordic consolidation in non-life insurance is also possible.

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Kredittilsynet's objective is to make this website a meeting place for communication with the world at large, and a place for communicating information and documentation to prioritised target groups.

The website gives an overview of Kredittilsynet's role and functions and is organised with a basis in the areas under Kredittilsynet's supervision. The website contains Kredittilsynet's circulars, press releases, annual reports, other reports, consultative statements and presentations etc. It also contains links to key financial legislation.

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