Annual Report 2008

GIEK Garanti-instituttet for eksportkreditt

Contents

Annual Report

GIEK's objective is to promote Norwegian exports – by issuing guarantees on behalf of the Norwegian Government. Since 1994 GIEK has been organised as a public enterprise under the Ministry of Trade and Industry and its registered office is in Oslo.

What GIEK offers to export oriented businesses has been the subject of increased focus in connection with the financial crisis. The markets served by GIEK have been growing strongly but market outlook has swung significantly from optimism during the first half of 2008 to wait-and-see pessimism in the second half.

The unrest in the international finance market turned significantly worse in September 2008. Growth in the global economy has been greatly reduced and for many large economies it is negative. There is an increased risk of cancellation of contracts, delays and lower sales volumes.

GIEK's exposure limits were increased as a means of dealing with the financial crisis. The board is satisfied that GIEK has secured a solid framework for ongoing activities and that GIEK will contribute to the success of Norwegian exporters. The increase in exposure limits allows for participation in more transactions, but it does not affect the risk assessment of individual cases. The increase in the Developing Country Scheme funds and limits increases the ability to take on projects in countries with a higher risk than for the General Guarantee Scheme.

2008 has seen a high level of activity with many large cases and few new claims. In the accounts, GIEK sets aside provisions for possible losses according to the risk associated with the total portfolio. Exchange rates also have a great impact on this loss provision, since over 80 % of the liability is in USD. A large increase in guarantee volume as well as in the dollar rate in the second half of the year, have resulted in high loss provisions. The financial crisis and its effects have also led to higher risk, and increased loss provisions have consequently been made for the guarantee schemes in 2008. Against this background, a special review has been made of all cases over NOK 0.5 billion as well as defaulted cases, and a bloc increase in loss provision on these cases has been made. In total this represents a considerable cost, and as a consequence the overall results of the active schemes are negative. Liquidity at the beginning of 2009 is satisfactory.

In 2008 GIEK issued 131 guarantees for new export contracts with a total value of NOK 41 billion (33 in 2007) in addition to NOK 15 (6) billion comprising 19 newbuilding contracts for ships. Transactions in the maritime sector and oil and gas continue to dominate. Guarantees for substantial sums have been issued to these sectors in connection with sales by numerous Norwegian equipment suppliers.

Most of the larger guarantees cover long term credits in which GIEK shares the risk with lenders or other banks. In 2008 GIEK participated in seven new contracts where the guaranteed amounts exceed NOK 0.5 billion. At year end a total of 18 commitments had been issued in which GIEK's liability exceed NOK 0.5 billion. The largest single commitment is for NOK 3.1 billion involving Reliance Industries Ltd (India), while the sums for Marathon Oil Corp. and Qatalum Aluminium Ltd are over NOK 2.5 billion each. All these cases fall under the General Guarantee Scheme. The first two concern equipment deliveries to the oil industry. The third is a guarantee issued in connection with Hydro's aluminium project in Qatar. Very often the large deliveries are put together as a package in which only one of the exporters is listed as the guarantee recipient. The sub-contractors do not appear in GIEK's summaries.

GIEK's subsidiary company, GIEK Kredittforsikring AS (GK), has also seen strong growth. Autumn 2008 led to an exceptionally high number of enquiries and applications for coverage. This reflected the squeeze that the private market had put on short term credit. GIEK is directly exposed here as reinsurer of so-called non-marketable risk. Towards the end of 2008 there was a substantial increase in the number of default cases for short term credit.

In February the OECD introduced new rules for responsible lending and guarantees, with requirements for assistance funds when governmental guarantee institutes within the OECD participate in the financing of exports to public purchasers in low income countries. The board points out to the Ministry that, because Norway does not offer mixed credits as presupposed in these rules, many exporters in other countries have a competitive advantage.

GIEK strives to make environmental consideration, both with regards to its own operations and in the assessment of guarantee cases. The assessment of cases that have a major environmental risk is reported to the OECD. One such case was reported in 2008. The board have implemented procedures for GIEK that are somewhat stricter than the OECD requirements. This involves that smaller cases and cases involving ships are also assessed for environmental effects.

The board has provided their input beyond the normal budget input to the so-called action packs in connection with the financial crisis. Many of these proposals have been put forward by the board previously, or in the evaluation report on GIEK.

The board notes with satisfaction that the Storting has decided that the exposure limit can, if necessary, be increased to 110 billion kroner for the General Guarantee Scheme and 8 billion kroner for the Construction Loan Guarantee Scheme. This sends a clear signal to the outside world of the emphasis that is put on the state guarantee instrument and it provides predictability with regards to GIEK's capacity for both banks and exporters.

General Guarantee Scheme

This is GIEK's main activity. Under this scheme, GIEK has contributed to export contracts worth NOK 41 billion in 2008. These are mainly guarantees issued to lenders. Counter guarantees for bonds are mainly issued in connection with contracts for newbuilds at Norwegian shipyards, for which guarantees have also been issued under the special guarantee scheme for construction loans for Norwegian shipyards. There has been a marked increase in coverage of documentary credit, often for large amounts. This reflects the global financial situation, as well as the need to secure transactions and help increase capacity for the banks. Coverage of documentary credit is also used in cases where deliveries have begun but long term financing is not yet in place.

The General Guarantee Scheme is to be operated according to the requirement that it should break even in the long term. At the end of 2008 there is negative equity of NOK 31 million, following a high level of provisions for potential future losses. GIEK issues guarantees on behalf of the Norwegian Government. The last time the General Guarantee Scheme had negative equity was in 2001. The board is of the opinion that the scheme is being operated according to the requirement that it should break even in the long term. Liquidity is satisfactory.

There has been high demand for GIEK's guarantees throughout 2008. At the end of the year the exposure limit for the General Scheme was increased from NOK 50 billion to NOK 60 billion – and then to NOK 80 billion. The fact that the Storting has given the Government the authority to further increase the limit to NOK 110 billion should provide assurance that we will not be in a shortage situation in the near future. Guarantee exposure was NOK 52 billion at year end. In addition, there were 50 applications totalling about NOK 21 billion. By the end of March 2009, the number of applications had increased to 76. If Norwegian companies with a considerable portion of their activities in the global market are to compete on equal terms with most companies in countries comparable to Norway, GIEK's resources must be made correspondingly flexible. The board believes this should include several of the measures that were proposed in the evaluation of GIEK, including in particular a broader definition of Norwegian interests as a criterion for GIEKs ability to offer a guarantee, as well as the ability for GIEK to cover 100 % of smaller contracts.

Over 80 % of the liability is in USD. The exchange rate has fluctuated strongly over the year, with a small drop during the first half and a large increase in the second, giving an overall increase of about 30%. As a consequence, the volume of policies and offers increased by NOK 18 billion. Adjusted for USD exchange rate changes, the increase was NOK 8 billion.

The annual result for the General Guarantee Scheme was NOK - 506 million (NOK - 31 million in 2007). The largest cost was the change in provisions for losses on guarantee liabilities, which gave a cost of NOK 740 million (NOK - 329 million in 2007). An assessment of actual potential loss is made for each individual case, according to the best estimate principle. Because of trends in the global economy at the start of 2009, the board has decided that the level of loss provisions should be increased compared to earlier years. Of the total increase in provisions of NOK 740 million, NOK 379 million relate to increased loss provisions for increased risk on guarantee liabilities under policies that were issued before 2008.

Premium income and other guarantee related income increased by NOK 74 million, to NOK 279 million.

GIEK's risk exposure is mainly in USD. A substantial amount of liquidity holdings are placed in USD accounts. This reduces exchange rate exposure risks. Even so, the considerable fluctuations in 2008 have led to unrealised exchange losses. Unrealised exchange losses on provisions for loss on liability were NOK 281 million, against a gain of NOK 114 million in 2007. This is partly balanced by unrealised exchange gains/losses on accounts receivable and bank deposits.

Claims have been paid in five new claims cases in 2008. The total amount of claims paid was NOK 18 million (NOK 23 million in 2007). There has been an increase in the number of defaults during the second half of 2008 and into 2009. A number of defaults refer to shipbuilding cases in Norway. Aside from these cases, the extent of default has not been significantly higher than before. At the end of the year, 37 (24) default cases were being processed.

Outstanding liability at year end was NOK 38 (21) billion. A fund has been established consisting of total loss provisions and equity. In 2008 this fund increased by NOK 0.5 billion net, to NOK 1.7 billion. The fund now represents 4.5% of outstanding liability. In 2006 and 2007 the figures were 7.7 % and 5.8 % respectively. The fund's relative percentage has been reduced because of strong growth.

Developing Country Scheme

The guarantee scheme for investment in and export to developing countries (the Developing Country Scheme) is used when the risk involved is too high for the General Scheme. The objective of the scheme is to help Norwegian exporters participate in projects that promote development.

The board is pleased that administration of the primary capital fund was passed to GIEK in 2008 and is now included in the balance sheet for the guarantee scheme. The exposure limit has once again been very confining in 2008. There has been little activity under the scheme, largely because its limits have been fully utilized for large parts of the year. As a consequence, companies see little point in applying. This has been the situation for many years. The board has often pointed out that it is unfortunate to have a scheme that de facto cannot be used. The board is consequently pleased that the Government, as part of the crisis package, has proposed to increase the exposure limit to NOK 3.15 billion in 2009, and the board sees this as a signal that it is desirable to develop and actively use this guarantee scheme.

Equity, including the primary capital fund, was NOK 315 million at 31.12.2008. The scheme fulfils the requirement to break even in the long term including the primary capital fund. It is proposed to increase the primary capital fund from NOK 300 million to NOK 450 million - and thereby increase the exposure limit to 7xNOK 450 million. The board continues to be of the opinion that it is unfortunate to have an operational limit linked to the primary capital fund in addition to the exposure limit.

No new policies were issued in 2008. Two new offers were made, totalling NOK 565 million. Five offers were withdrawn or expired during the course of the year. At year end NOK 911 million was committed under the exposure limit, all policies, no offers. Four cases are under processing, totalling NOK 2 billion.

The annual result for the scheme was NOK 25 million (NOK - 32 million in 2007). One new policy was issued in 2007 and none in 2006 or 2008. When there are few policies in the scheme, and rarely any new ones, the result will vary a great deal from year to year. Extraordinary loss provisions, as described under the General Guarantee Scheme, are less evident in the Developing Country Scheme.

There were no new claims cases under this scheme in 2008. Total claims amount was approximately the same as in 2007, NOK 5 million. No new defaults have been reported.

New guarantee liability under General Guarantee Scheme 2008
All guarantees except letter of credit policies

Country, point of risk	MNOK
India	4 595
Norway	4 059
Marshall Islands	3 500
Singapore	1 209
Panama	658
United Kingdom	550
USA	253
Bermuda	125
Others	217
Total	**15 166**

New guarantee liability under General Guarantee Scheme 2008
Letter of credit policies only

Country, point of risk	MNOK
India	2 705
Ethiopia	277
Ghana	220
Nigeria	63
Russia	18
Turkey	18
Egypt	17
Bangladesh	11
Lebanon	6
China	5
Pakistan	1
Jordan	1
Total	**3 342**

Turnover by country and type of guarantee
General Guarantee Scheme

Types of guarantee, new guarantees in 2008	Number	percent
Letter of credit policy	74	57 %
Buyer's credit guarantees	28	21 %
Bond guarantee	22	17 %
Pre-shipment guarantee	4	4 %
Investment guarantee	2	2 %
Supplier's credit guarantees	1	1 %
Total	**131**	**100 %**

Outstanding liabilities
Developing Countries Scheme, TNOK

Country, point of risk	Total
Uganda	467 459
Ghana	185 583
Nepal	64 695
Albania	64 388
Angola	55 558
Honduras	33 932
Macedonia	17 354
Bangladesh	16 190
Lesotho	3 503
Zimbabwe	989
Mozambique	942
Total	**910 499**

Construction Loan Guarantee Scheme to Shipyards in Norway

This scheme was established in 2005. Guarantees may be issued for up to 50 % of the loan on terms similar to those of the financial institutions. During 2008 the exposure limit was increased to NOK 6.5 billion, which carries over into 2009. This is a new scheme with limited liquidity. Any need for increased liquidity would be covered by the authority to draw from the Treasury. Interest must be paid on any such withdrawals.

At year end NOK 3.7 billion was committed under the exposure limit, NOK 273 million more than in 2007. There were 18 new offers and 19 new policies totalling NOK 1.7 billion in new liability. At year end the scheme had 23 current policies and 11 offers. The scheme still has a negative equity of NOK 62 million.

The annual result for 2008 was NOK - 44 million (NOK 1.8 million in 2007). Changes in loss provisions were also substantial for this scheme, as a result of the economic situation. Provisions were increased by NOK 61 million. GIEK has some deferred commitments under processing. Considerable efforts were made in 2008 to find solutions for these commitments. Two shipyards went bankrupt in 2008 and another petitioned for bankruptcy in March 2009. Costs have accrued under the scheme in 2008 but there has been no payment of claims. Payment of claims is expected in 2009. Measures to limit losses are being actively pursued.

Other activities

Tender Guarantee Scheme

This scheme is administered by GIEK on behalf of Norfund. The objective of this scheme is to cover tendering costs under certain circumstances. 11 applications were received in 2008, 11 policies were issued and three claims have been paid. One application was being processed at year end. Total exposure under the scheme at year end was NOK 1.75 billion. Claims payments totalled NOK 2.5 million.

National Moratorium Agreements

GIEK administers a number of old guarantee schemes that are in the process of being wound up. Specific reports on these are given to the Ministry. The tasks involved are mainly administering the follow up of moratorium agreements resulting from collaboration in the Paris Club and debt cancellation in accordance with international obligations and the Norwegian Debt Plan. Special cases relating to commitments in Sudan, Burma and Somalia originating from the ship export campaign are not covered by moratorium agreements but may be included in debt cancellation. GIEK expects recoveries under moratorium agreements after 2010 to be small, since only four agreements will then remain.

Non-Active Guarantee Schemes

A comprehensive report on the four non-active schemes is given to the Ministry of Trade and Industry. See also note 11. The schemes have 22 current policies, 18 of which are under the Old General Scheme. The Old General Scheme and old special schemes pay their surplus liquidity to the Treasury each year. Altogether the schemes had a result of NOK - 147 million, NOK 446 million better than the year before. The improved results were due to smaller payments to the Treasury, as well as there having been no debt cancellation without compensation in 2008.

Subsidiary Company GIEK Kredittforsikring AS

GK achieved a result for the year after provisions and taxes of NOK 5.2 million. The intention is that a dividend of NOK 1.96 million will be paid to the Government.

The proportion of Norwegian risk covered in connection with insurance agreements for export has increased somewhat. In addition, there has been an increased interest in obtaining coverage for exports to countries in Eastern Europe. Autumn 2008 was marked by many applications for cover, including applications from large, well known Norwegian companies and organisations that had largely been without insurance previously, standing as self-assured, or having difficulties obtaining cover from other private companies. GK has increased its staffing and now has 23 employees.

GIEK reinsures GK for risks in so-called non marketable countries. Reinsurance yielded a contribution of NOK 6 million to GIEK after deduction of ceding commission to GK of NOK 4.5 million. GIEK has made a provision in its accounts of NOK 43 million on the reinsurance liability, which was NOK 946 million.

The Organisation

A total of 17 board meetings were held.

Costs relating to carrying out GIEK's activities in 2008 were NOK 42 million, NOK 3 million less than in 2007. Administration costs were NOK 8 million lower than the ceiling fixed by the central government budget. Average staffing level was 37.7.

The partly tailor-made case handling system in use at GIEK is based on a technology that is reported to be phased out from 2008. The years to come will therefore see great uncertainty with regard to accessing maintenance and competence. Work on a new case handling system based on new technology began in 2007 and the overall specification of requirements was devised in 2008. This work has been considerably delayed and costs have therefore been postponed correspondingly.

A great deal of work has been done on achieving total internal control. A new internal control system was established in 2007. In 2008 work was done on raising and adapting competence and the formalities connected with the new regulation on procurements. From year end an agreement has been entered into, covering external assistance with procurements.

At the beginning of 2009, GIEK had 42 employees, 48 % of whom were women. The management team of nine persons is 44 % female. Salary levels are determined on a gender neutral basis. The board is very satisfied with the administration's efforts and the quality of current case handling.

Absence due to illness has increased somewhat, to 6.2 %. Staff turnover has been considerably reduced, with only two employees (5.3 %) leaving in 2008. There have been no injuries and the working environment is considered to be good.

Having sufficient competence to handle the increased number of cases in 2008 has been a challenge. Recruitment and management development has been a priority.

GIEK's employees and board members are subject to an internal set of ethical rules, which can be viewed on GIEK's website. The ethical rules are reviewed with all employees each year, and an annual report is made on proprietary interests. Guidelines for notification are included in these rules.

GIEK works actively to ensure a good balance between public information and respect for the banks' and customers' need for confidentiality. The effort to make GIEK known and visible to potential users continues. Exposure in the media increased from 2007 to 2008. Much of this must be seen in the context of the financial crisis and the increase in exposure limits. It is also partly due to GIEK's own efforts. Great emphasis is placed on keeping the website up to date and making information easily available there. Almost 70 unique users visit the site each day, an increase of about 10 %. In spring 2008, GIEK launched an electronic newsletter, which goes out to about 700 subscribers. In 2008, bedriftshjelp.no, a joint Internet portal for the public policy system, went into operation; GIEK is included in this.

Prospects

As we enter 2009, GIEK can see a division between expectations and commissions. The unrest we see in the financial market, with limited availability of loans and equity, creates particular challenges. The price of credit risk has increased markedly. The effect this will have on the demand for GIEK's services is uncertain. In spite of there being fewer export projects in total, there may be an increased demand. At the beginning of 2009, the number of cases handled was almost twice as high as the previous year.

The level of risk in the the portfolio has increased. The board believes that the financial basis for the schemes is sufficiently robust to meet the challenge. 2009 may be decisive for a number of the commitments.

The board believes it is important for GIEK to have the capacity and competence to process and assess cases, so that companies and banks can depend on the export guarantee system. The board is very pleased with the role the Government has assigned to GIEK in handling the financial crises. GIEK's Buyer Credit Guarantee is zero weighted for the banks and gives good security and a competitive edge. The board is concerned with maintaining the goal of continued good credit assessment to ensure compliance with the requirement to break even in the long term.

The number of employees at GIEK and GK has increased in 2008, and staffing continues to increase in 2009. Even though the conditions for guarantees from GIEK have not changed, the expectations towards both quality and speed in case handling are higher. The board is concerned to ensure that GIEK is equipped to meet these expectations.

Ethical, social and environmental conditions are the subject of ever increasing focus in international trade and economics. GIEK is responding by setting guarantee requirements and building up special competence. Guidelines for Corporate Social Responsibility (CSR) have been established within the OECD. GIEK is actively working on implementation in line with governmental goals, as expressed in the Stortingsmelding (white paper) on "Corporate Social Responsibility in a Global Economy".

31st December 2008

Oslo, 26th March 2009

Bjørn Kaldhol
Board Chairman

Asbjørn Birkeland

Rita Lekang

Jon Lund

Sandra Riise

Christine Rødsæther

Malin Stensønes

Wenche Nistad
Managing Director

Income statement

Income statement for all schemes

Amounts in units of NOK 1000	Note	General Guarantee Scheme		Developing Country Scheme		Building Loan Guarantee		Total Active Schemes		Total Schemes Being Wound Up	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
OPERATING INCOME											
Accrued premium	1	215 287	170 505	12 222	6 901	12 209	11 415	239 718	188 821	5 930	7 459
Income from moratorium agreements	2	8 316	12 329	1 237	2 862	0	0	9 553	15 191	244 077	-344 034
GIEK's share of recoveries		3 452	96 194	827	3 702	0	0	4 279	99 895	1 195	283
Other income		63 535	34 616	0	0	6 933	4 244	70 468	38 860	0	0
Total operating income		290 590	313 644	14 286	13 464	19 142	15 660	324 018	342 768	251 202	-336 292
OPERATING COSTS											
Adccrued claims expenses	3	-12 271	-88 403	-946	-1 219	-249	0	-13 467	-89 622	-45 413	469 268
Change in provision for guarantee liabilities	4	-740 497	-328 817	21 977	-19 193	-60 955	-11 797	-779 475	-359 807	1 731	1 540
Administrative expenses	5	-32 932	-30 807	-3 529	-4 003	-3 402	-2 275	-39 863	-37 085	-3 657	-6 232
Total operating costs		-785 700	-448 027	17 502	-24 415	-64 606	-14 072	-832 805	-486 513	-47 340	464 576
OPERATING PROFIT/LOSS		-495 110	-134 383	31 788	-10 951	-45 465	1 588	-508 787	-143 746	203 862	128 284
FINANCIAL INCOME AND EXPENSES											
Interest income		39 022	37 300	2 899	626	1 121	204	43 041	38 130	55 132	42 073
Realised exchange rate gains/losses		-4 402	26	-73	-502	0	0	-4 475	-476	-32	-1 018
Exchange rate gains/losses on unrealised receivables	6	43 590	-19 893	8 798	-6 330	0	0	52 387	-26 222	109 847	-80 908
Exchange rate gains/losses on bank deposits	4	191 272	-28 330	0	0	0	0	191 272	-28 330	0	0
Exchange rate gains/losses on unrealised guarantee liability provision	4	-280 610	114 421	-18 426	7 153	0	0	-299 036	121 573	-11 412	7 398
Other financial items		1 942	1 963	0	0	0	0	1 942	1 963	0	0
Net financial items		-9 186	105 486	-6 803	947	1 121	204	-14 868	106 638	153 535	-32 456
PROFIT BEFORE TRANSFERS TO/FROM STATE		-504 297	-28 897	24 985	-10 003	-44 344	1 792	-523 655	-37 108	357 397	95 828
Public subsidies/transfers to state	7	-1 964	-1 964	0	-21 617	0	0	-1 964	-23 581	-503 900	-688 800
PROFIT/LOSS FOR THE PERIOD		-506 260	-30 860	24 985	-31 621	-44 344	1 792	-525 619	-60 689	-146 503	-592 972

Balance sheet

Balance sheet for all schemes

Amounts in units of NOK 1000	Note	General Guarantee Scheme		Developing Countries Scheme		Building Loan Guarantee Scheme		Total Schemes Being Wound Up	
		2008	2007	2008	2007	2008	2007	2008	2007
FIXED ASSET INVESTMENTS									
Shares in subsidiary	8	35 000	35 000	0	0	0	0	0	0
Total fixes asset investments		35 000	35 000	0	0	0	0	0	0
RECEIVABLES									
Debtors, claims payment	3	195 369	158 706	7 844	2 280	249	0	539 113	533 558
Provisions for losses on claims payment receivables	3	-120 099	-103 311	-3 470	-755	-249	0	-279 364	-278 322
Debtors, moratorium agreements	2	172 553	146 921	43 351	41 033	0	0	990 549	1 244 286
Provisions for losses on moratorium receivables	3	-29 432	-25 151	-7 803	-7 386	0	0	-219 792	-223 576
Total net receivables - foreign		218 390	177 165	39 922	35 172	0	0	1 030 506	1 275 947
Other receivables		16 602	9 979	1 177	0	1 560	2 818	-1 214	0
Total receivables		234 992	187 144	41 099	35 172	1 560	2 818	1 029 292	1 275 947
Bank deposits		1 468 144	1 023 687	364 780	35 925	28 509	10 640	1 173 375	1 277 885
TOTAL ASSETS		1 738 136	1 245 830	405 879	71 098	30 070	13 459	2 202 667	2 553 832
EQUITY									
Equity 01/01		-474 824	-505 684	10 388	-21 233	17 421	19 213	-991 906	-1 584 877
Paid in primary capital Developing countries scheme	7	0	0	-300 000	0	0	0	0	0
Profit/loss for the year		506 260	30 860	-24 985	31 621	44 344	-1 792	146 503	592 972
Total equity	9	31 436	-474 824	-314 597	10 388	61 765	17 421	-845 402	-991 906
PROVISIONS									
Provisions for losses on guarantee liabilities	4	-1 767 037	-768 979	-91 282	-81 486	-91 835	-30 880	-51 844	-47 391
LIABILITIES									
Debt plan, remainder to offset	10	0	0	0	0	0	0	-1 305 421	-1 514 535
Other liabilities		-2 535	-2 028	0	0	0	0	0	0
Total liabilities		-2 535	-2 028	0	0	0	0	-1 305 421	-1 514 535
TOTAL EQUITY AND LIABILITIES		-1 738 136	-1 245 830	-405 879	-71 098	-30 070	-13 459	-2 202 667	-2 553 832

31st December 2008

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Managing Director

Notes to the accounts

General accounting principles

The annual accounts for the General Guarantee Scheme, Developing Country Scheme, Construction Loan Guarantee Scheme and guarantee schemes in the process of being wound up consist of an income statement, balance sheet and notes to the accounts. The annual accounts have been prepared in accordance with the principles found in the Norwegian Accounting Act whenever appropriate. The adaptations made are described in greater detail in the notes below. Administrative expenses are recorded on a cash basis. The schemes pay for administrative expenses in accordance with a distribution formula, see Note 5.

The accounts for guarantee schemes in the process of being wound up have been consolidated, but the key figures for each scheme are presented in Note 11. This applies to the Old General Scheme, Old Special Schemes, CIS/Baltic States 1994-1998 and CIS/Baltic States 1999-2002.

Income and expenses are recorded as they are earned or incurred, with the exception of administrative expenses, which are recorded on a cash basis, and dividends, which are recorded when they are received. Provision for losses on receivables and guarantee liabilities are calculated by a best-effort estimate and changes in the provisions are recorded in the income statement. The method used for changes in the provisions is described in the note for the individual provision.

Compensation is assumed for debt cancellations decided by the state.

Receivables, bank deposits and provisions in foreign currency are converted into Norwegian kroner in accordance with the current exchange rate principle. The bank measures all currency transactions at the rate in effect on the transaction date.

GIEK issues guarantees on behalf of the Norwegian Government. GIEK does not have a liquidity risk since there are established procedures for drawing on the state's liquidity.

Changes from last year

Changes in the accounting principles:
There are no significant changes in the accounting principles.

Foreign currency exposure

Provided below is a summary of the currency exposures under the General Guarantee Scheme that represent more than 10 per cent of the guarantee liabilities as of 31 December 2008. The scheme also has guarantee liabilities in CAD, CHF, DKK, GBP, JPY and SEK.

Amounts in units of NOK 1,000 in the relevant currencies	USD	EUR
Valued receivables	26 670	323
Bank deposits	180 314	9 255
Provisions for guarantee liabilities	-204 681	-8 786
Total exposure	2 303	791

Notes to the accounts

Closely related parties

GIEK owns a wholly-owned subsidiary, GIEK Kredittforsikring AS (GK). The following types of transactions take place between GIEK and GK:

1. *Reinsurance*. GIEK reinsures guarantee liabilities for GK on market-based terms that are renegotiated annually. GIEK receives a proportionate share of the guarantee premium and premium for excess loss (XL) cover. GK is compensated for its work by a percentage of GIEK's guarantee premium (ceding commission), provided this exceeds an agreed annual minimum amount, see Note 5.

2. *Cost sharing*. GK pays its share of the overhead costs such as office rent, IT costs, reception sevices, etc. Monthly payments are made based on the budget with an annual settlement based on the actual costs.

3. *IT system*. GIEK and GK implemented a new financial accounting and workflow system for guarantees in 2004. GK pays its share of the development costs monthly, distributed over the estimated useful life of the system.

GIEK is a public enterprise under the Ministry of Trade and Industry (MTI). The following types of transactions take place between GIEK and MTI:

1. *Fund for Developing Country Scheme*. The Developing Country Scheme shall only have the liquidity necessary to meet short-term needs, including the means to cover annual administrative expenses, while the scheme's funds shall be in the primary capital fund. Funds are transferred between the primary capital fund and the scheme as required to regulate liquidity. Administration of the primary capital fund was transferred from MTI to GIEK in 2008, see note 7. Funds over and above a primary capital fund of NOK 300 million may be held in the scheme's interest-bearing account.

2. *Contingency Scheme for War Risk Insurance of Goods*. The contingency system is administered by GIEK and the object of the system is to ensure that the authorities have a secretariat for maintaining and, if necessary activating a Contingency Scheme for State War Risk Insurance of Goods in order to encourage the shipping of goods by sea in a crisis or war. GIEK receives an annual remuneration for this scheme.

3. *Dividends*. Dividends from GK are transferred to MTI.

4. *Transfer of bank deposits*. For the Old General Scheme and Old Special Schemes annual transfers are made to MTI proportionate to the size of the bank deposits in the preceding year.

   GIEK is a public enterprise that administers the Tender Guarantee Scheme for Norfund. GIEK receives a remuneration for this scheme.

1) PREMIUMS

Income relating to several accounting periods is accrued in relation to the remaining guarantee liability, which gives proportionately more income when the guarantee is new and the liability highest. Currency variations between the invoiced and paid premiums are recorded as realised currency gains/losses.

Pro anno premiums are capitalised in relation to the period for which cover is sought.
If the annual premium applies to several accounting periods, it is capitalised accordingly.

Premium under the Construction Loan Guarantee Scheme is paid in arrears. Accrued premium is entered as income and capitalised.

Other income includes guarantee related elements such as arrangement fees and commitment fees. Moving this item closer to premium income in the income statement is being considered, so as to increase the information value of the accounts.

Notes to the accounts

2) INCOME AND CLAIMS UNDER MORATORIUM AGREEMENTS

Moratorium agreements represent debt repayment agreements with 12 countries achieved through international creditor collaboration in the Paris Club. These receivables result from claims payments arising from political risk. The principal in new agreements is recorded in its entirety as income upon conclusion of the agreement, with the exception of forward items, which are taken to income when GIEK takes possession on the claim date. The income is otherwise affected by changes in current agreements, such as accrued contractual interest, payment of default interest, consolidation of agreements, debt cancellation, realised currency gains/losses and floating interest rates.

Claims provisions are made for the portion of the moratorium receivables that is assumed to be unrecoverable when the accounts were closed. Standard rates for groups of countries and reasons for claims are used to estimate the loss potential for the total receivables portfolio, but these rates can be overridden manually if we have information that allows us to make a better estimate. The country groups are based on the OECD's country classification system. Receivables that are included in the Debt Plan are valued at what compensation will be paid by the Ministry of Foreign Affairs when the Debt Plan is carried out. Changes in the provisions are recorded as claims expenses.

3) CLAIMS EXPENSES AND PROVISIONS FOR LOSSES ON RECEIVABLES AS A RESULT OF CLAIMS PAYMENTS

When paying a claim, GIEK is subrogated to the exporter's claim against the debtor. This receivable is recorded on the balance sheet.

The claims provision corresponds to the portion of the claim that is assumed to be unrecoverable when the accounts are closed. Standard rates for groups of countries and reasons for claims are used to estimate the recovery potential in the total receivables portfolio, but these rates can be overridden manually if we have information that allows us to make a better estimate.

The net change in receivables and provisions for losses on receivables from the previous period are recorded as a claims expense. The change in provisions for losses on moratorium receivables are also included in the claims expenses. Changes occur, for example, when GIEK:

- makes payments and recovers amounts under both old and new guarantees.
- writes off receivables.
- transfers receivables to moratorium agreements.
- changes its estimate of the loss potential for specific guarantees or generally in relation to countries/groups of countries.

4) PROVISIONS FOR LOSSES ON GUARANTEE LIABILITIES

The provision is intended to cover future losses on all registered guarantee liabilities at year-end. Provisions are made for the best estimate of future losses. Provisions for known non-performance not yet covered by compensation are included in these provisions. Provisions are made for losses on current guarantees based on a special calculation method where standard rates are supplemented with manual adjustment. The standard rates shall comprise about 80 per cent of the premium for a new corresponding guarantee. The premium varies according to the remaining credit period, type of buyer and country risk group. The country groups are based on the OECD's country classification system. In cases where a claim has been paid, the standard rate for provisions for receivables is used, see Note 3. If the standard rate system does not reflect the risk, the standard rates are adjusted up or down. This is especially relevant if a notice of default is received, a request for deferred payment is received, and/or other information exists that gives grounds for manually adjusting the standard rates.

Changes in the provisions reflect both changes in guarantee liabilities and risk reassessment of countries/individual guarantees. There is also the effect of exchange rate changes and other external conditions as explained later (financial crisis). No provisions are made for guarantee offers.

Notes to the accounts

The increased risk in the portfolio resulting from the financial crisis in 2008 and 2009 has been specifically assessed and has led to a substantial increase in loss provisions compared with earlier years. The following elements have been weighted:

- General drop in demand
- Drop in raw materials prices
- Increased cost of credit risk
- Scarcity of capital

The greatest effect on changes to this year's loss provision has been growth in the portfolio. Breaking down the loss provisions entered into the accounts gives the following table for the General Guarantee Scheme and Construction Loan Guarantee in units of NOK 1,000:

Elements in loss provisions entered	GGS	Weighting	CLG	Weighting
Unrealised exchange losses	-280 610	27 %	0	0 %
Change in loss provisions for existing portfolio	-379 358	37 %	-34 309	56 %
Loss provisions on new commitments	-418 887	41 %	-47 647	78 %
Capitalised loss provisions from concluded commitments	135 655	-13 %	21 001	-34 %
En bloc provisions for part of portfolio not specifically accessed	-38 747	4 %	0	0 %
GK tilleggsavsetning	-39 160	4 %	0	0 %
GK additional provisions	-1 021 107	100 %	-60 955	100 %

In the General Guarantee Scheme, 41% can be ascribed to new commitments, and 78% of the provisions in the Building Loan Scheme can be ascribed to new commitments. Furthermore, the increased risk identified in the existing portfolio is considerable. Unrealised exchange losses recorded in the portfolio this year are also higher than previous years.

In percentage terms there has also been a substantial increase in loss provisions in connection with reinsurance of policies issued by the subsidiary company GIEK Kredittforsikring AS. In kroner terms, however, the exposure is small in relation to the rest of the portfolio.

The provisions for losses on guarantee liabilities comprise prepaid premiums and changes in the provisions made in the income statement. The development of these items for the General Guarantee Scheme is illustrated in the table below in units of NOK 1,000:

General Guarantee Scheme	2008	2007	Change from 2007
Prepaid premiums as of 31 December	265 247	288 295	-23 048
Increased provisions for guarantee liabilities	740 497	328 817	411 680
Unrealised exchange losses on provisions this year	280 610	-114 421	395 031
Accumulated increase in the income statement from previous years	480 684	266 288	214 396
Guarantee liability provisions on the balance sheet as of 31 December	1 767 038	768 979	998 059

5) SHARE OF ADMINISTRATIVE EXPENSES

GIEK's administrative expenses are recorded on a cash basis. The guarantee schemes and other schemes that GIEK administers cover the entire payroll and other operating costs in accordance with a distribution formula that is set annually. This formula shall reflect the underlying workload.

GIEK's employees are members of the Norwegian Public Service Pension Fund. Future pension costs are not recorded because the accounts are kept on a cash basis. As a public enterprise, GIEK is exempt from the requirements in the Act relating to mandatory occupational pensions.

GIEK has a 10-year office lease that is non-terminable until 2015. The rent was originally NOK 3.15 million with an index-linked adjustment of 75%.

Notes to the accounts

Summary of GIEK's administrative expenses in 2008 in units of NOK 1,000.

Type of expense	Amount 2008	Amount 2007
Payroll, fees and other remunerations	20 741	18 832
National Insurance contributions	3 210	3 105
Pension contributions	1 878	1 578
TOTAL payroll items	25 829	23 515
Buildings, machinery and fixtures	5 219	6 406
Expert assistance	4 566	8 217
Other operating expenses	6 718	7 352
Total operating expenses	16 503	21 975
Total	42 332	45 490
GK Ceding Commission	4 468	2 792
Net administrative expenses	46 800	48 282
Average staffing (full time equivalents)	37,7	38,1

GK Ceding Commission has been entered in the accounts of the General Guarantee Scheme.

In addition to operating the guarantee schemes, GIEK's administration takes care of the operation of the Contingency Scheme for the State War Risk Insurance of Goods (BSV), Tender Guarantee Scheme for Norfund and parts of GK's administration. Remuneration for this amounted to NOK 3.3 million in 2008, compared with NOK 5.0 million in 2007.

Remunerations to the Board and Managing Director in 2008, in units of NOK 1,000:

Managing Director	Wages and salaries	Pension deposits	Total remuneration
Wenche Nistad	1 048	73	1 121

Board of Directors	Fees	Period in 2008
Bjørn Kaldhol	135	Jan – Dec
Asbjørn Birkeland	80	Jan – Dec
Rita Lekvang	80	Jan – Dec
Sandra Riise	80	Jan – Dec
Jon Lund	80	Jan – Dec
Malin Stensønes	80	Jan – Dec
Christine Rødsæther	80	Jan – Dec
Total remuneration	615	

The Office of the Auditor General is GIEK's auditor. GIEK is not charged for auditing services.

Notes to the accounts

6) UNREALISED CURRENCY GAINS/LOSSES ON RECEIVABLES

Receivables in foreign currencies are recorded in accordance with the current exchange rate principle. Changes in the value of the receivables due to currency fluctuations during the year are recorded as unrealised currency gains or losses. Realised currency gains or losses for moratorium receivables are recorded as income from moratorium agreements, see Note 2. Realised currency gains or losses for other receivables are recorded as claims expenses, see Note 3.

7) PUBLIC SUBSIDIES AND TRANSFERS TO THE STATE

The General Guarantee Scheme transfers dividends received from GIEK Kredittforsikring AS to the Ministry of Trade and Industry (MTI). In 2008 GIEK has taken dividends of NOK 1,964,000 to income, which have been transferred to MTI.

The Old General Scheme and Old Special Schemes annually pay the Treasury the sum specified by the Storting, NOK 504 million for 2008. The accumulated transfers from 1999 to 2008, inclusive, total NOK 5,030 million.

Beyond short-term needs and annually estimated administration costs, Developing Country Scheme funds up to NOK 300 million shall be in the primary capital fund. The scheme regulates its liquidity by transferring to/from the fund. The fund was transferred from MTI to GIEK in 2008 and is entered as deposited equity of NOK 300 million on the Developing Country Scheme balance sheet. The primary capital fund is not interest-bearing.

8) SHARES IN GIEK KREDITTFORSIKRING AS

GIEK has held shares in the wholly-owned subsidiary GIEK Kredittforsikring AS (GK) since 1 January 2001. The shares are valued at NOK 35 million, which corresponds to GK's equity when the company was formed. The shares are valued annually when a write-down test is performed. When the shares were acquired nothing was paid from the General Guarantee Scheme, and the amount was recorded as an equity contribution from MTI in 2001. The registered office of GK is in Oslo.

If the shares had been recorded in accordance with the equity method of accounting, the profit/loss of the subsidiary less dividends paid would have been added to the cost price, so that the value in GIEK's accounts would be equal to GK's equity. The transfer of dividends to MTI would have been deducted from GIEK's equity.

NOK Company	Numbers of shares	Nominal value	Book value as of 31 Dec 2008	Ownership / Voting %	GK's profit for the year 2008	GK's book equity as of 31 Dec08
GK AS	15 000	1 000	35 000 000	100 %	5 174 863	62 528 186

GIEK's and GK's accounts are not consolidated because GIEK is a public enterprise.

9) EQUITY

Equity comprises accumulated profit/loss. The Developing Country Scheme also has deposited equity in the form of a primary capital fund of NOK 300 million. Equity development by scheme:

NOK million	GGS	DCS	CLG	Old	Special	CIS1	CIS2
Equity 01/01	475	-10	-18	737	102	129	22
Primary capital fund deposit		300					
Result 2008 before transfers to state	-504	25	-44	132	217	7	2
Transfers to state	-2			-437	-67		
Equity 31/12	-31	315	-62	432	253	136	24

Notes to the accounts

10) DEBT PLAN

The Storting adopted the Norwegian Debt Plan in December 1997 together with the central government budget for 1998. It was updated in 2004. Under this plan GIEK's receivables from certain countries can be cancelled without new appropriations by setting them off against a certain limit.

The debt plan was utilised as follows in 2008 (in units of NOK 1,000):

	Old General Guarantee Scheme	Old Special Scheme
Remaining debt plan limit as of 1 January	946 447	568 088
Debt cancellation for Gambia		14 560
Debt cancellation for Guinea		33 658
Debt cancellation for Liberia		160 896
Remaining debt plan limit as of 31 December	946 447	358 974

11) KEY FIGURES IN 2008 FOR SCHEMES BEING WOUND UP

Amounts in units of NOK 1,000	Old General Scheme	Old Special Scheme	CIS/Baltic States 1994-1998	CIS/Baltic States 1999-2002	TOTAL
Profit/loss					
Operating income	40 359	210 402	373	67	251 202
Operating costs	-11 416	59 574	755	-1 575	47 340
Operating profit/loss	51 775	150 828	-382	1 642	203 862
Profit/loss for the year	-305 710	150 299	6 714	2 193	-146 503
Balance sheet					
Valued receivables as of 31 December	439 619	589 673	0	0	1 029 292
Provisions for guarantee liabilities as of 31 December	46 951	0	96	4 797	51 844

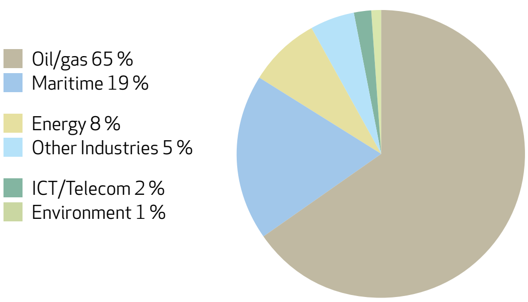
The operating profit for schemes in the process of being wound up was NOK 204 million. Profit before transfers to state was NOK 357 million. After transfer of NOK 504 million to the Ministry of Trade and Industry (MTI) during the year, the combined loss for the schemes was NOK 147 million.

Key figures for 2008

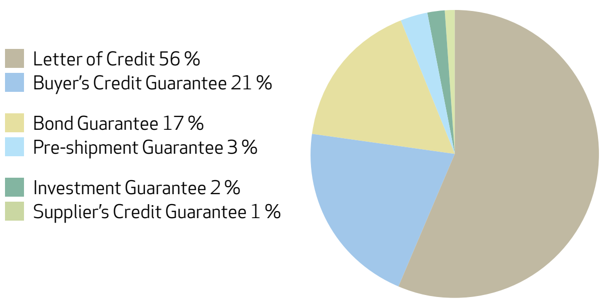
Key figures for the General Guarantee Scheme

	2008		2007		2006		2005		2004	
During year	Number	MNOK	Number	MNOK	Number	MNOK	Number	MNOK	Number	MNOK
New applications	213	42 878	160	39 751	182	28 106	187	24 645	176	21 307
New offers	160	22 102	130	14 345	144	15 148	139	14 182	113	18 083
New polices	131	15 222	101	11 400	77	4 889	77	2 980	55	3 521
Premium income		215		171		146		146		140
Claims expenses		12		88		-1		125		80
Recoveries		12		109		23		22		7
At year end										
Outstanding offers	58	12 608	66	11 625	77	15 303	64	12 831	63	9 862
Outstanding guarantee liabilities	315	37 946	295	21 332	271	14 089	284	12 483	272	12 179
Outstanding receivables		368		306		453		462		357
Provisions for losses on guarantee liabilities		1 767		769		582		640		712
Operating profit/loss		-495		-134		137		99		58
Profit/loss for the year		-506		-31		159		139		58
Equity		-31		475		506		347		208
Guarantee liabilities reinsured for GK		946		525		492		268		358
Total outstanding guarantee liabilities		38 810		21 857		14 581		12 751		12 537

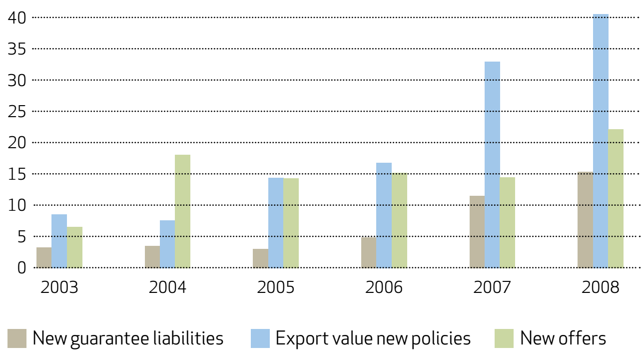
Outstanding guarantee liabilities
by product groups 2008, General Guarantee Scheme



Number of new policies
by type of guarantee 2008, General Guarantee Scheme



Export value of new policies
NOK billion, General Guarantee Scheme



GIEK issued commitments totalling over NOK 22 billion under the General Guarantee Scheme in 2008. New guarantee liabilities totalled over NOK 15 billion in 2008 (not including letters of credit).