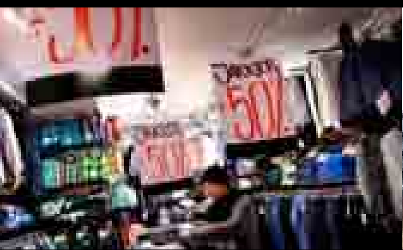
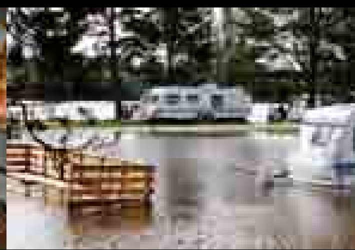
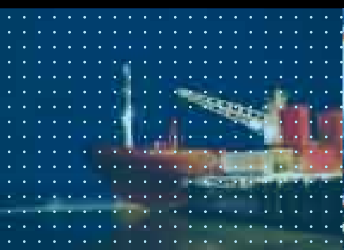
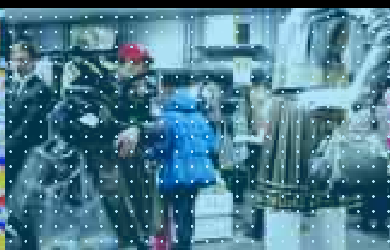
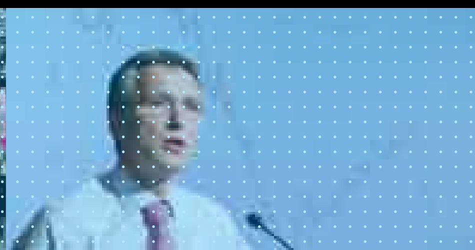
FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

ANNUAL REPORT
2011



Finanstilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, payment institutions, insurance companies, pension funds, insurance intermediaries, investment firms, securities fund management, stock exchanges and other regulated markets, clearing houses and securities depositories, real estate agencies, debt collection agencies, external accountants and auditors. Finanstilsynet also oversees prospectuses, listed companies' financial reporting and conduct in the securities market.

"Finanstilsynet 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)

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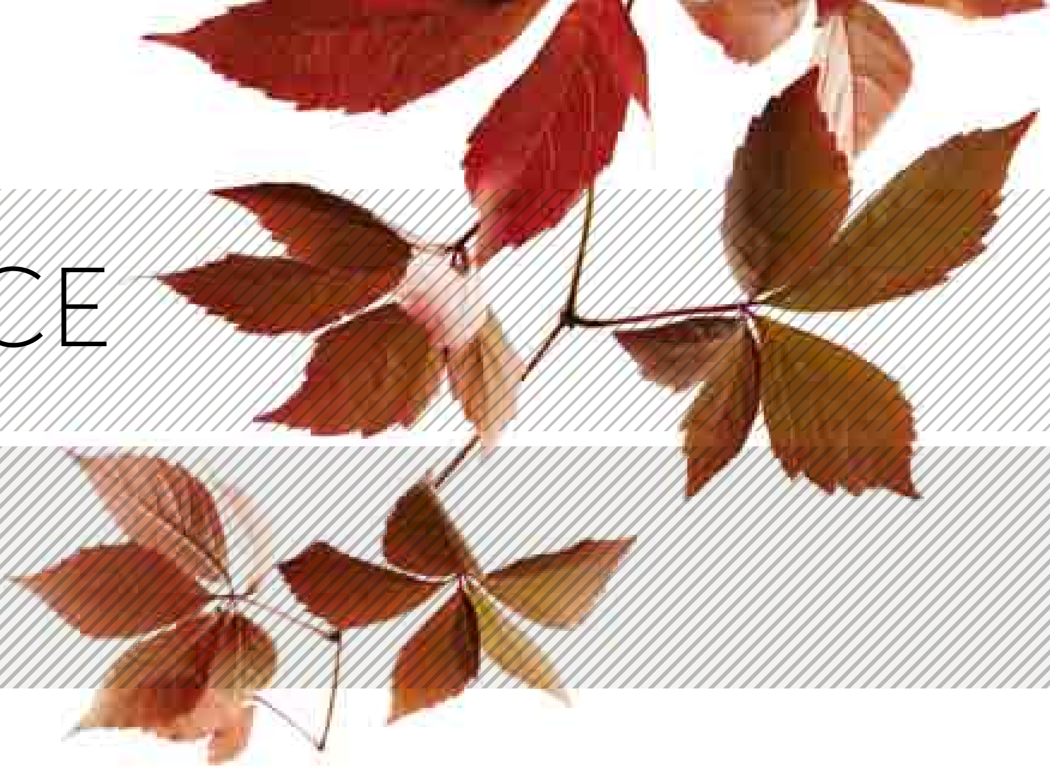
The chapters on external accounting services, estate agency and debt collection are not included in the English annual report.

For analyses of financial market trends, see the report *Risk Outlook 2012: The Financial Market in Norway.*

PREFACE



The international financial crisis in autumn 2008 had its origin in high household indebtedness and inflated house values in the US. In summer 2011 it was above all the sovereign debt crisis in the eurozone that sparked widespread international financial turbulence. Failing confidence in states' solvency is a very serious matter. Substantial imbalances in public finances in many countries, outside the eurozone as within, can have major consequences for the international economy, and will affect Norwegian financial markets and the Norwegian economy.

The Norwegian economy is thriving, and Norwegian banks are solid and profitable. This, together with sound government finances, puts Norway in a good position to tackle the impact of the international financial turmoil.

The turmoil spread rapidly to Norwegian financial markets, bringing costlier and shorter-term funding for the banks. While the effects on the Norwegian economy have so far been limited, we must be prepared for a possible greater impact on our economy and financial markets over time.

Worsening funding problems for Norwegian banks could rapidly reduce business and industry's access to credit, and a substantial and protracted setback in the international economy would likely have wide-ranging adverse effects on the Norwegian economy. The extent of such effects depends in particular on the trend in energy and commodity markets. A large fall in the prices of oil and other Norwegian commodity exports will directly and indirectly affect much of Norwegian business and industry.

A setback in the Norwegian economy will bring increased loan losses and reduced profitability at Norwegian banks. In such a situation it is vital for banks to maintain their ability to provide credit. If they fail to do so, the downturn will be compounded by a credit drought. That is why Finanstilsynet has stressed that the banks should devote their good profit performances in 2011 to bolster their equity capital.

Norwegian banks are dependent on foreign borrowing. The financial crisis in autumn 2008 brought to light vulnerabilities in banks' funding, prompting calls from the authorities to put their funding on a more robust footing. Improved solvency has also played a part in mitigating vulnerability. Hence Norwegian banks were better placed to cope with reduced borrowing opportunities in the international capital market last autumn than they were three years previously. Banks' funding costs rose significantly nonetheless. Last year's experiences underscore the need to continue the effort to make banks' funding more robust.

In December, as part of the EU's efforts to avert the negative effects of the debt crisis, the European Banking Authority (EBA) recommended the largest European banks to aim for a common equity tier 1 capital ratio of at least 9 per cent of risk-weighted assets by the end of June 2012.

Finanstilsynet supports the EBA's initiative and expects all Norwegian banks and credit companies to comply with the above recommendation. The fact that the target is expressed in terms of the highest quality capital and is significantly higher than current minimum requirements is positive.

Household debt continued to grow over the course of 2011 along with rapidly rising house prices. Households' overall debt relative to income is far higher now than at the end of the 1980s, and many households are very heavily indebted relative to income. House prices are at record levels both in absolute terms and relative to wages.

What constitutes a sustainable level of household debt and house prices is uncertain. Experience, in Norway as elsewhere, shows that continued rapid growth in households' debt poses a substantial risk of culminating in a sudden, sharp debt consolidation in that sector. An economic reversal of this nature will hit Norwegian business and industry on a broad front and will likely become self-augmenting when rising credit losses reduce access to loans. Losses on home loans may be limited, but losses on business loans could prove substantial.

To help prevent systemic risk and to mitigate the risk of individuals taking out loans they are unable to service over time, Finanstilsynet tightened the guidelines for prudent residential mortgage lending practice. The guidelines retained overall assessment of borrowers' debt-servicing ability as a fundamental aspect of banks' credit assessments. However, standard loan-to-value ratios were lowered and prudential assessments were tightened.

The steep fall in share prices in the second half of 2011 made it difficult for life insurers to generate a return appreciably higher than that guaranteed to their policyholders. While insurers' reduced equity exposure reduces their vulnerability to further stock market falls, continued low interest rates make for poor return on their bond portfolios. Life insurers need to improve their equity capital positions ahead in order to strengthen their risk-bearing capacity and to meet higher EEA solvency requirements.

Structural change in the securities market continued unabated in 2011. Trading on electronic platforms where the customer personally enters orders is increasing, and an ever larger share of overall trading takes place outside the traditional stock exchanges. The new trading patterns place greater demands on Finanstilsynet's monitoring of the securities markets.

Finanstilsynet has in recent years prioritised oversight of entities providing investment advice. A survey of investment firms' sales of savings products showed that many buyers of complex savings products receive inadequate information. Finanstilsynet has asked investment firms to tighten their control of savings product sales to ensure that customer interests are protected in the best possible manner. Finanstilsynet will keep a close watch on investment firms' advisory practices ahead.

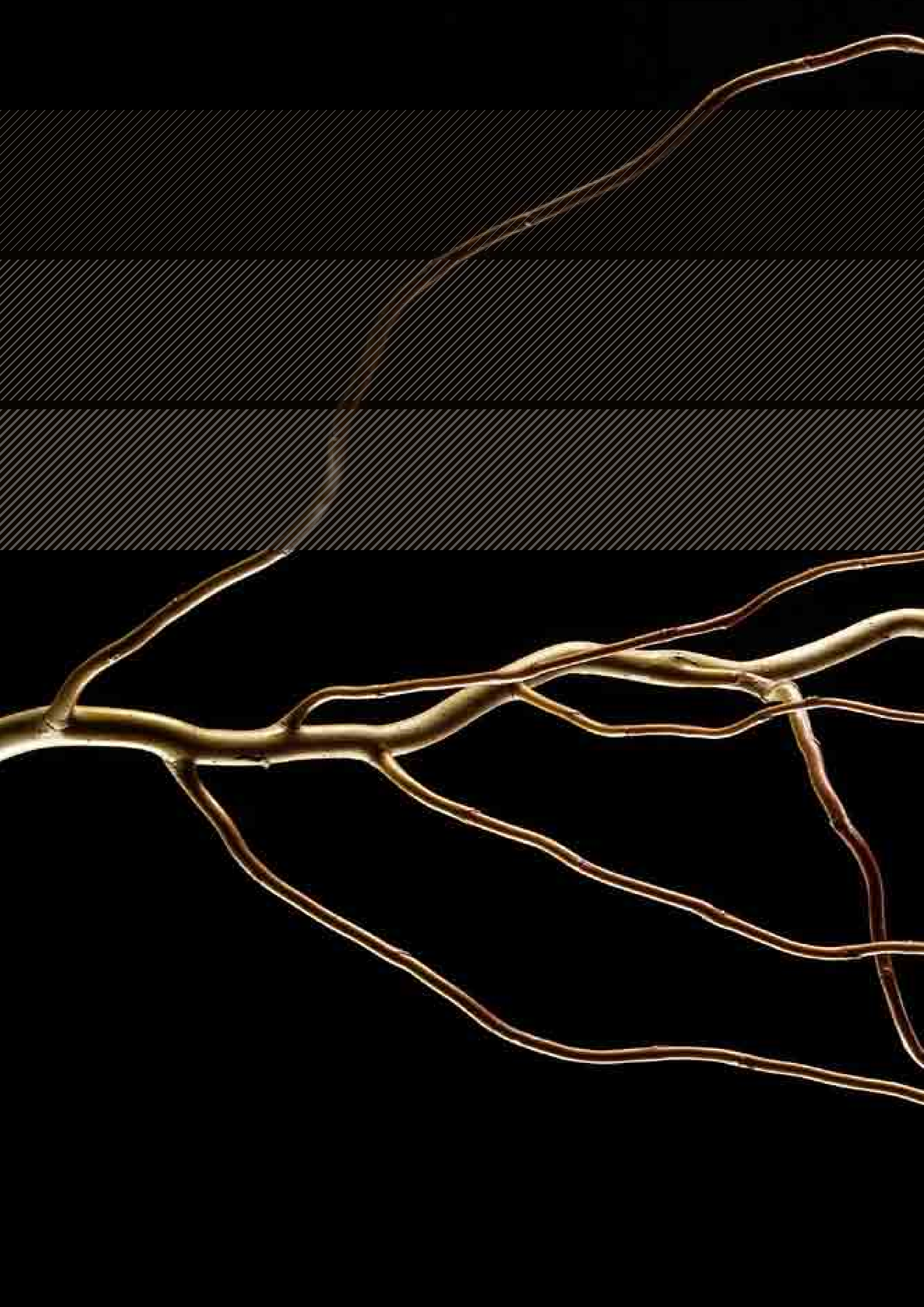
Finanstilsynet attaches importance to work in the international arena, in particular under EEA auspices. International regulation in the financial area is growing in scope and complexity, and Norwegian supervisory authorities must play an active part in this work to assure an effective supervisory regime and undertake regulatory development in the domestic arena.

A new supervisory structure was introduced in the EU on 1 January 2011. The new structure comprises a European Systemic Risk Board, three new European Supervisory Authorities (ESAs) for banking, insurance and securities markets respectively, as well as the national supervisory authorities. The EU legislation underlying the establishment of the ESAs is thus far not incorporated in the EEA Agreement. However, Norway attends meetings of the ESAs' management boards in an observer capacity. The work done under the auspices of the ESAs will be important for Finanstilsynet in the period ahead.

Oslo, 25 January 2012

Endre Skjørestad
Board chair

Morten Baltzersen
Director General



FINANSTILSYNET'S STRATEGY 2010–2014

MAIN GOAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets.

INTERMEDIATE GOALS

1. **Financially sound and liquid financial institutions**
2. **Good monitoring of risk in the economy and markets**
3. **Consumer protection through good information and advice**
4. **Fit and proper management and satisfactory governance at institutions**
5. **Robust infrastructure ensuring satisfactory payments, trade and settlement**
6. **Adequate and reliable financial information**
7. **Good market conduct**
8. **Effective crisis management**

Finanstilsynet's strategy was adopted by Finanstilsynet's Board of Directors on 24 November 2010. The strategy identifies the following priorities:

- supervision of institutions and areas of greatest significance to financial stability and well-functioning markets
- macroeconomic surveillance and macroprudential supervision
- ensuring that international requirements on institutions and supervision are implemented and complied with
- promoting investor and consumer protection and ensuring a broad public awareness of Finanstilsynet's requirements and supervisory activities

The strategy also describes measures and priorities in the respective areas of supervision.

MAIN GOAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets. Behind this goal lie important economic considerations. Financial stability and well-functioning markets are key to assuring confidence in the financial system and stable economic growth and to protecting the users of financial services.

The financial system promotes efficient distribution of society's resources and contributes to economic growth. Financial stability enables the financial system to absorb disturbances and unexpected shocks and to discharge its functions, thereby avoiding major, negative consequences for the wider economy. Well-functioning markets promote efficient distribution and pricing of capital and risk. There is a close link between financial stability and well-functioning markets. Without financial stability, markets cannot distribute capital and risk in an efficient manner. If capital is not distributed efficiently, and risk is wrongly priced, the upshot may be financial instability.

FINANCIAL STABILITY

Financial institutions, financial markets and the financial infrastructure together make up the financial system. Stability problems can originate in any one of these, but will often unfold and intensify through an interplay of parts of the system. Problems in individual institutions, especially larger financial institutions, can spark contagion effects to other institutions.

Finanstilsynet has long experience of macroprudential supervision and of dealing with financial stability issues. It is important to coordinate instruments building on macroprudential supervision with instruments used in the supervision of individual institutions.

Given the financial system's large significance for the real economy, institutions are subject to a comprehensive body of rules. Regulation and supervision of institutions' capital adequacy, liquidity, risk management and deposit insurance schemes also give consumers security with regard to their bank deposits, insurance claims and pensions.

WELL-FUNCTIONING MARKETS

Competition and information are basic to markets' efficient functioning. In a well-functioning market, prices and interest rates reflect the underlying economic realities, uncertainties in the economy and market actors' risk tolerance.

A well-functioning market is predicated on good liquidity, sufficient size and low transaction costs. This is true for the banking, insurance, real estate, securities and commodity markets. In a well-functioning capital market, risk is distributed so that actors best equipped to bear various types of risk do so, while actors not wishing to assume a particular type of risk can hedge against that risk. Timely and precise information and advice enable actors to make decisions in keeping with their wealth position, employment and income situation, and risk tolerance.

Active inspection of actors' compliance with laws and regulations and effective enforcement of sanctions against rule breakers are important for achieving well-functioning markets. Consumers such as savers, borrowers and insurance policy holders need protection due to the complexity of the products, and because the financial consequences of their investments may be substantial and difficult to gauge.

INTERMEDIATE GOALS

1. FINANCIALLY SOUND AND LIQUID FINANCIAL INSTITUTIONS

Finanstilsynet is required to see to it that financial institutions and investment firms have sufficient capital to withstand unforeseen setbacks. Sufficient capital has to be accumulated in good times to absorb losses and value falls in deep economic downturns. This capital must be ample enough to maintain confidence in the institutions, enabling them to raise fresh capital and refinance their operations in a downturn. Finanstilsynet seeks to ensure that financial institutions have the liquidity and the robust funding needed to maintain normal lending in periods of poorly functioning money and capital markets. In view of the major financial groups' importance to financial stability, particular weight is given to their solidity and liquidity. Finanstilsynet is expected to play an active part in international supervisory cooperation addressed to border-crossing financial institutions of significance for Norwegian financial markets.

2. GOOD MONITORING OF RISK IN THE ECONOMY AND MARKETS

Finanstilsynet analyses and assesses potential stability problems in Norway's financial industry against the background of developments in the Norwegian and international economy, and uses this information in its ongoing oversight of individual institutions. Macroprudential supervision requires alertness to possible imbalances, bubble tendencies and corrections in markets and the economy that may threaten financial stability. Potential stability problems resulting from contagion effects between institutions and markets are also assessed. Finanstilsynet will combine and utilise information from its supervision of individual institutions with information from its macroprudential supervision. The Authority will further develop and actively use instruments to mitigate systemic risk. As part of its macroprudential supervision Finanstilsynet will exchange information and collaborate with the Ministry of Finance and Norges Bank to find appropriate risk-mitigating measures.

3. CONSUMER PROTECTION THROUGH GOOD INFORMATION AND ADVICE

Through its supervision of advisers and product providers Finanstilsynet will seek to ensure that product sales and advice are sound and suited to the individual customer. Sales and advice must be based on customers' ability to understand what investments, loans, insurance and pension products entail. As part of its consumer protection effort Finanstilsynet will introduce new European requirements for information on savings and investment options with regard to banking, insurance and securities products. Finanstilsynet's checks on real estate agents' market conduct and their compliance with due care requirements are also important for consumer protection.

4. FIT AND PROPER MANAGEMENT AND SATISFACTORY GOVERNANCE

Finanstilsynet will ensure that entities under supervision have good governance, are properly run and conduct their business in accordance with applicable rules. Finanstilsynet will critically assess whether business activities are based on a sound business model and will see to it that firms actively monitor and control all important risks. It is important for financial stability that firms have in place good risk management systems as a basis for ensuring sufficient capital and liquidity. Firms' risk management must also be sufficiently robust and sound to deal with operational risk. Fit and proper management, satisfactory risk management and internal control will help to ensure that firms comply with the conduct of business rules, which are important for markets' proper functioning.

5. ROBUST INFRASTRUCTURE ENSURING SECURE PAYMENTS, TRADING AND SETTLEMENT

Finanstilsynet will contribute to a robust infrastructure featuring secure and stable information and communication systems. Finanstilsynet must ensure that payment services systems – including online banking and card facilities – are efficient, effective and secure. It is important that integrated technological systems function satisfactorily and that the risk of criminal acts arising in connection with internet-based solutions is under control.

Finanstilsynet will seek to ensure that marketplaces function in such a way that investors can be certain that prices of securities and other financial instruments are based on updated and relevant information. Finanstilsynet will see to it that settlement systems are secure and efficient, enabling the market to function efficiently and attract investors. Finanstilsynet will work to ensure that settlement and depository functions are organised in accordance with international standards and the objective of an integrated European securities settlement system.

6. SUFFICIENT AND RELIABLE FINANCIAL INFORMATION

Finanstilsynet will ensure that ongoing and periodic information from listed companies is sufficient, reliable and timely. The same applies to the quality of information published by institutions under supervision and their reporting to the authorities. Finanstilsynet will ensure that prospectuses, financial information and other reporting are in conformity with applicable rules, and that the audit of companies fulfils its purpose and is of satisfactory quality. Through its supervision of external accountants and auditors, Finanstilsynet will help to ensure that annual accounts data from the business sector in general is of satisfactory quality. This is highly important for banks and other lenders.

7. GOOD MARKET CONDUCT

Finanstilsynet will ensure that the markets are characterised by appropriate rules of conduct, effective supervision and general good conduct on the part of the actors. A prerequisite for well-functioning markets and adequate investor and consumer protection is that all actors comply with laws, regulations and good practice. To achieve this, Finanstilsynet will in all areas of supervision contribute to a high detection rate and a rapid and effective response in the case of rule breaches. Effective and rapid enforcement of the conduct of business rules, which include the prohibition of insider trading and price manipulation, promotes investor and consumer confidence in the markets.

8. EFFECTIVE CRISIS MANAGEMENT

Finanstilsynet will maintain preparedness to deal with critical situations and avoid harmful knock-on effects and lasting problems for the financial sector and financial services users. A preparedness must be in place to meet unforeseen problems in individual institutions, markets and infrastructure, and wider-scale crises in the financial system. The close collaboration with the Norwegian Banks' Guarantee Fund will continue.

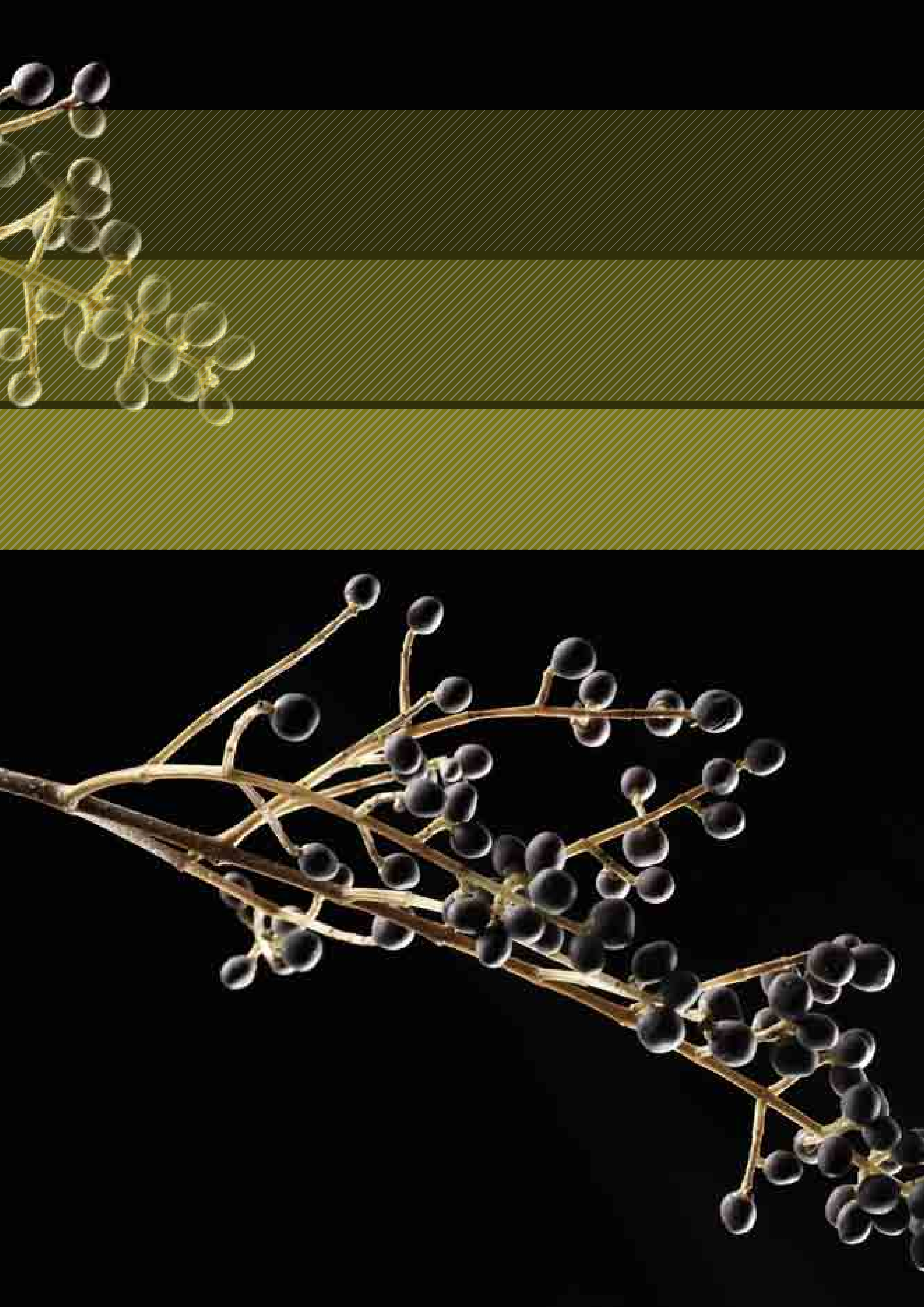
Finanstilsynet will hold regular national crisis drills, ensure good collaboration with other affected national authorities, and participate in international crisis exercises and in international supervisory collaboration for cross-border institutions. Finanstilsynet will play its part in ensuring that the guarantee schemes, including the deposit guarantee, function as intended and are practised in such a way as to minimise inconveniences to the individual customer. Further, Finanstilsynet will discharge its responsibility related to the Financial Infrastructure Crisis Preparedness Committee so that any crisis in this area can be handled in a satisfactory manner.

INSTRUMENTS

Finanstilsynet's activity is wide-ranging and requires active use of various instruments, on their own or in combination; in the supervisory effort, risk and materiality are given priority.

To achieve its goals, Finanstilsynet makes use of the following instruments:

- supervision and monitoring
- licensing
- regulatory development
- information and communication



IMPORTANT EVENTS IN 2011

SUPERVISION AND MONITORING

Norwegian financial institutions affected by international turbulence

The uncertainty with regard to the debt situation in a number of eurozone countries increased over the summer, fuelling much turbulence in international financial markets. Norwegian banks are affected by costlier, and poorer access to, borrowing in the market. Capital losses on securities have reduced life insurers' solvency capital.

Insignificant exposure to states with high government debt

Finanstilsynet's survey in June showed that Norwegian financial institutions had negligible direct exposure to the debt burdened eurozone states Greece, Ireland, Portugal, Spain and Italy.

European stress test of insurance companies

In July the European Insurance and Occupational Pensions Authority (EIOPA) published results of stress tests carried out in conjunction with national supervisory authorities for insurers in the EU, Iceland, Liechtenstein, Norway and Switzerland. Companies covering at least 50 per cent of the national markets for life insurance and non-life insurance participated in the test. The main impression was that European insurance companies were robust.

European stress test of banks

In July results were published of stress testing of European banks carried out under the auspices of the European Banking Authority (EBA) in conjunction with national supervisory authorities. DNB Bank (former DnB NOR Bank) participated, and passed the test with a good margin. The purpose of the stress test was to establish whether European banks are sufficiently capitalised to cope with new economic downturns and heavy loan losses.

Plan for recapitalisation of European banks

The EBA published in October a plan for the recapitalisation of European banks based on new, higher requirements. Finanstilsynet supported the proposal, and asked banks that were below or around 9 per cent common tier 1 equity to put forward plans showing how they intend to achieve a minimum of 9 per cent common tier 1 equity capital by the end of the first half of 2012.

Low earnings for investment firms

Towards the end of 2011 investment firms were marked by the international financial turbulence, and investment firms' incomes were at their lowest since 2004.

Survey of sales of savings products

21 investment firms' and banks' sales of complex savings products were scrutinised in the second half of 2010 and the first half of 2011. The survey showed that customers receive inadequate information when purchasing complex savings products.

Two investment firms have their licences revoked

In March 2011 Finanstilsynet withdrew two investment firms' licences to provide investment services after gross, systematic violations of the Securities Trading Act. Both firms appealed the decision to the Ministry of Finance, but the revocation orders were upheld.

Four investment firms reported for short selling

On 30 June Finanstilsynet reported four investment firms to ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime) for violation of the provision concerning short selling in the Securities Trading Act. All firms have accepted fines of NOK 400,000.

Two estate agency licences revoked

Gross rule breaches were brought to light at two estate agency firms. In both cases the firms' licences to carry on estate agency and the agents' personal authorisations to function as estate agent in charge were withdrawn.

Sanction imposed against external accountants for failure to undergo continuing education

Finanstilsynet revoked the authorisation of many external accountants who have failed to undergo mandatory continuing education.

Thematic on-site inspections of auditors

In 2011 Finanstilsynet conducted a round of thematic inspections focusing on auditor independence, which is key to the auditor's role. The scope of ancillary services provided to audit clients was checked. No gross breaches of the law were identified, but auditors' documentation of their assessments can be improved.

LICENSING

New supervisory structure in Europe

Europe's supervisory structure was revised as from 1 January 2011. The new structure comprises a European Systemic Risk Board and three European supervisory authorities covering the banking, securities and insurance markets (the European Banking Authority – EBA, the European Securities and Markets Authority – ESMA and the European Insurance and Occupational Pensions Authority – EIOPA). Finanstilsynet attends meetings at these authorities in an observer capacity.

Supervisory cooperation with US audit supervisory body

In September Finanstilsynet established a cooperation agreement with the US Public Company Accounting Oversight Board (PCAOB). The agreement provides for joint inspections by Finanstilsynet and the PCAOB of audit firms that are registered with both bodies. Two joint inspections were conducted under the agreement.

Stricter guidelines for home loans

Against the background of high and rising household debt and strong growth in house prices, Finanstilsynet issued on 1 December 2011 new guidelines for banks' home mortgage lending practice. A home loan should not normally exceed 85 per cent of the property's market value, and all loans secured on the dwelling are to be included in the loan to value ratio. Banks must also make allowance for an interest rate increase of 5 percentage points when determining a borrower's debt servicing ability.

Finanstilsynet's submission on the report of the Norwegian Commission on the Financial Crisis

Finanstilsynet delivered its submission on the report of the Commission on the Financial Crisis in May. Finanstilsynet broadly endorsed the Commission's recommendations while underscoring the need for sound monitoring of systemic risk.

Banks ordered to revise marketing and sale of packaged retail investment products

Banks were compelled to alter their marketing and sale of packaged retail investment products after Finanstilsynet determined that DnB NOR Bank's multi relationship customer concept violated the financial institutions act and the regulations on packaged retail investment products.

Payment systems hit by operational problems

After operational problems and downtime in April in payment systems operated by EDB ErgoGroup ASA on behalf of the banks, Finanstilsynet introduced in June stricter requirements on banks' preparedness and follow up of suppliers and ICT infrastructure.

Warren Bank closes banking business

Warren Bank AS handed back its banking licence in May 2011 after informing Finanstilsynet that the group was not in compliance with the minimum requirement on own funds on a consolidated basis.

Changes in the savings bank sector

In March 2011 Finanstilsynet gave its recommendation for SpareBank 1 SR-Bank to be permitted to convert to public limited liability status, becoming a 'limited liability savings bank', and for the establishment of a savings bank foundation. In June the Ministry of Finance issued the requisite authorisation for conversion. Further, Finanstilsynet in July endorsed the request of Sparebanken Vest and Sparebanken Hardanger to amalgamate with Sparebanken Vest as the acquiring bank. Finanstilsynet also endorsed the amalgamation of Rygge-Vaaler Sparebank and Halden Sparebank with Rygge-Vaaler Sparebank as the acquiring bank. The Ministry of Finance authorised the amalgamations in October.

REGULATORY DEVELOPMENT

Stricter capital adequacy rules from 2013 onwards

The European Commission proposes stricter capital adequacy rules for credit institutions and investment firms. The European Council and EU Parliament are considering the proposal with a view to entry into force on 1 January 2013.

New solvency framework for insurance

Solvency II, the new framework for insurers in the EEA, is scheduled to enter into force on 1 January 2013. Finanstilsynet prepared a bill and submission with a view to transposing the new framework into Norwegian law, which were forwarded to the Ministry of Finance in August.

Changes proposed in the business rules for life insurance

In March Finanstilsynet proposed changes to the business rules for life insurance with a view to supporting long-term management of pension assets and to bolstering life insurers' financial strength. This is a step towards the introduction of a new solvency framework for insurance.

Changes recommended to the Auditors Act

The audit industry has developed new services as a result of the removal of the audit obligation for small businesses. Finanstilsynet recommended in November changes to the Auditors Act that will increase the range of auditor services that are subject to regulation.

Extended obligation to record telephone conversations

Investment firms' obligation to record telephone conversations pursuant to the Securities Trading Regulations was extended as from 1 April 2011 to include provision of all investment services with the exception of the operation of multilateral trading facilities.

New qualification requirements for estate agents

New qualification requirements for estate agents became effective on 1 July. Finanstilsynet monitored industry compliance in the course of autumn 2011.

ORGANISATIONAL SET-UP AND RESOURCE USE

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet's activities and handles important matters in relation to regulations and licences, budgets and action plans. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a four-year period. Mr Endre Skjørestad, Board chair, took up duties on 15 April 2010.

BOARD OF DIRECTORS

The Board had the following composition in 2011:

Endre Skjørestad
lawyer, chair

Vivi Lassen
assistant director, deputy chair

Hilde C. Bjørnland
professor, board member

Mette Bjørndal
professor, board member

Harald Indresøvde
former bank manager, board member

Beate Sjåfjell
professor, first alternate

Jostein Skaar
department director, second alternate

Birger Vikøren
director at Norges Bank, attended as observer in 2011

Kristin Gulbrandsen
director at Norges Bank, new observer as from 5 January 2012

Arild J. Lund
director, alternate (Norges Bank)

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. As from February 2011 the employee representatives have been:

Aud Kogstad
senior supervisory adviser

Anders N. Kvam
special adviser

Their alternates were acting head of section **Ole-Jørgen Karlsen**, senior supervisory adviser **Anne-Kari Tuv** and special adviser **Jo-Kolbjørn Hamborg.**

Eleven ordinary board meetings and three extraordinary board meetings were held in 2011. The Board dealt with a total of 30 administrative matters and 54 supervisory matters requiring decisions. The Board received information on a further 22 administrative matters and 76 supervisory matters, bringing total items dealt with to 182. In addition, the Board is given a verbal briefing at each meeting on relevant matters.

THE BOARD OF DIRECTORS OF FINANSTILSYNET

Endre Skjørestad
Lawyer, partner at HAVER Advokatfirma ANS

Vivi Lassen
Assistant Director, Agency for Public Management and eGovernment (Difi)

Hilde C. Bjørnland
Professor, Department of Economics, BI Norwegian Business School

Mette Bjørndal
Professor, Department of Finance and Management Science, Norwegian School of Economics

Harald Indresøvde
Former bank manager, SpareBank 1 Søre Sunnmøre

Beate Sjåfjell
Professor, Department of Private Law, University of Oslo

Jostein Skaar
Director, Market Monitoring, Competition Authority

Birger Vikøren
Acting Executive Director, Norges Bank Financial Stability

Aud Kogstad
Senior Supervisory Adviser, department coordinator, Accounting and Auditing Supervision

Anders N. Kvam
Special Adviser, consumer affairs coordinator, Director General's staff

Photo: CF-Wesenberg@kolonihaven.no

FINANSTILSYNET'S MANAGEMENT TEAM

Morten Baltzersen
Director General

Eirik Bunæs
Deputy Director General,
Capital Markets Supervision

Emil R. Steffensen*
Deputy Director General,
Finance and Insurance
Supervision

Cecilie Ask
General Counsel

Anne Merethe Bellamy
Deputy Director General,
Accounting and Auditing
Supervision

Kjetil Karsrud
Communications Director

Gun Margareth Moy
Deputy Director General,
Administration

** Emil R. Steffensen was on leave of absence from 29 September 2011 to 29 February 2012. Erik Lind Iversen was acting deputy director general in Mr Steffensen's absence.*
Photo: CF-Wesenberg@kolonihaven.noo

ADMINISTRATION, STAFF AND GENDER EQUALITY

New Director General

Finanstilsynet's Director General is appointed by the King in Council for a six-year term. **Bjørn Skogstad Aamo** stepped down in April 2011 after 18 years in the position. Deputy Director General, Finance and Insurance Supervision, **Emil R. Steffensen**, was on 13 April 2011 appointed acting Director General for the period 15 April – 15 August 2011.

Morten Baltzersen was appointed new Director General by the King in Council on 1 April 2011 for a six-year term, and took up duties on 15 August.

FACTS AND FIGURES ABOUT FINANSTILSYNET

At the end of 2011 Finanstilsynet had 275 full-time staff, compared with 261 at the end of 2010. Fifty-two per cent of the full-time staff are women. Women made up 43 per cent of Finanstilsynet's management team in 2011, and 53 per cent of all staff with managerial responsibilities. Women employees' pay measured 89.1 per cent of men's pay in 2011, compared with 85.9 per cent in 2010.

The Director General's salary at the end of 2011 totalled NOK 1,298,000. The Chairman of the Board's remuneration was NOK 220,000, the Deputy Chair's remuneration was NOK 150,000, and remuneration for board members was NOK 130,000. Remuneration for the first alternate was NOK 110,000, and for the second alternate NOK 35,000 in addition to NOK 9,000 per meeting attended.

Gender equality

The gender equality effort is anchored in the work-environment and gender-equality committee whose meetings are attended by a gender equality representative on a regular basis. The committee routinely reviews pay statistics for each job category, and for Finanstilsynet as a whole, to keep abreast of developments in pay equality, which is a priority area of the in-house pay policy. The committee also reviews other equality-related issues. Finanstilsynet's action plan for equality, adopted in February 2007, was developed on the basis of a broad understanding of the concept of equality, and thus also covers ethnic origin, disability and age.

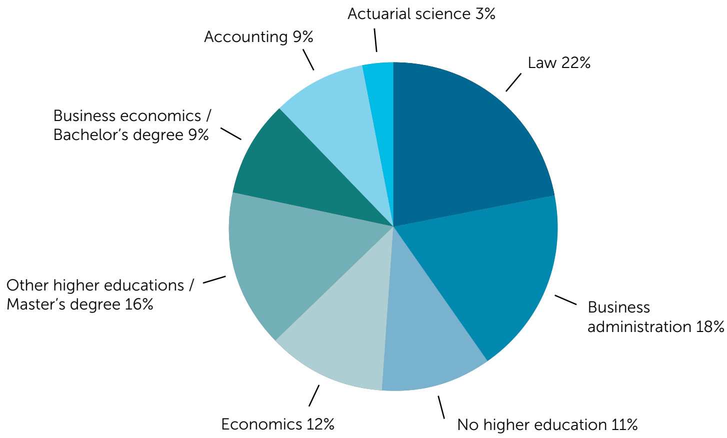
Personnel policy and competence

Key to Finanstilsynet's pay and personnel policy are measures to recruit, develop and retain staff with a high level of competence in areas under supervision. Through its active use of instruments, Finanstilsynet has assured that it has the competence needed to execute its tasks in a sound, effective manner. At the end of 2011, 71 members of staff had solid work experience (generally more than five years) from industries under supervision. Eighty-nine per cent of the staff hold a university degree or the equivalent.

Staff turnover in 2011 was 6.5 per cent compared with 9 per cent in 2010. This acceptable turnover rate reflects Finanstilsynet's ability to retain staff with long supervisory experience and staff who have developed a high level of expertise during their career with Finanstilsynet. A flexible pay and personnel policy has been an important means to achieve this.

Twenty-eight vacancies were advertised in 2011 compared with 52 in 2010. Six of these were in-house compared with 16 in 2010. Applicants totalled 639 in 2011 compared with 938 in 2010.

CHART 1: STAFF EDUCATIONAL BACKGROUND AS AT 31.12.2011



Inclusive workplace

With its espousal of the Government-sponsored "IA Agreement" designed to promote inclusive employment, Finanstilsynet attaches much importance to preventing and following up sickness absence. Achieving this requires close cooperation with the corporate health service and the Norwegian Labour and Welfare Administration (NAV). The work environment committee follows up sickness absences and recommends measures when necessary. The work environment and gender equality committee monitors sickness absence and the advisability of initiating measures. Sickness absence rose from 3.4 per cent in 2010 to 3.6 per cent in 2011.

The IA Agreement is designed to prevent discrimination of job applicants with functional impairments and to raise the de facto retirement age. Finanstilsynet stresses its aspiration for diversity with respect to ethnic background, functional capacity, gender and age in job vacancy advertisements, and at least one applicant from an under-represented group is invariably called in for interview provided the qualification requirements are met.

CASES AND CASE PROCESSING TIME

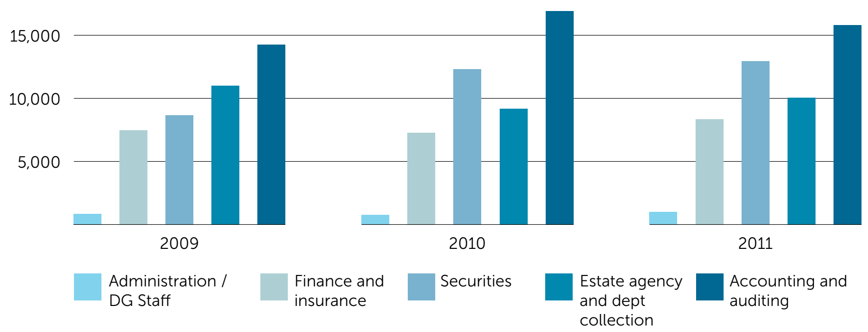
In keeping with Finanstilsynet's strategy, specific targets are set for the time spent on a selection of administrative cases and for supervisory reports and resulting observations. The aim is to process 90 per cent of administrative cases within 30 days. A longer period is allowed for some types of complex cases. The deadline for supervisory reports and ensuing observations varies from one area of supervision to the next.

In 2011 an improvement was registered in all areas compared with 2010 apart from licence applications with a deadline of 30 days. Target attainment remains unsatisfactory and efforts to reduce case processing time will continue. As previously, room for improvement is greatest in the case of licence applications with a processing deadline longer than 30 days. The main contributor here is excessive time spent on approval of articles of association in the securities area, where the target achievement rate was 31 per cent in 2011.

TABLE 1: CASE PROCESSING TIME AT FINANSTILSYNET IN 2011

	2010		**2011**	
	No. of cases	Target attainment	**No. of cases**	**Target attainment**
Total no. of cases with processing time target	3,546	78%	**3,578**	**77%**
– Cases with 30-day deadline	3,425	79%	**3,472**	**78%**
– Cases with deadline longer than 30 days	121	53%	**106**	**55%**
Supervisory reports	222	81%	**229**	**87%**
Supervisory observations	189	72%	**187**	**81%**

CHART 2: REGISTERED CASE DOCUMENTS – BY SECTOR



	2009	2010	**2011**
Total number of cases	42,241	46,470	**48,156**

The number of incoming and outgoing documents registered in 2011 was 1,686 higher than in 2010, partly due to the introduction of a new Estate Agency Act which brought an increase in administrative tasks. The provisional simplified processing of payment institutions' licence applications and an increase in product notifications from life insurers also led to a greater volume of case documents for the finance and insurance area. The decline in the volume of case documents in the accounting and auditing area is due to a reduction in the number of auditors notifying withdrawal to Finanstilsynet towards year-end.

Document access at Finanstilsynet

Finanstilsynet received a total of 900 requests for document access involving orders for 3,210 documents in 2011. Of these, 2,335 were in the public domain, 197 were distributed as public versions, and 678 were not released since their entire content was barred from publication. On an annual basis there was a slight decline in requests for access after Finanstilsynet hooked up to the new public electronic mail journal, used by all central government agencies, in July 2010. Most access requests are now received through this portal.

TABLE 2: REQUESTS FOR DOCUMENT ACCESS

	2009	2010	**2011**
Orders placed	3,155	3,531	**3,210**
Not released	248	342	**678**

Security and crisis preparedness

Finanstilsynet aims to be a confidence-inspiring and reliable agency, and acknowledges its security responsibilities towards entities under its supervision, its staff and central authorities. The agency accordingly works continuously on security and preparedness both in its core area of operation and within its own organisation. Finanstilsynet adheres to Norges Bank's security regulations, which cover physical security and preparedness with respect to the office premises. Finanstilsynet has specific security and crisis preparedness plans in place for the various areas under supervision in the financial market, including technical infrastructure. Separate security rules apply to internal ICT solutions and the technical infrastructure. Safety tests are regularly conducted in the ICT area. A secondary site of operation has been established in preparedness for crisis situations.

In the wake of the terrorist attacks on 22 July Finanstilsynet appointed a crisis preparedness group which considered possible consequences.

FINANCES

Expenditure

The Storting determines Finanstilsynet's budget as part of the government budget. The budget for 2011 originally totalled NOK 303.9 million.

An additional appropriation of NOK 2.5 million was made as compensation for the public sector wage settlement, NOK 1.3 million to cover increased fees for attending meetings of EU supervisory authorities, NOK 1.8 million to upgrade systems for exchange of electronic transaction reports with EEA states and NOK 0.6 million to cover VAT liability on expense invoices forwarded to Finanstilsynet by Finansinspektionen, the Swedish Financial Supervisory Authority. Including NOK 7.6 million carried forward from 2010 and refunds of parental and sickness benefits worth NOK 3.8 million, aggregate disposable budget came to NOK 321.5 million while aggregate expenditure came to NOK 311.5 million, an increase of 6.3 per cent. Total salary expenditure rose by 10.5 per cent, and expenditure on goods and services decreased by 3.1 per cent. Finanstilsynet's aggregate expenditure was NOK 10.5 million less than disposable revenues. Unutilised revenues were carried forward to 2012.

As in the case of other government agencies included in the central government accounts, Finanstilsynet's accounts are kept on a cash basis and are prepared in accordance with the central government chart of accounts, which employs natural classification of revenues and expenses. Based on this chart, Finanstilsynet classifies expenditures by function. The main classification by function is shown in Table 3.

The closing letter dated 25 May 2011 from the Office of the Auditor General on the accounts for 2010 had no adverse comments with regard to the accounts or to Finanstilsynet's implementation of the budget.

TABLE 3: ACCOUNTS

	2009	2010	**2011**
Salaries	175,516	202,491	**223,685**
Of which:			
Salaries and social costs (all positions)	169,745	197,486	**220,094**
Stand-ins/Substitutes	4,975	4,002	**2,792**
Other emoluments (directors, consultants, other fees)	796	1,003	**799**
Goods and services	91,220	90,553	**87,794**
Of which:			
Operating expenses	43,957	38,780	**29,762**
Information	2,728	2,154	**1,843**
Travel and meeting attendance, subsriptions	7,863	8,355	**9,988**
Inspections and other supervisory work	3,754	3,467	**2,972**
Organisation development, management and competence development	4,318	5,657	**5,511**
ICT expenditure	28,600	32,140	**37,818**
Total expenditure	266,736	293,044	**311,479**
Levied amount	217,034	246,508	**280,933**
Prospectus fees		3,775	**7,151**
Amount carried over from previous year	8,200	5,237	**7,627**
Benefit refunds (parental and sickness)	6,556	4,407	**4,272**
Total revenues	231,790	259,927	**299,591**

Figures in NOK 1000s

Total expenditure was 6.3 per cent higher in 2011 than in 2010. This is particularly true of the salaries bill, which is explained by staff increases and the general increase in pay. The reduction of NOK 9 million in operating expenses reflects the substantial outlays incurred in 2009 and 2010 on settling into new premises. The increase in ICT expenses should be viewed in light of larger requirements on electronic systems for reporting, analysis and work processes.

Revenues

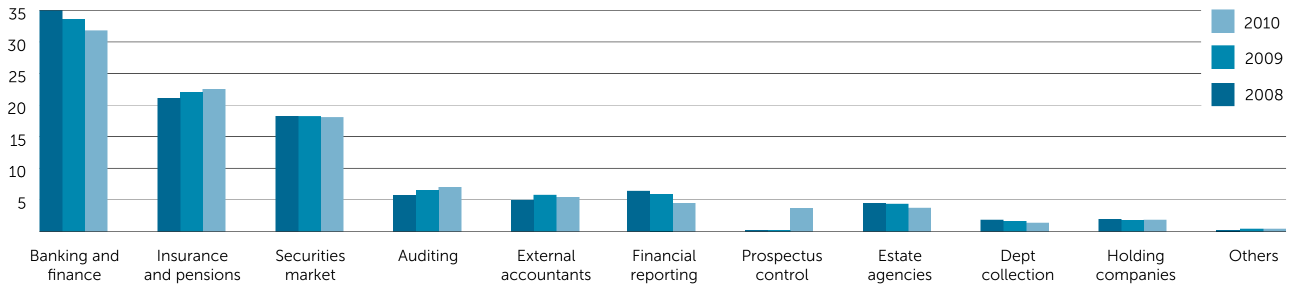
Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision at the start of the financial year. The Storting therefore adopts a revenue appropriation equal to the expenditure appropriation. The Act requires the expenses to be apportioned among the various institutional groups based on the extent of supervision, and expenses are therefore paid in arrears. Contributions are also claimed from branches of companies from other EEA states.

The total amount levied for 2010, and due for payment in 2011, was NOK 286.1 million. The levy was smaller than actual expenses because a) the levy is based on the budget appropriation, b) any amount carried forward from the previous year is deducted and c) part of the expenses are covered by the National Insurance Scheme Fund through refunds of parental and sickness benefit outlays. The levy proposed by Finanstilsynet for 2010 was approved by the Ministry of Finance on 15 June 2011 after prior consultation with the trade organisations concerned.

Supervised entities liable to pay the amount levied for 2010 numbered 13,407, of which 76 were foreign branches. The largest category of supervised entities is accountants, numbering 9,437. The overall figure in 2009 was 12,684 entities.

The total amount levied for 2010 was 15.8 per cent higher than for 2009. The increase is due to several factors, in particular a need for the additional resources required to discharge Norway's obligations to implement regulatory measures and supervisory cooperation within the EEA.

CHART 3: LEVY DISTRIBUTED ON SUPERVISED GROUPS



RESOURCE INPUT BY AREA OF SUPERVISION

TABLE 4: RESOURCE INPUT BY AREA OF SUPERVISION

	2009		2010		**2011**	
	FTEs	%	FTEs	%	**FTEs**	**%**
Banks	47.6	21.1	49.8	20.8	**50.6**	**20.1**
Finance companies	2.3	1.0	2.3	1.0	**2.8**	**1.1**
Mortgage companies	3.1	1.4	3.2	1.3	**2.7**	**1.1**
Insurers	31.0	13.8	33.6	14.1	**36.6**	**14.5**
Holding companies	3.1	1.4	3.4	1.4	**1.4**	**0.5**
Pension funds	6.3	2.8	7.6	3.2	**7.3**	**2.9**
Securities market	36.3	16.1	37.3	15.6	**42.4**	**16.8**
Prospectus control			6.5	2.7	**9.2**	**3.7**
Estate agents	8.7	3.9	7.8	3.3	**9.0**	**3.6**
Debt collection	2.9	1.3	2.8	1.2	**3.9**	**1.5**
Auditors	12.1	5.4	13.1	5.5	**14.1**	**5.6**
Accounting rules et al.	0.2	0.1	0.4	0.2	**0.7**	**0.3**
Financial reporting	8.9	3.9	7.9	3.3	**6.9**	**2.8**
External accountants	9.2	4.1	10.1	4.2	**11.6**	**4.6**
Miscellaneous	4.2	1.9	2.7	1.1	**2.6**	**1.0**
Undistributed	49.0	21.8	50.5	21.1	**50.1**	**19.9**
Total	225	100	239	100	**252**	**100**

KEY FIGURES ON SUPERVISORY ACTIVITIES

TABLE 5: FIGURES FOR SUPERVISED ENTITIES AS AT 31.12.2011

	2007	2008	2009	2010	**2011**
Banks and financial institutions					
Savings banks	123	121	118	113	**111**
Commercial banks	16	18	20	20	**19**
Finance companies and mortgage companies	41	46	59	57	**56**
Foreign branches of Norwegian banks and other credit institutions	16	13	16	17	**14**
Norwegian branches of foreign banks and credit institutions	32	46	44	35	**42**
Payment institutions					
Payment institutions[1]	–	–	–	1	**17**
E-money institutions					
E-money institutions	3	3	3	3	**3**
Insurance					
Life insurers	10	11	12	12	**12**
Non-life insurers	44	45	45	44	**43**
Local marine insurance associations	13	13	13	13	**13**
Local fire insurance associations	20	20	20	20	**20**
Norwegian insurers' foreign branches[2]		9	11	5	**12**
Norwegian branches of foreign insurers	46	44	41	43	**37**
Insurance intermediaries[3]	91	103	97	98	**99**
Private pension funds	86	81	76	66	**63**
Municipal pension funds	29	30	31	31	**32**
Pension schemes	17	15	9	8	**7**
Holding companies					
Holding companies	12	12	11	11	**11**
Securities institutions					
Investment firms	132	154	150	154	**143**
Norwegian branches of foreign investment firms	10	13	17	17	**19**
Fund management companies	23	22	26	27	**29**
Oppgjerssentralar	3	3	3	3	**3**
Clearing houses	1	1	1	1	**1**
The Norwegian Central Securities Depository	6	5	6	4	**4**
Auditors					
Auditors	5,670	5,777	5,943	6,210	**6,484**
Audit firms	789	825	820	776	**674**
External accountants					
External accountants	7,966	8,340	8,780	9,260	**9,971**
External accounting firms	2,691	2,676	2,693	2,691	**2,817**
Estate agency					
Estate agency firms	717	611	516	550	**530**
Lawyers' practices incl. estate	1,324	1,307	1,346	1,294	**1,317**
Debt collection					
Debt collection agencies	112	110	105	102	**96**
Debt purchase businesses	8	5	6	5	**5**

Finanstilsynet also oversees the financial reporting of some 230 listed firms. Nets Norway AS and EVRY ASA (formerly EDB ErgoGroup ASA) are not under the direct supervision of Finanstilsynet, but are relevant to Finanstilsynet's supervisory activities as providers of technical solutions to Norwegian financial institutions.

TABLE 6: NUMBER OF ON-SITE INSPECTIONS BY TYPE OF INSTITUTION (INCL. IT INSPECTIONS*)

	2007	2008	2009	2010	**2011**
Banks/finance	49	37	58	70	**53**
Payment institutions	–	–	–	–	**1**
E-money institutions	–	–	–	–	–
Holding companies	–	–	–	–	–
Insurers	6	6	8	12	**14**
Insurance intermediaries	3	3	7	6	**7**
Pension funds	2	6	4	8	**2**
Investment firms	20	19	21	24	**19**
Other securities institutions (incl. fund management companies)	6	1	3	5	**8**
Auditors	22	29	47	87	**47**
External accountants	41	60	49	58	**56**
Estate agencies	51	66	30	49	**93**
Debt collection agencies	6	13	12	13	**12**
Data processing centres/IT providers	4	4	2	4	**5**
Other	–	–	–	1	–

* Twenty-three IT inspections were conducted, either singly or in conjunction with ordinary on-site inspections. Finanstilsynet also conducted 27 simplified IT inspections and processed four notifications received under the Payment Systems Act after investigating compliance with the requirement to notify any establishment of new, or changes to existing, payment systems.

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

	2007	2008	2009	2010	**2011**
Cases pursuant to the Savings Banks Act (No. 1 of 24 May 1961)	53	46	93	50	**23**
Cases pursuant to the Commercial Banks Act (No. 2 of 24 May 1961)	7	7	18	24	**18**
Cases pursuant to the Financial Institutions Act (No. 40 of 10 June 1988)	119	140	222	139	**204**
Cases pursuant to the Insurance Activity Act (No. 39 of 10 June 1988)	2	–	–	–	–
Cases pursuant to Act (No. 44 of 10 June 2005) on Insurers, Pension Trusts and their Activities [4]	58	208[5]	108	95	**76**
Cases pursuant to the Guarantee Schemes Act (No. 75 of 6 December 1996)	–	–	–	–	–

[1] Payment institutions came under Finanstilsynet's supervision as from 2010.

[2] There is no statistics on this prior to 2008.

[3] The number of insurance intermediaries has increased since the Act on Insurance Mediation came into force on 1 January 2006. Insurance agent firms that distribute insurances exclusively for Norwegian insurers are not included in this overview, nor are entities engaged in accessory insurance agent business, i.e. entities whose business includes insurance mediation on a part-time basis.

[4] This Act came into force on 1 July 2006, but parts of the earlier Insurance Activity Act were in force until 1 January 2008.

[5] The large number of cases in 2008 is due mainly to the licensing requirement imposed on pension funds by the Insurance Activity Act.

INFORMATION AND COMMUNICATION

COMMUNICATION DIRECTED AT INSTITUTIONS AND SECTORS

A key channel of communication with the world at large is letters written and distributed by Finanstilsynet each year. A total of 19,595 letters were sent (outgoing documents) in 2011. A central aim in all communication is to present information in a clear and understandable way. Rule clarifications, report-filing requirements and matters of which institutions and sectors are obliged to take note are usually communicated in the form of circulars. Finanstilsynet released 31 circulars in 2011.

Seminars and presentations

Seminars and presentations are an important part of Finanstilsynet's communication with sectors under supervision. Each year, for example, the Authority organises a seminar for investment firms and management companies.

On the occasion of Bjørn Skogstad Aamo's retirement as Finanstilsynet's Director General in April, a seminar on challenges facing the Authority in the years ahead was held at Oslo Militære Samfund. Attendees included representatives from the financial industry, trade organisations, the Ministry of Finance, Norges Bank and collaborating authorities.

Collaboration

Finanstilsynet has an extensive network of contacts, and meets regularly with collaborating public authorities in Norway and elsewhere and with trade organisations.

COMMUNICATION DIRECTED AT THE PUBLIC

Information and communication are one of four strategic instruments of supervision, along with supervision and monitoring, licensing and regulatory development. The information effort is directed in the first instance at institutions and sectors under supervision.

Finanstilsynet has many areas of responsibility featuring extensive bodies of rules and complex issues. Information and communication are based on the principles guiding the central government information policy, and are accordingly a management responsibility in each area of supervision.

Forty-nine press releases were issued in the course of the year. Two press conferences and a press briefing were held. In March Finanstilsynet presented the following reports: a) *Risk Outlook 2011: The Financial Market in Norway*, b) *Risk and Vulnerability Analysis* on the use made of information and communication technology in the financial sector and c) the annual report for 2010. *The Financial Market Trends 2011* report was presented in September. These reports analyse and review trends and risk in the financial market and potential sources of stability problems in the Norwegian financial sector.

Finanstilsynet received broad media coverage in 2011, an example in the first half-year being its scrutiny of banks' sales of financial instruments. Stricter requirements on banks' preparedness and follow-up of suppliers of ICT infrastructure following operational problems at internet banks and payment systems were also in focus. In the second half-year the Authority presented new guidelines for banks' home mortgage lending, prompting much discussion and numerous media notices.

www.finanstilsynet.no

The website is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, reporting etc., applying to the various areas of business. Reports, analyses, rules and matters of topical interest are published along with, for example, circulars and press releases. Key statutes and regulations are translated into English.

The licence register is the most used service on the website. This is a searchable register of all firms and individuals under Finanstilsynet's supervision. The website also provides an overview of market warnings against firms that are not licensed to engage in the business they are pursuing in Norway.

A precedents register was established on the website in 2011. It contains a compendium of precedent-setting decisions by Finanstilsynet that guide the Authority's practice and its interpretation of legislation. All precedent decisions are linked to laws or regulations.

Consumer information on the website provides information about consumer rights and obligations in areas under Finanstilsynet's oversight. Updated consumer information was published early in 2012.

In 2010 the website had 495,000 visits, 100,000 more than in 2010. Around 16 per cent of all visits were by users outside Norway.

FINANSTILSYNET'S KEY RELATIONS

Storting

Government

Ministry of Finance

Norges Bank

Statistics Norway

Oslo Børs and other regulated markets

ØKOKRIM

Consumer Council and Consumer Ombudsman

Brønnøysund Register Centre

Competition Authority

FINANSTILSYNET

Supervised entities

Banking and finance

Insurance and pensions

Securities market

Listed companies

Auditing services

External accounting services

Estate agency

Debt collection

Data Inspectorate

National Security Authority

Water Resources and Energy Directorate

Foreign Supervisory authorities

International supervisory organisations

Trade organisations

Media/public opinion

Consumers and investors

FINANSTILSYNET'S WORK ON CONSUMER PROTECTION

Finanstilsynet's main goal – to promote financial stability and well-functioning markets – is related to important economic considerations and the desire to protect consumers and investors.

Banking crises and securities market crashes can result in heavy economic losses and costs for the consumer. Financial stability and confidence in banks' and insurers' ability to discharge their basic functions depend on an effective reallocation of capital and risk and are a prerequisite for good consumer protection.

Supervised entities manage capital in important areas on behalf of their customers, for example bank depositors, insurance policyholders and investors in securities markets. Should uncertainty arise about the safety of banks and insurance companies the outcome may be increased costs and higher prices for financial services for the consumer and, at worst, loss of capital. A significant part of consumer protection must therefore be achieved through the regulation and supervision of companies' liquidity and solvency. Protection of consumer interests in the form of continuing oversight is therefore largely indirect, but also direct through checks on compliance with specific rules and regulations.

Given the complexities inherent in today's financial market, and the many new products being marketed, it is more important than ever for Finanstilsynet to devote time to consumer issues and to provide effective supervision in this area, which includes making sure that companies provide relevant and understandable information about financial products. Finanstilsynet has taken this into account in its new strategy and stepped up its work on consumer issues as from autumn 2010.

NEW CONSUMER INFORMATION WEB PAGE

Finanstilsynet has developed a web page providing information about rights and obligations of consumers in areas overseen by Finanstilsynet, and information about the business activity of the various types of enterprise. The web page complements the information available to consumers at Finansportalen.no and at the websites of institutions and organisations in the financial industry.

Collaboration with other authorities and enterprises on consumer issues

Finanstilsynet has regular meetings with the Consumer Ombudsman, the Consumer Council, Finansportalen, the Norwegian Financial Services Complaints Board, the Data Inspectorate and the Competition Authority on relevant matters, shared concerns and new rules.

New guidelines for home mortgage loans

In spring 2010 Finanstilsynet introduced guidelines for home mortgage lending. It did so in the knowledge that both the international financial crisis and previous crises have shown the danger inherent in a sharp increase in debt and house prices. High debt, high loan-to-value ratios, floating interest rates and low repayments make many Norwegian households vulnerable to interest rate hikes or economic setbacks. In the interest of the consumer and financial stability it is important to encourage more robust home financing and greater stability in the housing market.

In autumn 2011 the guidelines were tightened by lowering the loan-to-value ratio banks are normally entitled to offer from 90 to 85 per cent, and by obliging banks to take into account all loans secured on the property concerned. The loan-to-value ratio for home equity credit lines was lowered from 75 to 70 per cent. When determining debt-servicing ability, banks must now specifically review each borrower, and not apply a fixed ratio of loan to income.

Follow-up of financial advisory services

Follow-up of financial advisers is central to the protection of consumer interests. The need for consumer and investor protection is substantial because of many products' complexity, because the financial consequences for savers can be far-reaching and difficult to grasp, and because the incentive systems employed by providers of such products are in some cases designed in such a way that insufficient emphasis is given to the customer's goals and capital position.

Finanstilsynet will continue to verify companies' ability to document that the products they have sold are suitable for the customer, and that the customer has received sufficiently individualised, balanced and accurate information on investment risk.

The EU is currently working on new directives on complex savings products. In the securities area a new Markets in Financial Instruments Directive (MiFID) is in the offing, and in the insurance area a new chapter in the Insurance Mediation Directive (IMD). The proposed rules go under the name PRIPs, Packaged Retail Investment Products. Finanstilsynet started preparation of a Norwegian body of rules in spring 2011, and is awaiting further developments in the EU.

Finanstilsynet warns against disreputable market actors

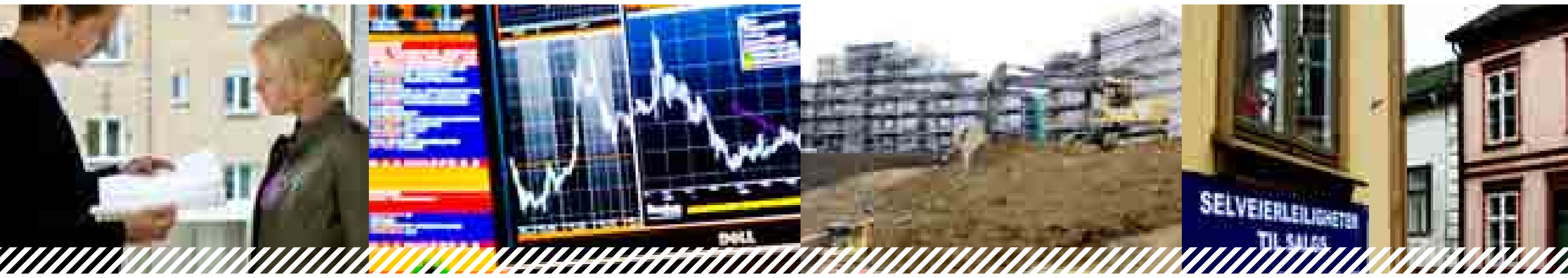
Finanstilsynet publishes warnings against Norwegian and foreign companies that provide financial services in Norway without the requisite licence. Very often these firms are engaged in some form of fraud, and individuals who transfer money to such firms must in many cases consider the money lost. Finanstilsynet publishes market warnings on its website, cites warnings given by foreign supervisory authorities and posts notices in the media to warn consumers against dealing with such firms. Finanstilsynet's website also contains information on investment fraud, advising investors on how to protect themselves against fraudsters. As from November 2010, Finanstilsynet's market warnings have also been available at Finansportalen.no.

Payment systems and the internet banks

Finanstilsynet devoted substantial resources in 2011 to ensuring operational stability and preventing crime committed against internet banks and other payment channels. For further details see the chapter "Supervision of IT and payment systems", page 67.

Survey of financial knowledge

In its report *Kredittilsynet's contribution to consumer protection and information* in 2009, the Authority concluded that surveys conducted in Norway in recent years show limited public knowledge of the various types of financial products and services. With this in mind, Finanstilsynet decided in 2010 to grant researchers Ellen K. Nyhus (University of Agder) and Christian Poppe (National Institute for Consumer Research, SIFO) final funding for the project *Financial knowledge in Norway*. The project aimed to gauge financial knowledge in a representative sample of the Norwegian population. The survey was a pilot project under the auspices of the OECD and the International Network on



Financial Education (INFE). The project's findings were presented in October at a conference under OECD auspices.

Greater focus on consumer protection in the EU

Increased emphasis has been given to consumer information and consumer protection in the EU in the wake of the financial crisis in 2008–2009. When the new European supervisory authorities (ESAs) were established, the EU countries were agreed that they had a clear responsibility towards consumers. The new authorities for banking supervision, insurance and occupational pensions supervision and securities market supervision will promote a market for financial products that is transparent, simple and fair for consumers. To this end they will collect and analyse data on consumer trends, review and coordinate financial literacy and education initiatives by national authorities, develop training standards for the industry and contribute to the development of common disclosure rules.

Finanstilsynet participated in three working groups under the new ESAs tasked with improving consumer protection. To gain an overview of product development in the market, the working groups sent a questionnaire to the national supervisors asking them to describe characteristics of any new products, risk, investors, rules and aspects of the products that cause them concern.

Finanstilsynet also participated in an OECD working group – the Task Force on Financial Consumer Protection (TFoFCP). The group developed new principles on financial consumer protection at the request of the G20 countries, whose finance ministers endorsed the principles at the G20 meeting in October 2011.

New directive on regulation of mortgage loans for residential purposes – consultative statement

Finanstilsynet issued its consultative statement on the EU Commission's proposed directive on credit agreements relating to residential property in a letter to the Ministry of Justice in May 2011. The draft directive supplements the Consumer Credit Directive which in Norway has been incorporated in the Financial Contracts Act. The proposed directive will not lead to substantial changes in the Norwegian body of rules.

Debt collection

Finanstilsynet's consumer protection tasks are prominent in the supervision of estate agents and debt collection agencies. Much attention focused on young consumers and payment problems in 2011.

BANKING AND FINANCE

Banks play a key role as providers of finance and savings solutions across the entire economy. Regulation and supervision are important contributors to financial stability and confidence in the financial system. Supervision of the banking and financial sector promotes solid financial institutions with good risk awareness, management and control. Financial service provision must be compliant with the regulatory framework and in the best interest of society and the users of financial services.

SUPERVISION AND MONITORING

Monitoring and analysis

Monitoring and analysis of developments in the economy and markets and of the situation in the financial sector are prerequisites for the supervision of individual institutions. Analyses are the basis for Finanstilsynet's assessment of the general state of the financial sector and for the supervision of individual institutions' liquidity and financial strength.

As part of the macroeconomic surveillance, half-yearly analyses and assessments are made of potential stability problems with possible consequences for the financial sector. The banks are crucial to financial stability. For that reason quarterly reports on the situation of banks, finance companies and mortgage companies are produced focusing on the trend in results, liquidity and financial position. Press releases in February, May, August and November summarise these analyses, which are also published in *Report for Financial Institutions* on Finanstilsynet's website. Overall assessments of the situation in the financial sector and of risks for Norwegian financial institutions in the light of developments in the economy and markets were published in the spring 2011 report *Risk Outlook* and in the autumn 2011 report *Financial Market Trends*.

Reporting

Reports filed by institutions are an important basis for analyses and on-site inspections. A full overview of applicable reporting requirements, and continuous updates on adjustments to the reporting set-up, are available on Finanstilsynet's website.

Finanstilsynet collaborates with Statistics Norway on the reporting regime for banks, finance companies and mortgage companies through ORBOF (Statistics Norway's database for accounting information from financial undertakings).

The new European supervisory structure gives the European Banking Authority (EBA) a broader mandate than that of its predecessor, the Committee of European Banking Supervisors. The EBA needs regular input from the national supervisors, both for its own supervisory purposes and to pass on to the European Systemic Risk Board (ESRB). Market conditions in autumn 2011 greatly heightened the need for information. Finanstilsynet compiled and collated data from Norwegian institutions on behalf of the EBA.

Financial strength and profitability at Norwegian banks

Turbulent international financial markets have led to an exacting situation for European banks. Despite the turmoil, Norwegian banks' profits in 2011 were almost on a par with the previous year.

Net interest revenues, which make up some 70 per cent of Norwegian banks' aggregate operating revenues, have been under pressure for many years, and rose less than lending volumes. Intense competition, not least in the home mortgage loan market, and higher funding costs are fuelling this trend. A strong Norwegian economy, with few business closures, has kept banks' loan losses low in the past two years, helping to maintain profit levels. Moreover, banks' operating expenses as a share of revenues have been on a downward trend for a long period.

Norwegian banks have strengthened their core capital position since 2009, and are basically well capitalised. All meet the current minimum capital requirements by an ample margin. Concurrently a substantial international effort is under way to rectify the flaws in the regulatory system that were brought to light by the financial crisis. In 2011 the EBA proposed a minimum requirement of 9 per cent common equity tier 1 capital at the largest European banks. Finanstilsynet endorsed the EBA's proposal, and recommended that all Norwegian banks have in place a common tier 1 equity ratio of at least 9 per cent.

Household debt – high risk

Lending growth slowed sharply through the downturn in 2008–2009, picking up gradually in 2010 and 2011. The fluctuations are largely due to corporate borrowing, whereas household debt has grown at a stable, high rate since the 1990s, including in the years 2008 and 2009. Households' debt burden has consequently reached a historically high level.

Longer mortgage repayment periods and much use of interest-only mortgages increases vulnerability in the event of an economic downturn. Prudent lending practices can help to dampen this risk in the household sector. To this end Finanstilsynet established guidelines for prudent lending practices for residential purposes in March 2010 with a view to reducing banks' risk and promoting financial stability.

The growth in house prices and household borrowing, combined with the results of a thematic round of inspections and the 2011 home loan survey, prompted Finanstilsynet to tighten its guidelines (in circular 29/2011) as from 1 December 2011.

The continuing main requirement on bank lenders is to make a thorough assessment giving particular emphasis to borrowers' debt-servicing capacity. Banks must make allowance for an interest rate increase of at least 5 percentage points when assessing this ability. The guidelines have been tightened by limiting the amount borrowed to 85 per cent of property value as opposed to 90 per cent under the March 2010 guidelines. Further, the loan-to-value ratio must take account of all loans secured by the property – i.e. mortgages provided by other lenders must be included for the purpose of determining the loan-to-value ratio. The standard loan-to-value ratio for home equity credit lines was concurrently lowered from 75 to 70 per cent.

In the event of any deviation from the reference values given in the guidelines, either additional collateral must be provided or a special prudential assessment undertaken. Under the new guidelines the board of directors at the individual institution is expected to set criteria for prudential assessments and to act on any deviation.

Assessing banks' risk and capital needs

The main focus of monitoring banks' financial strength in 2011 was to ensure that

- tier 1 capital ratios are kept above the minimum required levels by a sound margin
- banks are prepared for market expectations of higher capital levels and higher-quality capital as a result of the new rules

As part of this effort the 18 largest banks and 28 selected banks were instructed to submit the outcome of their Internal Capital Adequacy Assessment Process (ICAAP). In addition all other banks and financial institutions submitted the minimum levels set for tier 1 capital by their board of directors. Further, capital positions were evaluated and commented on in the course of ordinary on-site inspections.

A total of 45 institutions received comments on their capital position from Finanstilsynet over the course of the year. The boards of directors of 13 banks were asked to consider increasing their actual tier 1 capital ratio. In some cases the board was specifically asked to consider retaining the entire profit for 2011 or substantial portions thereof. In addition 32 banks were asked to raise, clarify or establish a minimum tier 1 capital target.

Liquidity monitoring

Banks' liquidity risk relates primarily to their ongoing refinancing needs in the domestic and international money and bond markets. Turbulence in the international financial markets rose after the summer of 2011 when the European sovereign debt crisis fed through to banks' funding. While Norwegian banks have little direct exposure to these countries, they are affected by contagion of a more general nature. Access to international long-term funding was substantially reduced, and the cost of market funding rose. Borrowing costs for banks that obtain their funding in the Norwegian market have also risen substantially.

Liquidity risk at Norwegian banks was closely monitored in 2011 by means of their liquidity reports and by on-site inspections. Finanstilsynet was moreover in close touch with the largest banks' funding units.

Each quarter Finanstilsynet computes the ratio of banks' long-term funding to illiquid assets on the basis of submitted data. Institutions whose funding structure is significantly shorter term than the average of the 13 largest Norwegian-owned banks are followed up by letter, telephone or by on-site inspection. In 2011 eight banks were followed up in this manner.

Since the end of the first quarter of 2011, 18 large banks have reported their Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR denotes the size of a bank's liquid assets relative to net liquidity outflow over the next 30 days, while NSFR is a long-term funding ratio. The ratios are defined by the Basel Committee as part of the Basel III reforms. LCR reporting was enforced for all Norwegian banks as from September 2011.

European stress testing of major banks

DNB Bank (formerly DnB NOR Bank) was the first Norwegian bank to participate in a Europe-wide stress test, in 2011. The test, conducted in the period March–June, covered 65 per cent of the European banking market measured by total assets. It was designed to assess whether European banks were adequately capitalised, and to promote greater transparency with regard to banks' financial position and strength. The EBA conducted the test in conjunction with the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the EU Commission and national supervisors.

The stress test, which had a two-year perspective starting at end-2010, focused on credit and market risk. It covered capital structure and exposures, including sovereign exposures. Each bank was assessed against a common tier 1 equity benchmark of 5 per cent. Disregarding capital obtained in 2011, the test showed a tier 1 ratio below 5 per cent for at least 20 banks after the stress test, and a 1.5 percentage point fall in the average level of tier 1 capital.

DNB Bank was one of a minority of banks whose tier 1 capital adequacy rose in the stress scenario, from 8.3 to 9.0 per cent. This outcome was due to the test's methodological assumptions, and the fact that transitional capital adequacy rules had a less adverse effect on the bank's measured capital adequacy in the stress scenario than in the baseline scenario.

Recapitalisation of European banks

Later in the autumn the EBA published a recapitalisation plan for the largest Norwegian banks which recommended that banks should attain a minimum of 9 per cent common tier 1 equity by 30 June 2012 and should hold reserves covering the difference between the book value and market value of their holdings of government securities.

The requirements are higher than those set under CRD IV, to be implemented on 1 January 2013. As an EFTA state, Norway does not take instructions from the EBA, but Finanstilsynet endorsed the EBA proposal and recommended matching requirements for all Norwegian institutions.

The overall recapitalisation need of the 70 banks participating in the EBA survey was EUR 114.7bn. DNB has no exposure to the debt burdened euro countries, and was therefore little affected by sovereign debt risk. The bank was EUR 1.3bn short of the target of 9 per cent common equity tier 1 capital. However, the DNB group's holding company had funds needed to recapitalise the banking group to this level without recourse to external capital.

On-site inspection

On-site inspections are important in identifying problem areas at individual banks at an early stage. They build on risk modules based on international supervisory standards. The modules help to identify banks' credit risk, market risk, liquidity risk, operational risk and to judge overall management and control. Actual risk level and the system for management and control of the risk level are assessed in all risk areas. The inspections start out from written material submitted by the banks in response to Finanstilsynet's inspection notice. The modules are available at Finanstilsynet's website.

EKSPORTFINANS

The regulations governing large exposures set an upper limit for exposures with a single counterparty. A new EU directive raised the risk weight for exposures to financial institutions from 20 per cent to 100 per cent with effect from 1 January 2011. For Eksportfinans' part, the change meant that several of the company's exposures would breach the maximum limit.

In December 2010 the Ministry of Finance requested Finanstilsynet's assessments of challenges posed to Eksportfinans by the new rules on large exposures. Finanstilsynet considered several solutions: a) full or partial derogation from the provisions of the directive, b) adapting the business to the new provisions or c) conversion to state bank status by special legislation.

With reference to the scale of the business operated by Eksportfinans in competition with other actors, Finanstilsynet stated that it would be difficult to obtain a general exemption for Eksportfinans from the directive. The Government announced on 18 November 2011 that the agreement with Eksportfinans on management of the state-funded export finance scheme was to be terminated and replaced with scheme under central government auspices.

A total of 53 inspections were carried out at banks, finance and mortgage companies in 2011. Eight were thematic inspections focusing on banks' observance of the guidelines for prudent home mortgage lending practices, while five were IT inspections.

At small and mid-size banks most inspections were of a general nature covering all main risk areas, but with particular attention given to credit and liquidity risk.

With regard to credit risk at larger banks, a particular focus in 2011 was given to loan portfolios presumed to be particularly affected by the financial crisis. These include shipping, commercial property and acquisition finance. At small and mid-size banks the focus was on individual exposures, mortgage lending practices and compliance with in-house guidelines. At some banks attention was drawn to high risk in the loan portfolio, often related to concentration on particular lines of business or individual exposures. The banks concerned were asked to put in place tighter limits on such exposures.

As a group, the banks managed in the first three quarters of 2011 to maintain the share of funding with a maturity above one year. For some banks, maintaining a long-term funding structure poses a challenge. Several were called on to increase their long-term funding or deposit-to-loan ratios. Attention was also drawn to the need for clearer requirements with regard to the size of liquidity buffers and the quality of liquid assets included in the buffer.

Thematic inspections of compliance with the guidelines for home mortgage lending

A round of thematic inspections was conducted in 2011 at eight of the country's largest banks to ascertain their compliance with the guidelines for prudent home mortgage lending practices. The prudence norm appeared, with certain exceptions, to be complied with in the banks' in-house guidelines. Some banks lacked a clear-cut formulation of the main requirement that prospective borrowers who incur a liquidity deficit after a significant interest rate hike should as a rule be turned down, and that loans above 90 per cent of property value should not normally be granted. Further, the banks had done too little to develop criteria for safe departure from the main provisions. A summary collective report (in Norwegian) is available at Finanstilsynet's website.

After distribution of the conclusions drawn from the round of inspections, the participating banks reported on the stage reached in their follow-up process. The feedback showed that some work remains to be done before banks' procedures are compliant with the guidelines.

Thematic inspections of capital adequacy

A round of thematic inspections of capital adequacy reporting which started in 2010 was completed in 2011. It covered nine banks and assessed their quality assurance procedures with regard to the calculation and reporting of capital adequacy, including in-house guidelines and organisation. The inspections brought to light weaknesses in systems and in quality assurance of reports. Errors in categorisation of exposures, in risk weights, conversion factors or in the filling out of forms, were identified at all nine banks. The inspection round included interviews with the banks' auditors on their monitoring of capital adequacy reporting.

Accounts meetings

Quarterly or twice-yearly meetings are held with the largest banking groups at which the management teams present their results and give updates on key developments in the markets in which the banks operate, on organisational matters and on strategic discussions at the individual bank.

Meetings with branches of foreign credit institutions

Finanstilsynet has supervisory responsibility for parts of the activity of branches of foreign credit institutions in Norway. The focus here is on the 'general good' which essentially comes under the rules governing the relationship between institution and customer. The branches keep Finanstilsynet informed of their activities in Norway, of their interim financial statements and of any changes in group structure.

In 2011 Finanstilsynet held meetings with the Norwegian branches of Handelsbanken AB, Danske Bank A/S (Fokus Bank), Skandiabanken AB, BNP Paribas and SEB Enskilda.

Supervisory collaboration

The supervision of large individual banks operating in several countries is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented.

As coordinating authority for the DNB supervisory college, Finanstilsynet held in 2011 three meetings with representatives of the supervisory colleges of the other countries in which DNB maintains a presence. Drawing up a joint risk and capital assessment of the group was at centre stage. Finanstilsynet also participates in supervisory colleges for other foreign banks operating in Norway through subsidiaries (Nordea, SEB, Société Générale, Santander and Crédit Agricole) and through branches (Danske Bank/Fokus Bank, Handelsbanken, Swedbank and Skandiabanken).

CONSUMER PROTECTION/ INFORMATION

Problems with payment systems during Easter 2011

Some Norwegian banks encountered card use and payment service problems at Easter. Finanstilsynet took a serious view of the events inasmuch as they struck on a broad front and had direct consequences for customers. The Authority asked the banks and ICT infrastructure providers to prepare comprehensive reports on the consequences of the problems, how they were being handled and what measures were relevant to prevent a repeat. See "Supervision of IT and payment systems" on page 68.

Banks' marketing and sale of packaged retail investment products (PRIPs)

Finanstilsynet advised DNB (then DnB NOR) by letter of 18 November 2010 of its intention to review the bank's marketing of PRIPs. This was prompted by DNB's offering to its multi-relationship customers. To qualify for multi-relationship status, a customer was required to have an active customer relationship with the bank along with a formal savings agreement, possibly a minimum volume of savings, as well as insurance arranged through the bank. After reviewing DNB's description of the multi-relationship customer concept, Finanstilsynet found it to fall within the prohibition of PRIPs. The Authority instructed DNB to bring its multi-relationship customer concept into line with the rules by 15 August 2011.

In September, in circular 25/2011 on the marketing and sale of PRIPs, Finanstilsynet detailed the ban on PRIPs and what is to be understood by the derogation in respect of "cost savings" provided for in the regulations. The documentation required in order for a financial institution to invoke such derogation was also detailed.

LICENSING

Licence applications and dispensations

Information on individual cases dealt with by Finanstilsynet is published on its website. Cases dealt with in 2011 included the following:

Banks

- SpareBank 1 SR-Bank applied in December 2010 for permission to convert to a public limited company ("limited liability savings bank") and to set up a savings bank foundation. In view of SpareBank 1 SR-Bank's special position, Finanstilsynet recommended that the application for conversion be approved. The law requires savings banks, as a general rule, to retain their savings bank status. While in some doubt, Finanstilsynet concluded that the bank's need for capital weighed so heavily that permission to convert should be granted.
  In June 2011 the Ministry of Finance granted permission to convert SpareBank 1 SR-Bank to a public limited company and to set up a savings bank foundation in accordance with the application. Conditions are attached to the permission with a view to protecting key savings bank values. Conversion took place at the turn of 2012.
- Rygge-Vaaler Sparebank and Halden Sparebank received permission to merge under the name SpareBank 1 Østfold-Akershus. Halden Sparebank was wound up. The merger was effected by the transfer of equity certificates to the newly established foundation, Sparebankstiftelsen Halden. Sparebankstiftelsen Østfold Akershus, which was also established under the terms of the merger, owns equity certificates in the merged entity.
- Sparebanken Hardanger and Sparebanken Vest received permission to merge, the former being wound up. The main settlement was in equity certificates transferred to the newly established foundation, Sparebankstiftinga Hardanger.
- SpareBank 1 SMN and SpareBank 1 Nord-Norge received permission to set up foundations, respectively Sparebankstiftelsen SpareBank 1 SMN and Sparebankstiftelsen SpareBank 1 Nord-Norge, by converting parts of their ownerless capital to equity capital. Equity certificates were issued free of charge to the two foundations.

Finance companies and mortgage companies

- Thorn Norge Finans AS received permission to carry on business as a finance company.

Payment institutions

New regulations on payment institutions entered into force on 1 July 2010 as a result of the Payment Services Directive. An object of the Directive is to put informal (hawala) payment services on a regulated footing. The Financial Institutions Act draws a distinction between entities with ordinary authorisation and entities with limited authorisation. Under a limited authorisation a maximum of NOK 5m may be transferred per month.

The act requires persons responsible for the management and operation of institutions to have experience in running a lawful payment service operation. The Ministry of Finance, by letter of 1 February 2011, enabled Finanstilsynet, in the case of applications for limited authorisation received before 1 July 2011, to attach importance to requirements other than that of experience with payment service business. Permits granted after this transitional arrangement are limited to two years' duration.

In 2011 Finanstilsynet received 65 applications to establish payment institutions. All, bar one, were applications to engage in limited activity. The majority of applications were received prior to 1 July 2011, and were accordingly dealt with under the transitional arrangement. In the course of 2011, one ordinary authorisation was granted to Teller AS, which was previously a finance company, and 15 authorisations to engage in limited activity.

Supervision of ownership of financial institutions

In 2011 the following authorisations were granted pursuant to the Financial Institutions Act's rules on supervision of ownership of financial institutions:

- DNB Bank ASA (formerly DnB NOR Bank ASA) – authorisation to acquire 100 per cent of the shares of AS DnB NORD Banka (Latvia), AB DnB NORD Bankas (Lithuania) and Bank DnB NORD Polska S.A. (Poland) from Bank DnB NORD A/S. Bank DnB NORD A/S is wholly owned by DNB Bank AS.
- DNB Bank ASA – authorisation to acquire all shares of SC Finans Sverige AB.
- Kistefos AS and Kistefos Investment AS – authorisation to own up to 24.99 per cent of the shares of yA Holding ASA.
- Münchener Rückversicherungs-Gesellschaft – authorisation to own 50 per cent of Storebrand Helseforsikring AS.

Permission to use internal (IRB) models to compute capital requirements

Financial institutions can use internal models to compute minimum capital charges for various categories of risk. Requirements for the use of such methods are set out in the capital requirements regulations, and need Finanstilsynet's permission. No authorisations were issued by Finanstilsynet in this area in 2011.

Macro surveillance and buffer requirements

The Ministry of Finance appointed on 15 September 2011 a working group drawing members from Norges Bank, the Ministry of Finance and Finanstilsynet to report on how work on macro surveillance and buffer requirements should be organised in Norway. The working group delivered its report and conclusions to the Ministry of Finance in January 2012. The ministry has circulated the report for comment.

The group discussed macro surveillance in general, surveillance and instruments in Norway, trends in a selection of other countries and international cooperation. The group also discussed the need for new macro policy instruments. The report *Risk Outlook 2012* includes a discussion of macro surveillance and macro instruments, including a countercyclical capital buffer.

A majority of the group recommended that Norges Bank be given responsibility both for preparing a basis for decisions and for deciding on a countercyclical buffer. Finanstilsynet's members of the working group recommended that Finanstilsynet and Norges Bank should jointly assess any need to introduce and/or remove a countercyclical buffer requirement, and that decisions should be taken by the Ministry of Finance, alternatively by Finanstilsynet. They justified their assessment on the basis that there is a greater need for coordination of buffer requirements and the Pillar 2 framework than for coordination of a countercyclical buffer requirement and monetary policy.

The Ministry of Finance, on 30 September, asked the working group to assess Finanstilsynet's proposal for a statutory basis for regulations on prudent lending practices. Such regulations would leave no doubt about the power to adopt measures in the interests of financial stability and well-functioning markets. Such measures are part and parcel of the authorities' work on macro surveillance and regulation. The group recommended that new legislation on financial institutions and financial conglomerates should include a statutory basis for regulations imposing detailed requirements on financial institutions designed to promote financial stability.

REGULATORY DEVELOPMENT

The Bank Law Commission's recommendation for new financial legislation

The Bank Law Commission presented, in Official Norwegian Report no. 2011: 8, a draft act on financial institutions and financial groups. The draft is intended to supersede much of the existing legislation in the financial area, primarily the banking laws dating from 1961, the institutional aspects of the Financial Institutions Act and the Insurance Activity Act as well as the Guarantee Schemes Act, and is based on the Bank Law Commission's earlier studies.

In its submission Finanstilsynet pointed out that the mandate to draft an assembled law was issued in 1990, and that in light of regulatory developments in the EU an assembled statute is no longer appropriate. It also commented that the draft law contains a large number of references to enabling provisions in regulations, which could affect predictability for users of the act. Moreover, several of these enabling provisions are of too general a nature.

Living wills for systemically important banks

Finanstilsynet participated in the course of 2011 in the EU Commission's Early Intervention Working Group. The working group has discussed a draft directive on living wills, and other crisis management for banks. The Commission's work has been delayed somewhat and will resume in 2012.

Finanstilsynet has also, together with Norges Bank, delivered a consultative statement to the Financial Stability Board regarding a framework for crisis management for systemically important financial institutions.

Deposit guarantee scheme

On commission from the Ministry of Finance, Finanstilsynet considered the merits of speedily introducing a maximum disbursement period of one week under the Norwegian deposit guarantee scheme pending completion of the Bank Law Commission's work on the scheme. This was a follow-up to the proposal of the Financial Crisis Commission in Official Norwegian Report no. 2011: 1 *Better positioned against financial crises*. A draft law amendment was submitted to the ministry at the end of November.

Remuneration schemes

Regulations on remuneration schemes at financial institutions, investment terms and fund management companies entered into force on 1 January 2011. The regulations, which apply to all entities in the financial industry, implement the EU's capital requirements directive's (CRD III) provisions on good remuneration policies to reduce excessive risk-taking and promote sound and effective risk management at financial institutions. Finanstilsynet described in circular 11/2011 how the regulations will be interpreted and enforced.

Changes to the accounting rules for financial foundations

The Ministry of Finance asked Finanstilsynet in February 2011 to consider the need for changes to the accounting rules for financial foundations. Finanstilsynet prepared a submission proposing that financial foundations be exempted from the obligation to prepare consolidated financial statements. The submission also proposed changes to the annual accounts regulations, partly as a result of amendments to the Accounting Act and the Insurance Activity Act. Finanstilsynet adopted the proposal on 20 December 2011.

Finanstilsynet is following the work under way internationally in the accounting field on new impairment write-down rules.

BASEL III – NEW CAPITAL AND LIQUIDITY STANDARDS

The financial crisis brought to light a series of shortcomings in capital adequacy and liquidity management in the international banking industry. The Basel Committee responded by drawing up new capital and liquidity standards designed to remedy these shortcomings. The new standards, published on 16 December 2010, are known as Basel III.

Main features of Basel III:

- Tighter requirements on own funds and requirements for capital buffers that limit banks' opportunity to pay dividend if operating with a capital ratio close to the minimum requirement.
- A minimum required ratio of core capital to total assets (Leverage Ratio – LCR) as a supplement to the risk-based minimum requirements.
- Quantitative liquidity requirements in the form of a short-term liquidity buffer (Liquidity coverage ratio – LCR) and long-term stable financing (Net Stable Funding Ratio – NSFR).

Tighter requirements on own funds entail retention of the distinction between tier 1 capital to absorb loss on ongoing operations and supplementary capital. Supplementary capital will now absorb loss at the point of non-viability if the authorities consider this necessary to avoid winding up. Moreover, stricter requirements are applied to tier 1 capital in general and to common equity tier 1 capital in particular. Common equity tier 1 capital consists of contributed and earned equity, while tier 1 capital also includes hybrid capital. The minimum own funds requirement of 8 per cent of risk weighted assets is supplemented with explicit minimum requirements of 4.5 per cent and 6 per cent on common equity tier 1 capital and tier 1 capital respectively.

Two capital buffer requirements are introduced to dampen the impact of economic and financial shocks: a capital conservation buffer capable of absorbing losses and ensuring that capital does not fall below the minimum requirement during sharp downturns, and a countercyclical buffer designed to protect banks against exceptionally heavy losses that may be incurred in periods of strong credit growth. The capital conservation buffer will measure 2.5 per cent of risk-weighted assets. The countercyclical buffer will at the outset be in the interval 0 to 2.5 per cent. Banks operating with common tier 1 equity below the sum of the minimum requirement and the buffer requirements will see restrictions on their dividend policy, bonus payments and share buybacks.

Basel III will take effect on 1 January 2013. Transitional arrangements will apply to the introduction of the capital and buffer requirements. The Basel Committee aims to introduce the minimum LCR requirement on 1 January 2015 and the NSFR and LR on 1 January 2018.

The minimum requirements on common equity tier 1 capital adequacy will be phased in from 2013 to 2015, the buffer requirements in the period 2016–2019. Hybrid and supplementary capital not meeting the new requirements on such capital will be gradually phased out up to the end of 2021.

Finanstilsynet's law recommendation – CRD IV and Basel III

Basel III will be incorporated in the EU capital adequacy directive, CRD IV, which under the EEA Agreement will be transposed into Norwegian legislation. The EU Commission presented on 20 July 2011 a draft directive and a regulation which together constitute CRD IV. CRD IV aims for full harmonisation allowing very limited scope for national decisions.

Finanstilsynet delivered in October 2011 a consultation document to the Ministry of Finance on the law amendments required in order to implement CRD IV and Basel III. The document was circulated for comment with the deadline set at 6 January 2012.

Finanstilsynet expects the law amendments to be adopted in the first half of 2012, and the Authority plans to deliver its proposal for amendments to regulations to the ministry in spring 2012. Assuming that the regulations are adopted, Finanstilsynet aims to publish guidance on the regulations in the second half of 2012.

Important changes for Norwegian institutions

Impact studies show that Norwegian banks have sufficient common tier 1 equity capital to meet the minimum requirements for such capital and conservation buffer, but not necessarily enough to meet countercyclical buffer requirements or supplementary requirements under Pillar 2. The transposition of CRD IV into Norwegian law may however require revision of the Financial Institutions Act's provisions on equity certificates in order for this capital to be regarded as common equity tier 1 capital. This matter will not be clarified until the final text of the Act is available.

Hybrid and supplementary capital issued by Norwegian institutions incentivises redemption in a manner non-compliant with the new rules, and must therefore be replaced with higher quality capital. A non-weighted capital requirement may pose a challenge to institutions that specialise in lending to low-risk segments.

Norwegian institutions face challenges in meeting the new liquidity requirements in general, and the Liquidity Coverage Ratio requirement in particular. This is due to the thin market for Norwegian government bonds, to the fact that much of the covered bond market in Norway is ineligible as liquid assets, and to the stringent treatment of deposits when liquidity needs are assessed.

TABLE 8: PHASE-IN OF CAPITAL PROVISIONS IN BASEL III (CRD IV)

(1 January)	2013	2014	2015	2016	2017	2018	2019
Common equity tier 1 capital (equity capital)	3.5%	4%	4.5%	4.5%	4.5%	4.5%	4.5%
Tier 1 capital (common equity tier 1 capital and hybrid capital)	4.5%	5.5%	6%	6%	6%	6%	6%
Own funds (tier 1 capital and supplementary capital)	8%	8%	8%	8%	8%	8%	8%
Capital conservation buffer				0.625%	1.25%	1.875%	2.5%
Countercyclical buffer	follows the conservation buffer, but can be pushed forward in countries with strong credit growth						

INSURANCE AND PENSIONS

Regulation and supervision are important in safeguarding customers' short- and long-term rights under insurance and pension contracts, and in instilling public confidence in the market. The supervisory regime aims to foster financially solid, risk-aware companies and sound management and control. Supervision of the insurance industry also encompasses insurance intermediaries.

SUPERVISION AND MONITORING

Monitoring and analyses

Monitoring and analyses of developments in the economy and markets and of the situation in the financial sector is a prerequisite for oversight of individual institutions' liquidity and financial strength. The analyses provide the background for Finanstilsynet's assessment of the general state of the financial sector and its supervision of individual institutions.

Quarterly reports are prepared on profitability, financial strength and balance sheet composition at life insurers and non-life insurers, while reports for pension funds are half-yearly. Press releases in February, May, August and November summarise these analyses, which are also published in *Report for Financial Institutions* on Finanstilsynet's website.

Overall assessments of the situation and of various risks faced by Norwegian financial institutions in light of developments in the economy and markets were published in spring 2011 in the report *Risk Outlook*: *The Financial Market in Norway* and in autumn 2011 in the report *Financial Market Trends.*

Reporting

Institutions' reporting is an important basis for analyses and on-site inspections. A complete overview of current requirements on reporting, along with updates on any adjustments to the reporting set-up, is available on Finanstilsynet's website. Finanstilsynet collaborates with Statistics Norway on the quarterly reports filed by insurers through FORT (the Norwegian acronym for 'public financial and supervisory reporting by insurers'), while pension funds report annually via PORT (the Norwegian acronym for 'public financial and supervisory reporting by pension funds'). Insurers report stress test results to Finanstilsynet on a quarterly basis. The tests, in which overall risk is measured against buffer capital, throw light on insurers' ability to meet applicable solvency requirements.

Against the background of developments in Norwegian and international securities markets, Finanstilsynet asked the seven largest life insurers to conduct new stress tests in August 2011. They were also asked to report any changes in asset allocation and other relevant steps taken in adjusting to the risk situation. The stress tests formed the basis for further supervisory follow-up of individual insurers.

In September 2011 the three largest and 14 smaller pension funds were asked to report stress tests to Finanstilsynet with a view to ascertaining the soundness of their asset management. The results gave no cause for general concern over the situation at these pension funds.

The new European supervisory structure entails a broader mandate for the European Insurance and Occupational Pensions Authority (EIOPA) than that of its predecessor, the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). EIOPA needs regular input from the national supervisors for its own supervisory purposes and to pass on to the European Systemic Risk Board (ESRB). Finanstilsynet conducts stress tests and attends to other regular reporting from Norwegian institutions on behalf of EIOPA. In 2011, in addition, a series of ad hoc surveys was prompted by the uncertainty in financial markets.

Finanstilsynet is working on the introduction of Solvency II reporting being developed under EIOPA auspices. This is a fully harmonised reporting regime, in force from 1 January 2014 onwards, and is mandatory for Finanstilsynet.

Financial strength and profitability of Norwegian insurers and pension funds

Since a large proportion of life insurers' and pension funds' total assets are invested in Norwegian and foreign shares and fixed-income securities, developments in securities markets are of great significance for these entities' profitability and financial strength. The market turbulence which intensified in summer 2011 brought the return on customer assets and life insurers' profits to their lowest level in 10 years, with the exception of the financial crisis year 2008.

Coming less than three years after the previous stock market plunge, the stock market slump in 2011 depleted life insurers' fluctuation reserves. Moreover, low interest rates in the intervening period have limited the opportunity to build up new reserves. Room for manoeuvre in asset management is therefore restricted. This, combined with low interest rates, poses challenges to insurers' ability to produce a rate of return over and above the interest guarantee. In the current climate, building up higher buffer capital through profit and fluctuation reserves is no simple task. Stress testing shows that Norwegian life insurers' buffer capital is still inadequate in terms of the requirements that appear likely to result from Solvency II.

Since a larger proportion of their total assets is invested in shares, pension funds are better placed than life insurers to achieve higher return in a rising stock market. They are, however, more vulnerable to a negative market trend, and pension funds achieved far lower profits in 2011 than in 2010. Like life insurers, pension funds were compelled to deplete their buffer capital, but pension funds had at the outset far higher fluctuation reserves than did life insurers.

While non-life insurers were also affected by the financial market turbulence, they generally have lower exposure to volatile investments than life insurers and pension funds. Moreover, an improvement in the insurance business proper curbed the decline in overall non-life financial results.

On-site inspection

Life insurers

Six on-site inspections were conducted at life insurers in 2011. One was a thematic inspection in the insurance field and two were IT inspections. The inspections were based in risk modules designed with a view to the various areas of risk faced by life insurers.

The inspections focused on overarching governance and control systems. Matters raised included the capital situation, cost overruns in some lines of business/product types, increased life expectancy and a need for higher provisions in 2011, as well as risk and vulnerability attending the outsourcing of important functions. Comments were made regarding asset management risk limits and risk tolerance, and a lack of strategy for the insurance area.

Pension undertakings

Inspections were conducted at two pension funds in 2011. Finanstilsynet pointed out breaches of the capital adequacy requirement and the solvency margin requirement, and drew attention to poor risk management and the need for an overall risk assessment. Inadequate follow-up of poor disability results and lack of claims provision received comment. Investment limit structures and independence between manager and control functions also drew comments. Moreover, deficiencies were noted in stress testing and associated processes. Other supervisory comments referred to rules on action required in connection with breaches of overall risk limits, monitoring of compliance with internal guidelines/statutory requirements and reporting to the board of directors.

Non-life insurers

Inspections were conducted at six non-life insurers and one marine insurance association in 2011. Two of the non-life insurers had posted poor results.

Finanstilsynet drew attention to these companies' breaches of requirements on capital adequacy and solvency margin capital as well as deficiencies in control of asset management and problems with account reconciliation. Unsatisfactory strategic targets for growth and profit and problems of integration with a new owner also drew censure. At the other four non-life insurers, attention was drawn to deficiencies in control of asset management and insufficient documentation of outsourcing agreements. In addition, the companies were vulnerable to loss of key personnel. Absence of action to counter a declining market base, maximum exposure limits, measurement of operational risk and directors' legal (in)capacity also drew comment.

At the marine insurance association the supervisory comments referred to poor results over a number of years and measures to improve profitability and financial position.

An inspection was also conducted at an actuarial consultancy approved as appointed actuary for a number of companies. Finanstilsynet examined the conduct of the outsourced actuarial business and the quality of two non-life insurers' management and oversight of that business.

Insurance intermediaries

On-site inspections were conducted at seven insurance brokers in 2011. At the inspections attention was drawn to flawed risk management and internal control. The need for better procedures, guidelines and checks received comment. The Authority also uncovered breaches of both the ban on commission and the obligation of disclosure to Finanstilsynet in addition to inadequate control of outsourced business. Other matters pointed to were fit-and-proper testing of employees' competence, control of authorisations and the requirement for professional indemnity insurance.

Specific cases

Compliance with the information requirement by vendors of individual unit-linked life insurance products

Against the background of a major complaint considered by Finanstilsynet in 2009/2010, the Authority reviewed life insurers' and their agents' compliance with the information requirement imposed on vendors of individual unit-linked life insurance products where the customer takes the investment decisions. In 2011 all Norwegian life insurers were asked to describe their products, compliance with the information requirement, advice given in selling products and use of distribution channels. The deadline for feedback was 31 January 2012.

Supervisory cooperation

The supervision of large insurance companies operating in two or more countries is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. As the coordinating authority for supervision of Gjensidige Forsikring ASA and Storebrand ASA, Finanstilsynet arranged in 2011 a college meeting for each of these institutions. Finanstilsynet also participates in supervisory colleges for foreign insurers operating in Norway through a subsidiary (Nordea and Danica), and through a branch (If and Tryg).

LICENSING

Licence applications

Information on individual cases considered by Finanstilsynet is published on Finanstilsynet's website. Cases dealt with by Finanstilsynet in 2011 included the following:

The companies Ly Forsikring AS and I-forsikring.no AS applied for a licence to engage in non-life insurance business. Finanstilsynet approved both applications.

Winding up applications from two private pension funds were approved in 2011.

All matters relating to supervision of holdings under the Financial Institutions Act, including those relating to insurance companies, are described in *Banking and Finance*, on page 34-35.

Seventeen insurance intermediaries (eight insurance and reinsurance intermediaries and nine insurance agents) were awarded licences in 2011. Several Norwegian insurance intermediaries applied for permission to set up branches abroad in 2011. Further, several hundred notifications of cross-border activities into Norway from other EEA states were dealt with.

Maximum guaranteed interest rate in life insurance

Finanstilsynet is required to stipulate the highest interest rate available to life insurers and pension funds when calculating premiums and associated technical provisions. With a view to strengthening life insurers' financial position, the maximum guaranteed interest rate in the premium formula was lowered as from 1 January 2011 from 2.75 per cent to 2.5 per cent for new life insurance contracts. In the case of collective annuities and pensions, the maximum permitted interest rate for accrual after 1 January 2012 is 2.5 per cent.

Insurance Complaints Board

Finanstilsynet acts as secretariat to the complaints board for insurance broking activities and reinsurance broking activities. The board handles disputes between principals and brokers. No complaints were received by the board in 2011.

New mortality base for life insurers and pension funds

The Norwegian Financial Services Association (NFSA) has developed a new mortality base for group annuities and pensions based on updated risk statistics. In a letter of 16 December 2011 to the NFSA, Finanstilsynet wrote that a natural implementation date for the new mortality base would be 1 January 2013. The Authority emphasised on solvency grounds that it was not advisable for surplus to be employed as buffer capital in the form of supplementary provisions or to increase benefits in a situation where the underlying premium reserves are inadequate. Companies were urged to devote surplus for 2011 to increasing provisions as a result of the new mortality base.

Individual insurances

The NFSA's new mortality base for individual annuity and pension insurances, R2008, was introduced for life insurers on 1 January 2009. Several companies began in 2007 to strengthen their technical provisions for individual insurances in light of a future transition to a new mortality base. The remainder are doing so based on a step-up plan which started in 2009. Two companies reported in 2011 new mortality bases for portfolios of individual annuity and pension insurances existing as of 1 January 2008. The base employed was largely R2008.

One company introduced a new mortality base for its portfolio of retired members of a defined benefit pension plan who are entitled to have their rights transferred to an individual pension insurance plan. The company's step-up plan from 2011 was approved, as was its intention to utilise surplus for 2011 to increase provisions as a result of the transition to a new mortality base.

Collective insurances

One life insurer reported in 2011 a new mortality base for collective annuities and pensions, K2005, for its retiree portfolio.

Two private pension funds received approval to prolong the step-up period to 2011 as a result of the transition to a new mortality base, K2005.

Six private pension funds received approval to devote surplus funds for 2011 to increase provisions as a result of the transition to a new mortality base for collective individual annuity and pension insurance in 2013.

Investment in non-insurance related business

Life insurers' and pension funds' opportunity to invest in infrastructure was extended as from 1 January 2011. Infrastructure investments are subject to Finanstilsynet's approval.

A life insurer applied for approval of its acquisition of 35 per cent of the shares of a grid company engaged in energy distribution. The key issue was whether the investment was to be deemed non-insurance related business that brought into play the rules of the Financial Institutions Act governing significant holdings.

The case was considered to entail consequences beyond the outcome of the case itself and was referred to the Ministry of Finance for decision. The ministry's conclusion was that while the activity of grid companies per se was not covered by the rules of the Insurance Activity Act prohibiting non-insurance related business, the nature and scale of the business imposed on grid companies under the energy legislation meant that the prohibition had in this case been activated. The ministry therefore confined its approval to 15 per cent of the shares.

The decision will have effect for future investments in grid companies. No general guidelines are given for dealing with applications relating to infrastructure investments in other areas. The prohibition will however be enforced in a restrictive manner.

REGULATORY DEVELOPMENT

Revision of the Directive on occupational retirement provision

The EU Commission has started the process of revising the Occupational Pensions Funds Directive with a view to full harmonisation and, as far as possible, alignment with Solvency II. Presentation of a draft new directive is expected by the end of 2012.

Norwegian Natural Perils Pool

At the request of the Ministry of Finance, Finanstilsynet appointed in 2010 a working group to look into aspects of the natural damage insurance scheme and to draw up rules for the scheme's overall accounts. The working group presented its report on 1 April 2011. The group's conclusion was that a new study should be initiated shortly with a view to a more fundamental revision of the scheme.

In April 2011 the Ministry of Finance asked Finanstilsynet to consider whether the natural damage insurance scheme adequately meets the need to equalise the risk of claim payments across insurers. The scheme currently covers a small number of insurers with large accumulated reserves and a considerable number with modest reserves. In its response, Finanstilsynet concluded that the current equalisation mechanism does not sufficiently meet the need for risk equalisation in some situations. Finanstilsynet therefore recommended permitting contributions to be called in from member companies that have built up natural damage insurance reserves in cases where another member's accumulated reserves are not sufficient to cover its share of claims incurred. In Finanstilsynet's view it would not be unreasonably burdensome for companies with substantial insurance reserves to contribute a larger share in the event of other insurers' shortfall.

Insurance Guarantee Scheme – the position in the EU

In 2011 EIOPA reported to the EU Commission on the need for cross-border cooperation between guarantee schemes and supervisory authorities. Finanstilsynet has headed CEIOPS' working group in this area. The Norwegian insurance guarantee scheme will probably need to be altered in light of the EU process. Since the EU guarantee scheme requirement is expected to apply to life insurers and non-life insurers alike, a new scheme will be needed to cover life insurers' policyholders. The EU Commission is expected to present its draft directive in 2012.

Amended actuary regulations

Finanstilsynet proposed amendments to the actuary regulations in 2011. The regulations' authorising provisions were updated to include the present Insurance Activity Act as a statutory basis. The regulations' references to this Act were also updated, and the regulations were brought into line with the terminology and structure of technical provisions of the act. The amendments passed into law on 21 December 2011.

New non-life insurance legislation

The Insurance Activity Act was amended with effect from 1 January 2011. The amendments led to more integrative regulation of non-life business. New and amended regulations to the legislation were drafted in 2011.

Finanstilsynet has proposed new regulations on non-life insurers' obligation to provide information to the financial services information scheme, Finansportalen. Under the draft regulations non-life insurers will be required to provide, or keep available, information on standardised products and product combinations for which premium tariffs are required. The Ministry of Finance circulated the draft for comment with the deadline for response set at 1 November 2011.

Finanstilsynet has drafted amendments to the regulations on insurance technical provisions and risk statistics in non-life insurance and reinsurance, also known as the 'main regulations'. New legislation specifies that direct and indirect claims handling costs are to be covered by technical provisions, and new rules governing requirements on supplementary provisions have been made. The above draft covers amendments to and clarifications of rules regarding various types of provisioning in non-life insurance. The amendments to the main regulations passed into law on 21 December 2011.

Regulations on the equalisation scheme for necessary insurances in the non-life field

Finanstilsynet has drafted regulations on an equalisation scheme for necessary insurances. The draft requires duly licensed non-life insurers that offer necessary insurances (i.e. detached and semi-detached house insurance, contents insurance, motor vehicle third party insurance, travel insurance and accident insurance) to private individuals to be covered by an equalisation scheme for necessary insurances.

The equalisation scheme will encompass necessary insurances that a non-life insurer can lawfully refuse to write or renew. It will also apply to insurances that the company is only obliged to provide where a particularly high premium is payable. A non-life insurer will be entitled to have losses associated with a particular group of insurance covered by the equalisation scheme. Losses will be distributed among the insurers based on the relationship between the respective insurers' aggregate premiums for insurances in the particular group. The Ministry of Finance circulated the proposal for comment with the deadline for response set at 15 November 2011, and new regulations are likely to pass into law in the course of 2012.

Appraisal in non-life insurance

On commission from the Ministry of Finance, a working group has been appointed to review appraisal in insurance. Appraisal is conducted in claims settlements to establish insured values and

SOLVENCY II – THE NEW EUROPEAN SOLVENCY FRAMEWORK FOR INSURERS

EU preparations for the new body of rules

The EU Commission's proposal for a new directive incorporating risk-based solvency rules for insurers (the Solvency II Directive) was adopted by the EU Parliament in 2009. Transposition of Solvency II into national legislations is due to have been completed by, and to enter into force on, 1 January 2013. A general transitional arrangement is proposed whereby capital requirements and a number of other requirements will only go into force on 1 January 2014.

The Commission proposed implementing provisions in October 2011. The Commission's final proposal, in the form of a Commission Regulation, is expected to be adopted and published in the first half of 2012. Supplementary rules and guidelines will be drawn up under EIOPA auspices.

Introduction of the framework in Norway

Finanstilsynet has started work on a proposal for transposing Solvency II into Norwegian law and sent draft law amendments to the Ministry of Finance on 12 August 2011.

Finanstilsynet has announced that draft new regulations will be sent to the Ministry of Finance by the end of the first half of 2012, although delays within the EU may retard the process somewhat. As part of its preparations for implementing the new body of rules, Finanstilsynet has appointed a reference group drawing representatives from the insurance industry.

Finanstilsynet's stress tests and development of modules in the risk-based supervisory regime are an important aspect of the preparations for implementation of the Solvency II framework in Norway.

In 2011 Finanstilsynet played an active part in EIOPA's work on implementation measures and supplementary rules and guidelines with regard to the Solvency II Directive.

damage costs under an insurance contract, for example after a fire in an insured building. The working group comprises representatives from the insurance industry, the consumer lobby, valuers' and surveyors' bodies, government departments and Finanstilsynet.

The working group will evaluate the current arrangements and recommend improvements.

Accounting rules for the insurance and pensions area

Finanstilsynet drafted a proposal for annual accounts regulations for pension undertakings which was forwarded to the Ministry of Finance in February 2011. The ministry adopted the regulations on 20 December 2011. Finanstilsynet is preparing a guide to the regulations.

The guide to the accounting rules for insurers was updated and published in circular no. 15/2011.

Finanstilsynet is following the work done internationally in the accounting area on insurance contracts.

Remuneration schemes

Regulations on remuneration schemes at financial institutions, investment firms and fund management companies passed into law on 1 January 2011. See "Banking and finance" on page 36.

Internal models for calculating solvency requirements

Under Solvency II insurers will be entitled to compute the solvency capital requirement (SCR) using a standardised approach or using internal models approved by the supervisory authorities. In 2011 Finanstilsynet organised a series of meetings with insurers on internal models. Finanstilsynet's intention is that insurers that wish to apply for approval of internal models should complete a dialogue with the Authority well in advance of filing a formal application. This will enable insurers both to present their model to Finanstilsynet and to be apprised of the requirements to be met in order for an application to be considered complete.

Finanstilsynet is participating in a Nordic supervisory collaboration on internal models under Solvency II. The object is to facilitate harmonised processes and assessments across the Nordic region and by that means support the supervisory authorities' work on approval of models.

Impact assessments of Solvency II

The capital requirements under Solvency II replace the current European solvency margin framework, Solvency I. Calculating the solvency capital requirement under Solvency II will, far more than under the current rules, reflect all types of risk to which insurers are exposed. The current solvency margin requirement is largely geared to insurance risk and is calculated with a basis in insurers' premiums, provisioning and claims expenses, but does not reflect risk attending the assets (market risk). Given the changes in the principles for valuing technical provisions, solvency capital under Solvency II may also differ from solvency margin capital under current rules.

The final round of quantitative impact studies (QIS5) of the new solvency framework was carried out towards the end of 2010. It was designed to test calibration, methods and simplifications to be incorporated in the implementing provisions and technical standards. The results of the study were reviewed in 2011.

For the 10 participating Norwegian life insurers, QIS5 showed a considerable tightening of capital requirements compared with current solvency margin requirements.

Overall capital under QIS5 measures 104 per cent of the overall solvency capital requirement at the end of 2009, while solvency margin capital under the current framework measures 236 per cent of the overall solvency margin requirements. The solvency capital requirement under QIS5 rises sharply compared with current requirements, while eligible capital is only slightly higher than current capital. The increase in capital is due to the fact that the value of technical provisions in QIS5 is somewhat lower than current booked provisions.

For the 39 non-life insurers participating in QIS5, overall capital measured 196 per cent of the requirement at the end of 2009, whereas capital under current rules measures 660 per cent of the overall requirement. For non-life insurers the sharp increase in the capital requirement is to some extent matched by a substantial increase in available capital. Even so, capital in excess of the requirement is lower than under the current solvency margin framework. The increase in capital is due to a significant reduction in the value of technical provisions in QIS5 since parts of the current contingency provisions are reclassified as capital under Solvency II.

Conduct of business rules in life insurance

When assessing implementation of Solvency II in Norwegian law, Finanstilsynet drafted changes to the conduct of business rules for life insurers which it forwarded to the Ministry of Finance in March 2011 with the aim of facilitating longer-term asset management and simplifying the rules. Among the changes proposed is to merge fluctuation reserves and supplementary provisions to form a new and larger buffer fund fully allocated to the policyholder and available to cover negative return.

Solvency rules for pension funds

A process is under way at the EU level with a view to arriving at harmonised solvency rules for pension funds. Finanstilsynet recommends that, except for the principals for valuation of technical provisions, pension funds should not come under Solvency II for the time being. It recommends however that all pension funds be required to report results of Finanstilsynet's stress test from 2013 onwards. The stress test is a simplified version of the calculation of capital requirements under Solvency II.

SECURITIES AREA

Finanstilsynet plays a key role as supervisory authority for the securities market. Supervision includes overseeing issuers' information to the market, securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

TRENDS AND CHALLENGES

Stock markets were on a weak trend internationally through much of 2011 and showed exceptional volatility. Oslo Børs largely shadowed movements in international share prices and the oil price. The Oslo Stock Exchange Benchmark Index fell in 2011 by a total of 10.7 per cent. Despite the market turbulence, stock market liquidity was satisfactory throughout the year, enabling reliable pricing and trading. Equities turnover in 2011 averaged NOK 6.1bn daily compared with NOK 7.2bn in 2010.

The equity capital market posed challenges as a source of capital for issuers in 2011 due to the international turbulence. Low exchange rates and high volatility caused listed companies to postpone planned increases of capital. Whereas the stock market absorbed NOK 61bn in 2010, about NOK 39bn was raised via issues in 2011, mainly in the first half-year.

The bond market functioned satisfactorily when the macro picture is taken into account. Disregarding government securities, the issue volume in 2011 was about NOK 275bn, an increase of some 27 per cent on 2010. Issuance activity, apart from government securities, was dominated by the financial sector which accounted for almost 85 per cent of the issue volume. Covered bonds accounted for 60 per cent.

There were 13 new entries to Oslo Børs and Oslo Axess in 2011. At year-end 195 firms were listed on Oslo Børs and 39 on Oslo Axess. A total of 346 new bonds and CDs were admitted to Oslo Børs and Oslo Alternative Bond Market (Oslo ABM). At year-end quoted bonds totalled 496 at Oslo Børs and 715 at Oslo ABM.

Oslo Børs continues to experience keen competition for equity transactions, in particular involving the larger listed companies. Almost the entire volume of exchange traded derivatives tied to shares quoted in Norway is traded on Oslo Børs.

Looking ahead, European securities markets are expected to become further fragmented as alternative market platforms (multilateral trading facilities) take over much of the turnover from traditional stock exchanges. The fragmentation is augmented by the further growth of dark pools and crossing networks. These are unregulated, non-transparent marketplaces where major actors trade large blocks of securities without impacting the official market. Further fragmentation of securities trading, with no marketplace having a total overview, poses a continuing challenge to the effort to expose market abuse. Traditional stock exchanges' squeezed operating margins mean that market monitoring cannot be given the same priority as previously and must increasingly be left to the public authorities.

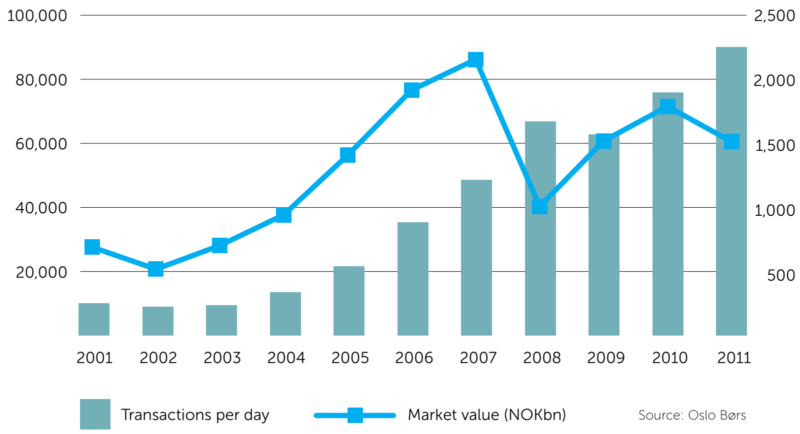
Strong price competition and new technology still favour low transaction costs. This, combined with the development of new trading support systems at investment firms and larger investors alike, is reflected in a sharp increase in algorithm-based trading. Such trading boosts market liquidity, but also heightens the risk of market disturbances. There is also a risk that algorithmic trading could intensify natural market reactions.

Another trend that needs to be followed up through supervision is investment firms' offering of direct market access to selected customers through their marketplace membership. This is a form of self-service in the market whereby the customer trades in the name of the investment firm, which is responsible for correct settlement. Inadequate oversight over what customers are offered this service could lead to heavy losses at investment firms.

An area set to be more closely regulated in the EU in the years immediately ahead is securities market infrastructure. Central securities depositories, clearing and settlement houses and rules governing the safekeeping and registration of financial instruments will be subject to unitary regulation. Requirements on clearing and reporting of positions in unquoted derivatives will also be introduced. Further, work will continue on the introduction of a central European clearing system for securities transactions. Much preparatory work on adjusting to the new rules can be expected in 2012 and the years immediately ahead.

Finanstilsynet participates in a number of committees under the European Securities and Markets Authority (ESMA) which prepares regulation in the securities area. This participation builds up the competence needed to assure appropriate and satisfactory regulatory development and the opportunity to promote Norwegian interests.

CHART 4: MARKET VALUE AND NUMBER OF TRANSACTIONS PER DAY AT OSLO BØRS



SECURITIES MARKET SUPERVISION

The overarching aim of regulation and supervision of the securities market is to ensure secure, orderly and efficient trading in financial instruments, thereby enabling the securities market to function as a source of capital for business and as a basis for saving and investment. Supervision encompasses actors' financial position and operations, and their compliance with business rules and general rules of conduct.

INVESTMENT FIRMS

SUPERVISION AND MONITORING

On-site inspection

Finanstilsynet's on-site inspections aim to promote an informed attitude to risk among firms and to maintain a high level of client protection in the securities market by ensuring that firms comply with the conduct of business rules. Supervision also promotes market integrity. There were 143 investment firms in Norway at the end of 2011.

Eighteen on-site inspections were conducted at investment firms in 2011. In addition, one inspection specifically targeted investment firms' ICT solutions. Firms' information and investment advice were scrutinised at the on-site inspections to ascertain whether the advice given had been in clients' interest and appropriate to their needs. Factors considered included the turnover rate on client portfolios, where the line was drawn with portfolio management and any recourse to pressure or persuasion techniques in the advisory process.

Marketing and firms' information requirement were central themes at many inspections. Finanstilsynet checked whether firms had given relevant, balanced information in an understandable form about risk and costs involved in customer investments. Firms' websites and marketing material were examined to this end.

Finanstilsynet surveyed banks' sales of savings products in 2010, and followed up on this in 2011 with a survey of the scope of investment firms' sales of complex savings products to non-professional investors. The result of the survey is to be published in 2012.

One investment firm handed in its authorisations after an on-site inspection by Finanstilsynet in 2011 which brought to light extensive sales of costly and complex savings products to non-professional investors. A number of other investment firms made changes to their organisational set-up, management board and/or procedures as a result of supervisory processes.

Two on-site inspections at investment firms in 2010 led to licence withdrawals in 2011. Both investment firms appealed the withdrawals to the Ministry of Finance, which upheld Finanstilsynet's decisions.

Monitoring of firms' financial development

Finanstilsynet monitors investment firms' profitability and trends in their revenue distribution.

The positive trend in investment firms' profits observed by Finanstilsynet in 2010 continued in the first quarter of 2011, thereafter turning negative. Finanstilsynet noted 49 increases of capital designed to strengthen own funds, distributed across 26 firms. Nine warnings of possible licence withdrawal were issued due to capital inadequacy. One firm handed back its licence, while the others rectified the circumstance in question. Six firms filing quarterly capital adequacy reports were in November ordered to report on a monthly basis due to marginal compliance with capital requirements and negative profit growth.

Based on investment firms' and management companies' quarterly returns, Finanstilsynet publishes each quarter press releases in which trends in these entities' business are presented and commented on.

In light of the financial market turbulence, Finanstilsynet conducted in 2011 quarterly surveys of larger investment firms' counterparty risk associated with unsettled trades and lending to customers.

After its introduction in 2010, quarterly filing of returns via the Altinn web portal is now firmly in place among investment firms and management companies.

In conjunction with end-2010 capital adequacy reporting, the European common reporting (COREP) system for banks was also introduced for investment firms.

Market warnings

Finanstilsynet published 37 warnings against firms that had provided financial services in Norway in 2010 without the requisite licence. A further 648 warnings given by foreign supervisory authorities were published. Very often these firms are engaged in fraud, and individuals who transfer money to such firms must in many cases consider the money lost. Finanstilsynet warns against dealing with such firms, and its website contains information on investment fraud, advising investors on how to protect themselves against fraudsters. Finanstilsynet's market warnings are also available at the website Finansportalen.no.

LICENSING

Authorisation process

Finanstilsynet continues to receive a number of applications for permission to provide investment services. Seven new investment firms were licensed to provide investment services in 2011 compared with 16 in 2010. Two expanded licences were granted to existing firms. Licence applications include those from new firms as well as from existing financial conglomerates. A number of the new firms under supervision in the securities area are relatively small and have few employees. These firms mainly engage in order reception and transmission and in investment advisory services. Some market entrants also provide portfolio management services.

In addition to one licence handed back due to capital inadequacy, 14 licences were revoked due to restructuring, mergers and corporate acquisitions, and business area reorganisations.

Fitness and propriety testing

A substantial number of fit-and-proper tests were carried out of board members and managers at supervised entities in the securities field. Fairly thoroughgoing assessments are made of qualifications, job experience and previous conduct. Testing is carried out in connection with licence applications and management changes. Firms have abided by Finanstilsynet's assessments in cases where the individual is deemed not to possess the qualifications needed by a manager. Most such decisions cite a lack of relevant experience of the type of business the individual intends to manage. In some cases it is a matter of unsuitability due to previous conduct at a firm guilty of serious law violations.

REGULATORY DEVELOPMENT

Voice recordings

The Ministry of Finance amended the provisions of the Securities Trading Act governing investment firms' obligation to voice record telephone conversations in December 2009. Entry into force of the amendments was deferred to give firms more time to test technical solutions. The amendments passed into law on 1 April 2011.

Remuneration schemes

Regulations on remuneration schemes at financial institutions, investment firms and fund management companies entered into force on 1 January 2011. See "Banking and finance" on page 36.

Capital adequacy

On-site inspections in 2010 brought to light differences in investment firms' practices with regard to the rules governing the firms' assignment of large exposures to their trading book. For this reason Finanstilsynet published circular no. 27/2011 containing rule clarifications and examples of correct procedure in this regard.

Amendments to the Regulations on minimum standards of capital adequacy for financial institutions, clearing houses and investment firms enabled a larger proportion of accumulated net profit to be included in own funds than previously. Against this background Finanstilsynet published circular no. 22/2011 which spells out the assessments that investment firms need to make and the documentation they need to submit in order to include a positive interim performance in their own funds.

FUND MANAGEMENT COMPANIES

At the end of 2011 29 management companies were licensed to manage securities funds. Twenty of these were licensed to carry on portfolio management. The number of securities funds managed by these companies rose marginally from 428 at end-2010 to 442 at end-2011. Net new subscription in Norwegian management companies' securities funds amounted to NOK 25.5bn in 2011. Due to falling share values, aggregate total assets nonetheless declined by about 3 per cent to NOK 485bn at year-end. The positive new subscription was mainly in money market and bond funds, and to some extent in combination funds, whereas equity funds showed a net redemption of NOK 2.7bn.

SUPERVISION AND MONITORING

Finanstilsynet conducted four on-site inspections at management companies in 2011. The inspections covered governance and control, establishment of customer relationships and associated information requirements as well as actual management of the funds.

Management companies are required to report possible breaches of investment limits set out in the Securities Fund Act and in funds' rules. The number of reported breaches in 2011 was as expected, and none were of a sizeable, serious nature. Depositaries' obligation to inform Finanstilsynet of any management company where rule breaches are brought to light is an important supplement to off-site supervision in general. Such reports by depositaries were few in number in 2011.

Finanstilsynet monitors management companies' financial situation and their compliance with the rules governing capital adequacy and large exposures on the basis of quarterly reports they file with Finanstilsynet. Overall, management companies achieved markedly better profits in 2011 than in the two previous years, albeit well short of the levels seen in the peak years 2006 and 2007. Six management companies found themselves compelled to increase their capital in 2011 in order to meet own funds requirements.

FUND MANAGEMENT

Three new management companies were authorised to engage in securities fund management in 2011. One authorisation concerned conversion from investment fund to a management company. Two management companies were authorised to carry on active asset management in addition to securities fund management. In recent years new entrants in this field have essentially been small entities wishing to carry on fund management in a narrower segment of the market.

Finanstilsynet ratified fund rules for 25 new securities funds in 2011 while 13 securities funds were wound up. A number of applications for approval of changes to fund rules were also processed.

New provisions governing specialised funds passed into law on 1 July 2010. Norwegian specialised funds may be sold and marketed to professional investors. Finanstilsynet is empowered to permit the marketing of foreign specialised funds to professional investors in Norway. In 2011 the Authority issued three licences to establish Norwegian specialised funds and six licences to market foreign specialised funds in Norway. One specialised fund was wound up.

REGULATORY DEVELOPMENT

Revision of the Act on Securities Funds

A new Securities Funds Act entered into force on 1 January 2012. The Act, based on a recommendation by a working group appointed by Finanstilsynet at the request of the Ministry of Finance, implements EEA rules (the UCITS IV Directive). Certain changes to the current Securities Funds Act that are not rooted in the EEA rules are also implemented. In addition, the working group drafted secondary legislation that passed into law at the same time as the Act. The new rules promote a competitive framework for Norway's securities fund industry while protecting the interests of consumers.

MARKET INFRASTRUCTURE

SUPERVISION AND MONITORING

The securities market infrastructure comprises Oslo Børs ASA, Verdipapirsentralen ASA (the Norwegian central securities depository), Oslo Clearing ASA, Fish Pool ASA, NOS Clearing ASA (NOS), Nasdaq OMX Oslo ASA (formerly Nord Pool ASA) and Nasdaq OMX Oslo NUF (formerly Nord Pool Clearing ASA). The activities of the investment firms Icap Energy ASA and Spectron Energy Services Ltd Norway Branch (previously International Maritime Exchange ASA – Imarex) are also regarded as a part of the infrastructure.

The central counterparties (CCPs) Oslo Clearing and NOS Clearing reported quarterly through 2011 on the trend in own funds and risk exposure. The reporting regime was introduced in 2009 as part of a move to strengthen the supervision of clearing houses. Supervision of and reporting by the clearing house Nasdaq Omx Oslo NUF is carried out in cooperation with the Swedish FSA under an MoU established by the two supervisory authorities.

In April 2010 Oslo Clearing ASA's licence was expanded to allow it to carry on business as a CCP for equity instruments. The new business went live in stages in June and August 2010. Finanstilsynet monitored over the course of 2011 the entity's compliance with the terms and conditions set in its licence.

Experiences with the clearing of equity instruments are favourable thus far. Finanstilsynet was in close touch with NOS Clearing and Nasdaq OMX Oslo NUF in the situation arising after MF Global Holdings Ltd. filed for bankruptcy protection in the US. Inasmuch as the UK Financial Services Authority placed MF Global UK Ltd. under administration, the entity was declared in default by the two clearing houses. MF Global was a general clearing member of both clearing houses. The clearing houses handled the situation in such a manner that no losses arose in connection with the termination of MF Global's membership.

Finanstilsynet conducted general inspections at Verdipapirsentralen ASA and Icap Energy ASA in 2011, and IT inspections at the VPS and Oslo Clearing. Finanstilsynet also closely followed the entities by other means, for example when reviewing applications where a wide range of issues needed to be considered.

Oslo Børs ASA operates the marketplaces Oslo Børs, Oslo Axess and Oslo Alternative Bond Market (Oslo ABM), the first two of which are regulated marketplaces. It also operates the multilateral trading facility Oslo Connect on which OTC derivatives are traded.

Clearing of quoted equity instruments through a central counterparty (CCP) was expected to bring a decline in the number of transactions for settlement via the VPS securities settlement system and a decline in the settlement rate. In 2009 43.2 million transactions were settled compared with 31.2 and 11.5 million transactions in 2010 and 2011 respectively. The settlement rate averaged 96 per cent in 2011, matching the 2010 figure. The rate was just over 98 per cent before clearing of equity instruments was introduced.

LICENSING

Monitoring compliance with the conditions set for the merger between Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA

The Ministry of Finance's decision of 8 November 2007 set a number of conditions for the merger of Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA. Compliance with these conditions are monitored by Finanstilsynet on an ongoing basis. In 2011 Finanstilsynet reviewed the need for increased capital at the VPS and set a minimum own funds requirement corresponding to nine months' operating expenses. Finanstilsynet also submitted a recommendation to the Ministry of Finance regarding the VPS's payment of a group contribution, and reviewed outsourcing terms and conditions on commission from the same ministry.

Authorisation to expand operations – Nasdaq OMX Oslo ASA

On 5 October 2011 the Ministry of Finance authorised Nasdaq Omx Oslo ASA to widen its operations to include trading of other commodity derivatives, in keeping with Finanstilsynet's recommendation. The entity must report to Finanstilsynet trading of derivatives based on new underlying commodities.

Change in the capital structure of NOS Clearing

Finanstilsynet reviewed in 2011 changes in the capital structure of NOS Clearing. The changes are part of the preparations for a new body of rules for clearing houses resulting from the European Market Infrastructure Regulation (EMIR). The changes entail the introduction of two member-sponsored default funds for the freight market and the seafood derivative market respectively. Finanstilsynet took note of the changes in capital structure.

Application for approval for stock exchange listing of Oslo Børs VPS Holding ASA

Finanstilsynet has submitted to the Ministry of Finance a recommendation regarding Oslo Børs VPS Holding ASA's application for listing on Oslo Børs or Oslo Axess. Finanstilsynet recommended that the ministry reject the application, in particular because admitting parent company shares to quotation may lead to conflicts of interest. The matter is under review at the ministry.

MARKET CONDUCT RULES

SUPERVISION AND MONITORING

The overarching aim of supervision and monitoring of compliance with the market conduct rules is to safeguard the reputation of the Norwegian market and thereby its role as a well-functioning source of capital.

The rules on unlawful insider trading, market manipulation and due care in handling inside information are at centre-stage. Finanstilsynet also oversees compliance with the rules on the drawing up of insider lists, the duty to investigate, the prohibition of unreasonable business methods, notification rules and rules requiring the disclosure of acquisitions of large shareholdings. Hence a wide range of supervised entities is involved: investors, advisers, issuers of financial instruments and their partners, including investment firms. The object is to bring to light and prosecute unlawful conduct in the securities market and, insofar as the conduct rules are applicable, in the markets for commodity derivatives. The supervisory effort is intended to have both a general, and an individual, deterrent effect in the market.

Most of the large number of cases investigated by Finanstilsynet in 2011 were reported to it by investment firms, the media and investors. Many were also referred to it by Oslo Børs or initiated by Finanstilsynet itself in response to market events.

As in previous years, a number of insider trading and market manipulation cases handled by Finanstilsynet were time-consuming, especially those with ramifications abroad. Finanstilsynet also assisted foreign supervisory authorities in their investigations on a number of occasions.

In 2011 Finanstilsynet investigated:

- 70 new cases of unlawful insider trading and/or breaches of confidentiality
- 32 new cases of market manipulation/ unreasonable business methods
- 31 new cases of securities trading requiring disclosure
- 48 new cases of securities trading requiring notification

62 of the above cases were received from investment firms under an obligation to report transactions giving rise to suspicion of insider trading or market manipulation.

Administrative fines

Finanstilsynet is empowered to impose an administrative fine for violation of the Securities Trading Act's provisions requiring notification/disclosure of share acquisitions or disposals. The availability of this sanction makes for effective rule enforcement and its imposition is in general an adequate response to rule violations.

In the course of 2011 Finanstilsynet imposed 14 administrative fines for breaches of the disclosure requirement and 13 administrative fines for breaches of the notification requirement. Finanstilsynet publishes the fines on its website on the presumption that doing so has a preventive effect. Two administrative fines for breaches of the disclosure requirement were appealed to the Ministry of Finance where they are currently under review.

Notifications to the prosecuting authority

Finanstilsynet reported nine cases of suspected unlawful insider trading and/or breach of the duty of confidentiality to the prosecuting authority in 2011. One case of market manipulation was reported.

Follow up of reported cases

As in previous years Finanstilsynet maintained close, fruitful cooperation on reported cases with ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime) and local police districts in 2011. This cooperation makes for more effective and efficient combating of crime in the securities market. Finanstilsynet assisted the prosecuting authority at interviews and in analysing share transactions.

Surveys in connection with information handling

In 2011 Finanstilsynet conducted surveys addressing issuer entities, law firms and audit and accountancy firms regarding their handling of inside information, including procedures for insider listing and trading rules for employees. The surveys targeted procedures and guidelines for ensuring due care in information handling at entities that manage inside information, while also signalling Finanstilsynet's intention to focus attention on these areas.

Major investigations

In 2010 Finanstilsynet investigated share transactions at Reservoir Exploration Technology ASA (RXT), a stock exchange listed company. At issue were the prohibition of unreasonable business methods and the sale of financial instruments not owned by the customer. Finanstilsynet ordered seven investors to relinquish their gains, and six complied. One investor refused to comply with the order, and Finanstilsynet, via the Office of the Attorney General, issued a writ of summons against him. The case is expected to be heard by Oslo City Court in spring 2012. Four investment firms were reported to ØKOKRIM for breaches of rules governing the sale of financial instruments not owned by the customer. All four firms accepted a fine of NOK 400,000 in lieu of prosecution.

Further development of the transaction reporting system

Investment firms are required to report transaction in quoted financial instruments and their derivatives to a European transaction reporting system, TRS. Much resources have been devoted to establishing a common Nordic system that meets the Directive requirements and to assisting firms subject to a reporting obligation.

In 2011 about 90 million transactions were reported to Finanstilsynet, of which 41 per cent were from foreign and 59 per cent from Norwegian investment firms.

Improved data quality and improved search and analysis tools have enabled ever increasing use of TRS data in the work of supervision.

COURT RULINGS

The following court rulings were delivered in 2010 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

In February 2011 the Supreme Court delivered judgment in a case concerning insider trading and incitement to insider trading. Three persons had been convicted in the District Court and the High Court; the case in the Supreme Court concerned an appeal against the sentencing. For two of the accused the sentence was increased. The Supreme Court found that the offences followed a pattern and deemed the perpetrators to be professional. The practice of unconditional imprisonment for insider trading offences was endorsed. The appeal by one of the investors was rejected.

In August 2011 the Borgarting High Court set aside Oslo City Court's acquittal of two investors of insider trading and incitement to insider trading on grounds of wrong application of the law. The High Court found that the City Court had applied the law wrongly in its interpretation of the inside information concept. The judgment was appealed.

In October 2011 the Borgarting High Court acquitted two day traders of criminal market manipulation. The traders used a brokerage firm that applied algorithm-based trading. By entering small-volume orders the traders moved the price of illiquid shares and thereafter traded in the shares to generate a profit. The traders found that the share price moved automatically, regardless of the trade's volume. They exploited this knowledge to their advantage. The court found that this was not a criminal offence, in part because the trades were genuine, and correct information was given on each individual trade. The judgment was appealed.

In January 2011 the Stavanger District Court acquitted a fund manager accused of breaching the duty of confidentiality in the Securities Trading Act. The fund manager was acquitted of having passed on inside information since the individual receiving the information was not considered to be "unauthorised" under the law. The Gulating High Court arrived at the same conclusion in its judgment of 8 December 2011. The ruling of the High Court was appealed.

In March 2011 the Oslo City Court found an investor who had incited the sale of shares to be guilty of market manipulation and misuse of inside information. The court found that, by leaking a letter to the press which erroneously gave the impression of having been written on behalf of a number of bondholders in the issuing company, the investor manipulated the share price and subsequently realised a gain on his position in the issuer company. The court found that the investor, ahead of publication, encouraged a friend to trade in the share. The court stated that breaches of the Securities Trading Act undermine confidence in the securities market, and pointed to the substantial potential for damage and the considerable opportunities for gain as an aggravating factor. The judgment was appealed.

In June 2011 the Oslo City Court handed down judgment in a case concerning insider lists and due care in information handling. An issuer was sentenced to pay a fine of NOK 200,000 for failure to update its primary insider lists, and for lack of due care in handling information. The primary insider lists had not been updated for two years, and the court found this to be a result of inadequate administrative procedures. Moreover, the entity had breached the rules governing due care in handling information by communicating, due to human error, sensitive stock price information to an unauthorised individual. In its ruling the court highlighted the deterrent effect of the threat of punishment. The judgment is final and unappealable.

In July 2011 the Oslo City Court found a former stockbroker guilty of incitement to insider trading and misuse of inside information. The broker was found to have leaked inside information to a client and incited the latter to trade. The court gave weight to the professional nature of the insider transaction and to the need to uphold confidence in the market. The broker was acquitted of two counts of incitement to insider trading. The judgment was appealed.

In December 2011 the Oslo City Court found an entrepreneur and investor guilty of violation of the insider and notification rules. He was also convicted of price manipulation and tax evasion. The court found no mitigating circumstances, and a sentence of eight years' imprisonment was handed down, of which two years were suspended. He was also sentenced to pay a fine of NOK 5 million. The judgment is appealable.

PROSPECTUS CONTROL – TRANSFERABLE SECURITIES

A prospectus is required in the case of public offers for subscription or purchase of transferable securities worth at least EUR 2,500,000 calculated over a period of 12 months that are directed at 100 or more persons in the Norwegian securities market. The same applies where transferable securities are to be admitted to trading on a Norwegian regulated market, including where a company whose shares are already admitted to trading plans to increase its capital by more than 10 per cent.

About the prospectus control

All EEA prospectuses prepared by Norwegian issuers or by issuers from non-EEA countries that have selected Norway as their home state require Finanstilsynet's approval.

Finanstilsynet has performed the operative vetting and approval of prospectuses since 1 May 2010. In 2011 the Authority tightened the requirements on the content of draft prospectuses prior to the start of the vetting process.

Prospectus vetting in 2011

The market for transactions subject to a prospectus requirement remained stable in the first half of 2011. In the second half-year the number of applications for approval of prospectuses was affected by the difficult market conditions for stock issues and new entries. This applied on the equity capital and debt capital fronts alike.

In the course of 2011 Finanstilsynet dealt with prospectuses for several sizeable transactions, some relating to stock issues and new admissions in the offshore industry. One, dated 4 February 2011, referred to an initial public offering at Aker Drilling ASA and ensuing admission to trading on Oslo Børs.

A number of other prospectuses related to applications for admission to trading on Oslo Børs or Oslo Axess, including S.D. Standard Drilling, Awilco Drilling Plc., Norway Royal Salmon ASA, IT Fornebu Properties and Kværner ASA.

TABLE 9: APPROVED DOCUMENTS

	2006	2007	2008	2009	2010	**2011**
Shares (quoted shares in parenthesis)	114 (53)	277 (119)	125 (57)	102 (64)	105 (82)	**100 (85)**
Bonds	58	63	53	94	44	**110**
Warrants	–	2	10	15	9	**14**
Total	172	342	188	211	158	**224**

TABLE 10: DISCONTINUED AND OTHER PROCESSES

	2006	2007	2008	2009	2010	**2011**
Discontinued processes	–	32	16	13	21	**16**
Additional prospectus (shares)	22	20	31	2	17	**11**
Similar documents	6	25	14	4	4	**7**

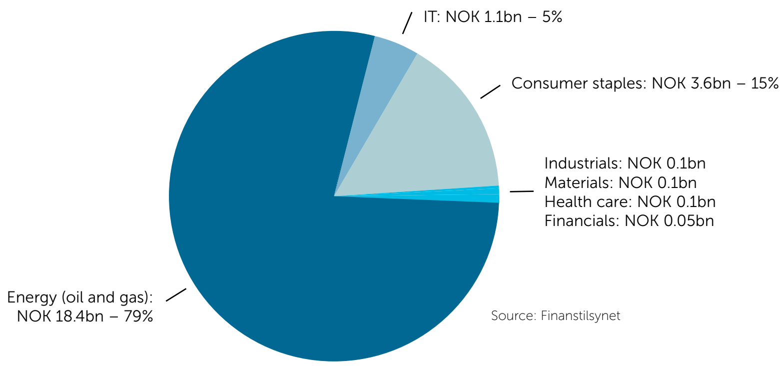
A large number of documents were notified to and from the EU/EEA area. These were notifications of passported prospectuses.

Finanstilsynet vetted 20 prospectuses related to new admissions in 2011. Of these, 13 were admitted to trading on Oslo Børs / Oslo Axess. In addition, a number of processes were discontinued at various stages. Sixty-five prospectuses for listed limited companies with an overall issue volume of NOK 23.45 billion were approved, of which NOK 18.4 billion was in the energy sector (oil and gas). The actual issue volume was about NOK 18 billion. A further 15 prospectuses for share issues by unlisted companies were approved, along with 118 bond prospectuses and 14 prospectuses for rights issues.

New charges

After further analysis of the resources devoted to the respective types of prospectus, Finanstilsynet drew up a differentiated scale of charges for control and approval of prospectuses. The new scale of charges is published on Finanstilsynet's website.

CHART 5: ISSUE LIMITS APPROVED BY FINANSTILSYNET IN 2011 – BY SECTOR



REGULATORY DEVELOPMENT

In 2011 Finanstilsynet prepared a consultation paper regarding the implementation of amendments to the EU's Prospectus Directive, the most important of which is to raise the minimum number of investors for which a prospectus is required from 100 to 150 where an offer is made for subscription/sale of transferable securities. Further, the threshold for such offerings is raised from EUR 2,500,000 to EUR 5,000,000. The recommendation has been circulated for comment and is under consideration by the Ministry of Finance.

Revised prospectus content requirements

Finanstilsynet participated in the revision of prospectus content requirements for oil, gas and mineral companies under the auspices of the European Securities and Markets Authority (ESMA). Revised requirements became effective on 23 March 2011.

Share issues, bond issues with a nominal value in excess of EUR 50,000, as well as issues of depositary receipts and derivatives for mineral companies come under the new requirements. Finanstilsynet notes that some companies find complying with the new content requirements, in particular the requirement to include a competent person's report, to be demanding. Finanstilsynet also notes that a number of companies are unaware that they are subject to the rules governing mineral companies.

FINANCIAL REPORTING SUPERVISION – LISTED COMPANIES

All listed companies are required to apply the International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Finanstilsynet oversees that they do this correctly. Supervision encompasses all Norwegian-registered enterprises that are listed on a regulated market in Norway or elsewhere in the EEA, as well as foreign enterprises that have chosen Finanstilsynet as the competent authority.

Supervision also encompasses enterprises that do not report under IFRS. It covers annual accounts at the group and company level, management reports and interim accounts. Central government, municipal and county authorities are not covered by the supervision, nor are municipal or intermunicipal enterprises. State-owned enterprises are, however, included.

TRENDS

At the end of 2011 233 Norwegian companies were subject to Finanstilsynet's supervision of financial reporting. Just under 200 were issuers of shares and equity certificates. Several issuers of shares and equity certificates also issued bonds that are quoted on Oslo Børs. In the course of the year four new enterprises were admitted to Oslo Børs, nine to Oslo Axess. A total of 16 issuers were delisted, 12 from Oslo Børs and four from Oslo Axess. Norway is the home state for issuers from the EEA, subject to certain conditions. Thirty foreign companies have opted for Norway as their home state.

The international financial turmoil is a challenge to economic and financial valuation, including valuation of company assets and liabilities. Adequate, precise notes to financial statements are imperative.

Upon review, the audit reports on 27 issuers were found to contain qualifications or emphasis of matters, illustrating that preparing the 2010 accounts was a challenge for many issuers. Only six of these notified Finanstilsynet of modified audit reports as required by the Securities Trading Act section 5-5 subsection (5).

SUPERVISION OF FINANCIAL REPORTING

Set-up

Supervision covers all Norwegian-registered issuers listed on a stock exchange or regulated market in Norway, or on a regulated market elsewhere in the EEA. Listed issuers as well as issuers that have applied for listing are covered. Foreign enterprises from other EEA countries that are listed on Oslo Børs are subject to supervision by the regulatory authorities in their respective home countries. Issuers listed on a regulated market in Norway and not registered in the EEA are covered provided they have opted for Norway as their home country.

Supervision covers companies' periodic reporting, irrespective of what accounting standards have been applied. A combination of techniques is applied in selecting enterprises for control. Some issuers are selected based on submitted reports, others based on risk assessments. Risk-based analyses are carried out based on reports received via the Altinn internet portal. A rotation system is employed to ensure that the financial reporting of all enterprises is checked within a given period.

Results of the supervision

In 2011 Finanstilsynet reviewed all or parts of the financial reporting of 76 companies. Particular attention was focused on issuers of equity instruments such as shares and equity certificates, and some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies.

As a result of this review, 13 cases were given closer scrutiny; several had yet to be finalised at year-end.

No information was received in 2011 from the companies, their elected officers, senior employees or auditors to indicate that the financial reporting of the issuers failed to provide a true and fair view in conformity with the provisions of the Securities Trading Act.

Valuation of biological assets

When IFRS was introduced it was common practice among salmon farmers to value biological assets weighing less than 4 kg at cost price except where the entity expected to sell at a loss. In 2006 Finanstilsynet adopted a decision that requires immature farmed salmon to be recognised at fair value based on observable slaughter prices.

In the aquaculture industry it is not uncommon to measure biological assets' fair value using growth models, possibly supplemented with an assessment based on the lowest value principle in cases where it is considered that a loss will be realised. A feature common to growth models is that costs accrued in bringing the biological asset to its condition on the balance sheet date are included in the calculations. The use of growth models incorporating historical costs may produce skewed results since the calculated value per kilo of immature fish may be higher at locations with relatively high costs. In an industry comparison, the most cost-effective entities will accordingly be those with the lowest fair value per kilo, despite the expectation of being the most profitable. In periods of high prices, measuring fair value using growth models may result in low valuation of biological assets of a cost-effective fish farmer and high valuation in the case of an ineffective producer.

Finanstilsynet expressed, in circular 31/2011, the view that historical costs are not relevant in a fair value model. Using growth models to measure fair value may, in some cases, produce a value measurement that diverges significantly from fair value under IAS 41. Finanstilsynet considers that aquaculture enterprises should develop and apply present value models to determine the fair value of biological assets.

Errors in cash flow statements

Finanstilsynet noted fundamental errors in the cash flow statements of several entities in 2011. In a number of cases, the presentation of cash flow statements included items which clearly had no cash flow effects. A cash flow statement is intended to provide information on how the entity has generated and spent cash and cash equivalents. Information on the entity's historical cash flows is useful for the users of financial accounts since it provides a basis to assess the entity's ability to generate cash and cash equivalents.

The statement of cash flows is intended to report cash flows during the period classified by operating, investing and financing activities. Finanstilsynet noted cash flows presented in the wrong category and urged entities to improve the quality of their cash flow statements.

Finanstilsynet also pointed out that while an entity may present a condensed statement of cash flows in its interim financial report, the condensed statement must include, at a minimum, each of the headings and subtotals included in its most recent annual financial statements. The information must be presented in a manner that provides a relevant, reliable, comparable and understandable statement of cash flows in keeping with IAS 1. In Finanstilsynet's view a three-line statement of cash flows will not normally meet this requirement.

Impairment of government bonds

The European Securities and Markets Authority, ESMA, issued on 25 November 2011 a public statement on sovereign debt in financial statements.

The statement lists elements that issuers should take into consideration when accounting for government bonds at year-end. It is based in part on a fact finding exercise on the accounting treatment of Greek sovereign debt by European financial institutions in the first half-year, and establishes that some institutions had not written down such debt despite falling values. Moreover, differences were identified in the way write downs were calculated. The aim of the statement was to promote consistent treatment across Europe.

Finanstilsynet participated in the work on country-by-country reporting by multinational companies active in an extractive industry. The Authority was also involved in the work on the accounting treatment of contractual early retirement schemes.

Violation charge for late publication of periodic financial reports

Finanstilsynet's supervision of periodic reporting includes checking that reports are published within deadline. Failure to observe a deadline normally results in a violation charge. Imposition of such a fine is an effective method of enforcement and is in most cases an adequate reaction to violations. A concrete assessment is made in each case.

Seven issuers were censured for late publication of annual reports for 2010 while violation charges were imposed on a further seven issuers. Four issuers received a violation charge for late publication of fourth quarter reports for 2010.

One violation charge was imposed for the first quarter of 2011. Two issuers received a violation charge for late publication of the half-yearly report for 2011.

One charge was imposed for late publication of the third quarter report for 2011. With regard to the first quarter report for 2011 and the annual report for 2010, negligence on the part of a further two entities did not attract a violation charge.

Expert Panel on Accountancy

An important complement to Finanstilsynet's resources is the Expert Panel on Accountancy. The panel was appointed by the Ministry of Finance on 13 October 2005 based on Recommendation to the Odelsting No. 17 (2004–2005) submitted by the Standing Committee on Finance and Economic Affairs. Finanstilsynet is secretariat to the Expert Panel.

The Expert Panel met six times in 2011, and had nine matters referred to it for comment or discussion. Its advice is published in letters available on Finanstilsynet's website.

The Expert Panel in the period 1 January - 31 December 2011

Frøystein Gjesdal (chair)
Aase Aa. Lundgaard (deputy chair)
Ståle Christensen
Stig Enevoldsen
Bjørgunn Havstein
Erik Mamelund
Signe Moen
Karina Vasstveit Hestås (alternate)
Jørgen Ringdal (alternate)
Elisabet Ekberg (alternate)

AUDITING

Finanstilsynet's oversight of auditors comprises approval or licensing of individuals and firms in accordance with the legal requirements applying to this profession, as well as registration and supervision. Supervision includes checking that auditors maintain their independence, and that they discharge their assignments in a satisfactory manner and in compliance with law and good audit practice.

TRENDS

The EU Commission has proposed changes to the Audit Directive and drafted a Regulation. The proposal entails a clear-cut tightening of requirements on auditor independence, conduct of audits and supervision of auditors. New rules will be given effect in Norwegian law in 2015 at the earliest.

The widening of exemption from the statutory audit obligation prompted some 48,000 firms to dispense with the audit as of 31 December 2011. This has led the audit industry to market other types of attestations, confirmations and statements than those associated with audits as such.

SUPERVISION AND MONITORING

Market participants' confidence in financial reporting by business and industry is key to achieving well-functioning markets. This is particularly true of reporting by public interest entities, i.e. banks and other credit institutions, insurers and listed companies. Good audit quality supports that confidence. In order to properly perform the role of representative of the general public, it is imperative that the auditor should be independent and perform the audit in conformity with the requirements of the Auditors Act.

Finanstilsynet checks compliance with the requirements on auditing activities as such, that requirements on auditor independence are met and that the quality of audits performed is satisfactory. Checks are also made to ensure that the money laundering legislation is complied with, and that auditors and audit firms submit their own accounts and tax returns on time.

Finanstilsynet carries out supervision based on its own risk assessments, reports received and other signals, for example in the media. Matters that come to light in other areas supervised by Finanstilsynet may also prompt scrutiny of the work of an auditor. Moreover, periodical quality assurance reviews of auditors of entities subject to statutory audit is required at least every sixth year, while auditors and audit firms that audit public interest entities are subject to periodical quality assurance review at least every third year.

The periodical quality assurance reviews are coordinated with the reviews conducted by the Norwegian Institute of Public Accountants (DnR) of its members. Should the DnR bring to light circumstances that may prompt withdrawal of an auditor's licence, the matter is referred to Finanstilsynet for further action. The DnR's report for 2011 is reproduced on page 65. Where public interest entities are concerned, responsibility for all supervision rests with Finanstilsynet.

Finanstilsynet received in all about 90 reports on auditors in 2011 from the DnR, the tax authorities and bankruptcy administrators, in addition to other signals possibly indicating deficient audit practice. This was a slightly smaller figure than in 2010. Cases not given priority by Finanstilsynet may conclude with the auditor being asked to submit a documented self-assessment of whether the audit practice should be modified for the future.

Forty-seven on-site inspections were conducted in 2011 in addition to other supervisory business. Some matters will only reach completion in 2012.

TABLE 11: REVOCATION OF AUDITORS' LICENCES

	2008	2009	2010	**2011**
State authorised auditors, licences revoked	3	1	10	**1**
Registered auditors, licences revoked	9	4	13	**2**
Audit firms, licences revoked	0	3	1	**0**

The number of licence revocations is higher the year after off-site supervision has been carried out since it includes licence holders that fail to respond to the questionnaire.

Audit firms are required to establish adequate internal quality control systems. The systems that are established are of significance for the quality of all audit assignments taken on by the firm. Compliance with the audit legislation and internal guidelines and procedures is checked during reviews of selected audit assignments. Thirteen such reviews were conducted in 2011, eight of which concerned firms that audit public interest entities.

Joint inspections with the PCAOB

Audit firms eligible to audit companies listed on a US stock exchange are also subject to oversight by the Public Company Accounting Oversight Board (PCAOB) in the US. Finanstilsynet and the PCAOB conducted a joint on-site inspection of Ernst & Young AS in autumn 2011. The two bodies each recorded a separate set of observations with regard to the company.

The PCAOB also conducted an on-site inspection at PwC in 2011. This was led by Finanstilsynet, which performed only a few inspection procedures itself since it had inspected PwC in 2010. Finanstilsynet's post-inspection observations made some references to the company's guidelines and procedures, in particular to the need for clearer guidelines on the content of numbered letters to the management, and for review of procedures to ensure the quality of audit documentation.

Other individual cases

Auditor independence is monitored on an ongoing basis by Finanstilsynet. In 2011 the Authority severely censured the audit firm previously responsible for the audit of Lillestrømbanken for breach of the auditor independence rules on account of the roles performed by other auditors in the firm.

In another case KPMG was censured for breach of the auditor independence rules. KPMG, which audits Nordea Bank Norway AS, was unaware that KPMG in Sweden had delivered valuation services to the Norwegian bank. This put KPMG in Norway in a situation in which its audit violated the Norwegian independence rules. Finanstilsynet demanded that KPMG take steps to ensure that it would have the information needed to assess its independence. The Swedish audit supervisor was informed, and issued KPMG in Sweden with a warning for its failure to advise KPMG in Norway of its assignment.

After receiving a report on Ernst & Young from Tax Mid-Norway, Finanstilsynet censured Ernst & Young for providing tax guidance in breach of the auditor independence rules. The appointed auditor cannot be party to disloyal adjustment to the tax legislation.

During its supervision of auditors of public interest entities Finanstilsynet uncovered the fact that the fire insurance companies had recorded commission revenues on a net basis, with the result that revenues in their financial statements were too low. The fire insurance companies and Gjensidige Forsikring, which keeps the fire insurance companies' accounts, will ensure that the accounts for 2011 are correct. Finanstilsynet will write to the auditors concerned.

Finalised cases are published on Finanstilsynet's website on an ongoing basis.

Thematic inspections

In autumn 2011 Finanstilsynet conducted thematic inspections at the four largest audit firms focusing on delivery of non-audit services to audit clients. This was a follow up to similar thematic inspections in 2002-2003 which revealed that these firms had delivered to audit clients advisory services of a nature and on a scale that breached the rules on auditor independence.

The inspections showed a significant fall in the scope of additional services delivered by the firms to their own audit clients. Auditor services now consist to a greater degree in assessing various alternatives for the audit client, who then makes a choice based on his own needs and strategic assessments, rather than giving direct advice and recommendations. This is a positive development.

There is still room for improved documentation of the assessment made by the statutory auditor *before* delivering an additional service, including the basis for such assessment. There is also scope for better follow-up *after* delivery of an additional service to assess compliance with the auditor independence rules.

Off-site supervision

All auditors and audit firms are subject to off-site supervision every second year. In the supervision programme conducted in autumn 2011 auditors filed their returns via the Altinn internet portal. A summary of the results will not be produced, but tables showing the trend in the industry since the last round of off-site supervision will be published on Finanstilsynet's website. Finanstilsynet will also follow up individual auditors based on the returns received, with a particular focus on compliance with the continuing education requirement.

LICENSING

1882 audit firms have an auditor register number. Only auditors with an auditor register number may take on statutory audit assignments. These auditors meet inter alia requirements with regard to continuing education and provision of security (indemnity insurance).

Finanstilsynet authorises auditors as either registered or state authorised auditors. State authorised auditors are subject to higher education requirements than registered auditors. In addition to statutory minimum education requirements, a practical examination has to be passed to qualify for authorisation. The examination is prepared by an examination board and is organised by Agder University College on behalf of Finanstilsynet. 270 candidates passed the examination in 2011.

Register of Auditors

In February 2011 all auditors then entitled to conduct a statutory audit, i.e. statutory auditors, were automatically assigned an auditor register number. Auditor register numbers are now assigned on the basis of application to Finanstilsynet, which checks compliance with the requirements regarding continuing education and provision of security. The process of upgrading the Register of Auditors to enable more data to be fed in continued in 2011. This process is necessary in order to meet the requirements of the Audit Directive.

TABLE 12: NUMBER OF APPROVED AUDITORS AND AUDIT FIRMS AT 31.12.2011

	2008	2009	2010	2011	**Licensed in 2011**
State authorised auditors	2,728	2,826	2,984	3,165	**300**
Registered auditors	3,049	3,117	3,226	3,319	**197**
Audit firms	825	820	776*	674*	**22**

** The decline is probably related to the fact that a company that owns audit firms no longer needs to be an approved audit firm itself.*

Notification of change of auditor

Auditors and entities subject to statutory audit are required to notify Finanstilsynet if an audit assignment is terminated before the expiry of the period of service and to state the reason for the change of auditor. The notification requirement was introduced in 2009 as part of the implementation of the Audit Directive. Since many entities are subject to statutory audit, many are covered by the notification requirement. In line with the provision's purpose and intention, Finanstilsynet interprets it narrowly to apply only to public interest entities.

Changes in audit standards

Finanstilsynet has updated its website references to audit standards to bring them in to line with changes in the standards. Clarification of what is expected of an auditor that issues attestations to be used by Finanstilsynet is in progress. The work is being carried out together with representatives of the audit firms on the basis of current audit standards.

REGULATORY DEVELOPMENT

As from 1 May 2011 the smallest limited companies have been entitled to dispense with the audit. Finanstilsynet has clarified aspects of the rules on request. Amendments to the auditor legislation empower Finanstilsynet to introduce a statutory audit obligation for entities supervised by Finanstilsynet, also for entities not previously subject to statutory audit.

The current auditor legislation is worded such that some services are covered by the act only if they are offered to entities subject to statutory audit, or the attestation is issued to a public authority. In a letter to the Ministry of Finance, Finanstilsynet proposed law amendments to extend the scope of the Auditors Act, the rationale being that the same service should be subject to the same regulation regardless of who delivers it. The issue is in focus now that many entities have dispensed with the audit since they are no longer subject to the audit obligation.

Finanstilsynet also proposed other amendments to the Auditors Act regarding transfer of the audit portfolio if the appointed auditor becomes unable to carry out the audit assignment, and regarding data held by the Register of Auditors.

Finanstilsynet's regulations of 24 November 2011 entitled auditors on a temporary basis to prepare annual financial statements for 2011 for clients other than audit clients.

INTERNATIONAL TASKS

Finanstilsynet participates in international work at the Nordic, European and global level. A Nordic meeting of audit supervisors was held in Oslo in 2011.

In September 2011 Finanstilsynet signed a Statement of Protocol (cooperation agreement) with the PCAOB. The agreement enables Finanstilsynet and the PCAOB to conduct joint inspections of audit firms registered with both Finanstilsynet and the PCAOB. Inspections in Norway will be coordinated and headed by Finanstilsynet, and exchange of information and documentation will be subject to Norwegian law. The agreement runs to 31 July 2013.

Ernst & Young and KPMG have restructured so that most audit firms in the European network are owned by Ernst & Young Europe LLP and KPMG Europe LLP. In light of this, the UK audit supervisor, FRC, initiated the setting up of European supervisory colleges for each of the audit groups. Finanstilsynet participates in the supervisory colleges.

In autumn 2010 the International Auditing and Assurance Standards Board (IAASB) published a draft consultative document for a new audit standard, "ISA 610 Using the Work of Internal Auditors". Finanstilsynet took an initiative towards other European audit supervisors to issue an identical submission on the standard. At a meeting with the standard-setting body in January 2011, Finanstilsynet, together with the audit supervisor in the Netherlands, presented the objections contained in the submission of 14 European countries. In autumn 2011 a reworked draft of ISA 610 was presented which takes account of the views emerging in the submission and at the meeting.

INFORMATION AND COMMUNICATION

Finanstilsynet holds half-yearly contact meetings with the Norwegian Institute of Public Accountants. Finanstilsynet also attends the Institute's meetings of controllers at which various topics related to the quality assurance review are dealt with. Annual meetings are held with the management of the five largest audit firms as part of the supervisory effort. Finanstilsynet also contributes by giving presentations etc at courses and in other contexts.

Finanstilsynet
Postboks 1187 Sentrum
0107 Oslo

Oslo, 26 January 2012

DNR QUALITY ASSURANCE REVIEW – ANNUAL REPORT 2011

With reference to the "Guidelines for periodic quality assurance reviews of auditors and audit firms", 2.3(j), the Board of the DnR hereby presents a summary of the quality assurance reviews conducted in 2011.

Organisation of the quality assurance review

The quality assurance review is described in "Details of the quality control programme 2011" as posted at www.revisorforeningen.no. It is designed to test compliance with good auditing practice, including standards on auditing, with a specific focus on the provisions of the Auditors Act concerning auditors' finances, independence, indemnity insurance and continuing education.

The review team comprised 30 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review

In 2011 the quality assurance programme included 1,005 statutory auditors. 190 statutory auditors were selected for ordinary review. Upon being notified that they had been selected for ordinary review, 16 of these 190 auditors announced that they would wind up their business or retire as statutory auditors in the course of 2011. A further nine members were deselected because they had already undergone, or been notified of, review by Finanstilsynet. This left a total of 165 statutory auditors to undergo ordinary review in 2011. One ordinary review was not carried out since the auditor concerned is no longer a member of the DnR. Three ordinary reviews were deferred to 2012 and will be included in next year's statistics. In addition to the ordinary reviews, 24 statutory auditors were subject to follow-up review, bringing the total number of reviews conducted in 2011 to 185.

Result of the quality assurance reviews

It is our opinion that Norwegian statutory auditors maintain a high professional standard, and that their work is of high quality. Nevertheless, it is a continuing goal for DnR to reduce the number of cases in which follow-up measures are required. We will seek to achieve this by delivering technical information, guidance to our members and courses.

	Number	%
Approved	148	80.0
Audit flaws and/or other shortcomings – action plan and new review	33	17.8
Referrals to Finanstilsynet for further action	4	1.4
Total number of reviews conducted	**185**	**100.0**

Yours sincerely

(sign.)
Håvard S. Abrahamsen
Chair
Norwegian Institute of Public Accountants


revisorforeningen.no

Finanstilsynet
Postboks 1187 Sentrum
0107 Oslo

Oslo, 26. januar 2012
Vår ref.: HSA/bb

ÅRSRAPPORT OM KVALITETSKONTROLL ÅRET 2011

ORGANISERINGEN AV ÅRETS KONTROLLER

UTVELGELSE FOR KONTROLL

RESULTAT AV KONTROLLENE

	Antall	%
Godkjent	148	80,0
Mangler ved revisjon og/eller andre forhold – handlingsplan og ny kontroll	33	17,8
Oversendes Finanstilsynet for videre oppfølging	4	2,2
Sum utførte kontroller	185	100,0

Med vennlig hilsen
Den norske Revisorforening

Håvard S. Abrahamsen
Styreleder

SUPERVISION OF IT AND PAYMENT SYSTEMS

IT supervision covers financial institutions' use of information and communication technology (ICT) and includes checking that institutions operate in a satisfactory manner and in compliance with the ICT regulations and other rules. IT supervision also covers payment systems, to ensure that payment services are performed in a sound, coordinated and rational manner and with an acceptable level of risk.

TRENDS

Crime targeting online banking and other payment channels

Norwegian internet banks were subjected to several attacks in 2011. The attacks – a combination of Trojans and phishing – have become increasingly automated. Bank losses were nonetheless limited in terms of the transaction volume and the amounts passing through internet banks in the course of a year. This was thanks to the substantial resources spent by banks on developing and putting in place countermeasures. The cooperation established between banks, industry organisations and other bodies in this field is highly important.

More Nordic actors in operations and infrastructure

The merger in 2010 of the Banks' Payment and Central Clearing House (BBS) with PBS Holding A/S in Denmark under the name Nets (in Norway *Nets Norway AS*) gave rise to a further Nordic actor with payment infrastructure operations in Norway. Nordea Bank Norway and If were already operating in Sweden. The Terra banks and Fokus Bank operate in Denmark. Other banks and insurers have parts of their operations in Denmark or Sweden. Nordic solutions pose a challenge to ensuring adequate management and control at the national level.

Outsourcing

There is a clear trend in the financial sector to outsource ICT functions to low cost countries to achieve cost reductions and access to competent resources. Ensuring that sufficient risk analyses are available and that rule compliance is adequate before decisions are made and action taken, is a challenge. Hence country risk assessments are an important element in understanding the risk picture.

SUPERVISION AND MONITORING

IT inspections

In 2011 Finanstilsynet conducted 23 IT inspections and inspections of payment service systems at banks, insurance companies, finance companies, mortgage companies, securities institutions, and at auditors, external accountants and debt collection agencies. Inspections were also carried out at ICT service providers under the ICT Regulations section 12 on the outsourcing of ICT operations. Banks' payment services, which are attended to by Finance Norway (FNO) on the banks' behalf, were also scrutinised. The banks have established self-regulation in this area through the FNO. A further 27 simplified IT inspections were carried out as part of ordinary inspections.

Findings from IT inspections in 2011 included the following:

- Failure of IT providers to deliver services needed for project completion.
- Financial institutions faced challenges in securing sufficient control over all links in the transaction chain; at a number of institutions operations and emergency preparedness are separate functions.
- At some institutions risk analyses were fragmented, making it hard to achieve an overall risk picture.
- Financial institutions have problems conducting risk analyses when outsourcing IT functions to low cost countries. Understanding the risk picture in the country in question, and having insight into the level of risk at the provider to whom they are outsourcing functions, are vital.
- At some institutions back-up solutions had not been tested and/or their functioning verified.

Payment systems

The Payment Systems Act requires institutions under supervision to notify Finanstilsynet when establishing a new payment system or making changes to an existing one. In 2011 Finanstilsynet received four such notifications, which is probably an underreporting. Finanstilsynet is looking into what can be done to ensure optimal reporting.

Risk and vulnerability analysis (RAV)

Early in 2012 Finanstilsynet is publishing the results of an RAV analysis of ICT use in the financial sector in 2011. Based on in-house analyses and available data sources, Finanstilsynet has identified specific risk areas requiring follow-up and concrete action. The RAV analysis will be published on Finanstilsynet's website.

Event reporting

Several serious events in 2011 were reported to Finanstilsynet under applicable rules and procedures:

- Trojan attacks on internet banks: February saw a massive, coordinated attack on Norwegian internet banks, followed by further waves of attacks throughout 2011. Trojan countermeasures were modified and upgraded on several occasions in response to attackers changing their targets from one banking group to the next.
- Problems of card authorisation during Easter had serious consequences for user sites and banks' cardholders.
- Breakdown of the BankID system in early June had immediate consequences since BankID is a key authentication tool for online payment services. Banks able to use an alternative authentication mechanism were least affected.

Measures connected to payment card infrastructure

The Easter event revealed that providers and banks alike lacked knowledge of the card payment value chain. Further, emergency preparedness among the involved actors – EEG, Nets and the banks – was inadequately coordinated. Banks are responsible for the quality of the services they offer. This includes aspects of payment services that are based on a shared infrastructure.

As a result of the Easter event Finanstilsynet instructed, in circular 20/2011, all banks to identify and document critical components of their ICT infrastructure, to have this affirmed by the internal auditor and to send a copy of the documentation and affirmation to Finanstilsynet by 31 December 2011. Finanstilsynet also instructed banks to coordinate their preparedness with that of the providers. Finanstilsynet is aware that the banks are devoting much effort to responding to the circular. Reviewing their responses is an important task for Finanstilsynet in 2012.

Emergency preparedness

Finanstilsynet acts as secretariat to the Financial Infrastructure Crisis Preparedness Committee (BFI) and in 2011 facilitated and participated in two exercises.

Finanstilsynet participated in the project "Protecting critical infrastructure and critical social functions", initiated by the Directorate for Civil Protection and Emergency Planning. Finanstilsynet represented the financial sector in the project's reference group.

Overall preparedness related to operation of the payment card system has risen as a result of the Easter 2011 event.

Cooperation

Finanstilsynet collaborates with a number of external bodies among supervisory authorities, banking organisations and IT security organisations. They include the Norwegian Post and Telecommunications Authority, the Data Inspectorate, the Competition Authority, the National Security Authority (NSM), the Norwegian Computer Emergency Response Team, the Financial Infrastructure Crisis Preparedness Committee, Norges Bank, Finance Norway, the Norwegian Banks' Standardisation Office (BSK), the Coordinating Body for Preventive Information Security (KIS), IT Supervisory Group (ITSG), European Supervisor Education Initiative (ESE), Communication Middleware for Monitoring Financial Infrastructures (CoMiFin), FI-Information Sharing and Analysis Center (FI-ISAC) and Information Systems Audit and Control Association (ISACA).

Consumer protection

A number of attacks on Norwegian internet banks show a need for Finanstilsynet to consider whether internet bank safety and security are adequate, and whether concrete steps to increase security should be regulated through circulars, self-regulation or by law. Such measures are viewed in conjunction with the work done by the banks themselves in this area, in the first instance the BSK and the work done by BSK on behalf of the banks.

The event at Easter revealed the need to scrutinise the card payment value chain. The primary problem of slowness/breakdown of card payments proved to be less serious than the consequential error of double and multiple reservations on customer accounts which reduced funds available. A forum attended by all relevant actors in the BankAxept value chain has been established under FNO auspices. The forum will document the infrastructure and coordinate emergency preparedness across the value chain participants in an effort to avoid a repeat situation and to mitigate the consequences of anomalous situations for customers.

Finanstilsynet, together with the BSK, has reviewed and upgraded the forms to be used by banks to report losses incurred in the use of cards and internet banks. 2011 will be the first year that the banks report losses using a finer-meshed classification.

INTERNATIONAL ACTIVITIES

2011 saw steps taken at the international level to strengthen supervision and regulation of the financial sector, with the leaders of the G20 countries, the IMF and the Financial Stability Board as important initiators. On the European stage the three new supervisory authorities in the financial field, EBA, ESMA and EIOPA, and the European Systemic Risk Board, ESRB, play important roles in coordinating EU measures to promote financial stability.

INTERNATIONAL FINANCIAL TURBULENCE IN 2011

The year was marked by turmoil in the international financial markets. Monitoring and analysis of markets and firms operating across national borders has been key to identifying risks likely to pose a threat to financial stability, and close cross-border collaboration has been maintained. Regulatory development and measures addressing individual institutions were coordinated across a number of countries.

The sovereign debt crisis in the euro area triggered renewed financial turbulence, affecting the financial industry. The situation was monitored closely in the EU-EEA area. Macroeconomic surveillance has played an important part in identifying risks likely to pose a threat to financial stability. At the EU-EEA level possible consequences for banks and insurers were analysed, and steps were taken to strengthen the financial position of European banks. In addition, further rule changes were implemented and others were planned. Preparations were made to assure that any crises arising in individual institutions or in the market were soundly managed.

Several European banks and insurers had problems meeting the capital requirements in 2011. The Norwegian financial industry is also hit by the international financial turmoil, although, so far, the Norwegian economy is little affected. See the chapter "Banking and finance", "Insurance and pensions" and "The securities area", and the report *Risk Outlook 2012*.

After the financial crisis in 2008-2009 the G20 members developed and followed up on common principles for reform of the financial markets. The Financial Stability Board (FSB) oversees implementation of the reforms. Supervisory matters dealt with by the FSB in 2011 included oversight of systemically important financial institutions, good methods for winding up financial institutions and better regulation and supervisory regime for OTC derivatives.

COLLABORATION WITH OTHER SUPERVISORS – GLOBAL

In 2011 the FSB established regional advisory groups on financial stability issues. Norway is among the 16 countries participating in the Regional Consultative Group Europe, and is represented by the Ministry of Finance, Norges Bank and Finanstilsynet.

Finanstilsynet participates in global supervisory organisations covering other areas within Finanstilsynet's remit. They include the Basel Committee, the International Association of Insurance Supervisors (IAIS), the International Organisation of Pension Supervisors (IOPS), the International Organization of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR). Finanstilsynet participates together with the Ministry of Finance in the Financial Action Task Force (FATF). Norway took over the FATF's vice presidency in 2011.

Finanstilsynet attended meetings and working groups under the above organisations' auspices and contributed by that means to the development and follow up of international supervisory standards and practices. An overview of Finanstilsynet's participation in international organisations can be found on page 75.

COLLABORATION WITH OTHER SUPERVISORS – EUROPE

Norway is part of the EU's single market by way of the EEA agreement and is accordingly obliged to implement rules adopted by the EU that are EEA-relevant. Finanstilsynet participates under the EU umbrella in a number of expert groups, EU supervisory authorities and committees drawing up various regulatory documents. This is necessary in order to promote Norwegian interests and to build up the competence needed to transpose new rules into Norwegian law.

The EU set up three new supervisory authorities in the financial area as from 1 January 2011:

- EBA – European Banking Authority
- ESMA - European Securities and Markets Authority
- EIOPA - European Insurance and Occupational Pensions Authority

The new supervisory authorities are empowered to prepare supplementary, in some cases wide-ranging, regulatory documents to directives and regulations in the form of technical standards, guidelines and recommendations. In the year immediately ahead Finanstilsynet will work to find an appropriate means of implementing this type of regulation.

In 2011 Finanstilsynet attended meetings of the boards of supervisors of the new EU supervisory authorities and participated in subgroups of relevance to Norway. The EFTA-EEA countries are negotiating on adjustments to the regulations, inter alia to put the observer role on a permanent footing. The EU's new supervisory system is described in greater detail on page 74.

There is also European collaboration on auditor supervision. Finanstilsynet attends meetings of the EU's European Group of Auditors' Oversight Bodies (EGAOB) as an observer. The EU Commission has drafted changes to the Audit Directive with a view to ultimately bringing audit issues under the remit of the ESMA.

In addition to attending meetings of the authorities and groups mentioned above, Finanstilsynet together with the Ministry of Finance attends meetings of some committees and expert groups under the Commission, termed Level 2 committees. These include the European Insurance and Occupational Pensions Committee and the European Banking Committee.

Close collaboration is in place in the EU-EEA area on the supervision of individual firms. For insurers and banks the EU legislation requires supervisory collaboration through colleges. A supervisory college has been set up for banks and insurers operating in two or more EU-EEA countries. A similar collaborative regime is in place for two of the largest audit networks.

EU LEGISLATION AND THE EEA AGREEMENT

Once adopted by the EU, rules governing the financial area must be incorporated in the EEA agreement before they are transposed into Norwegian law. Finanstilsynet, along with the Ministry of Finance and Norges Bank, participates in EFTA's financial services working group. This group coordinates the EFTA countries' views on incorporating legislative acts in the financial area in the EEA agreement.

Relevant, concrete EU legislative issues receive further comment in the chapters covering the respective areas of supervision. For more information, visit Finanstilsynet's website.

NORDIC AND NORDIC-BALTIC COOPERATION

Many financial institutions in the Nordic region sell services in other Nordic countries through subsidiaries and branches. Due to extensive cross-border activity in the region, collaborative arrangements have been in place among the Nordic and Baltic financial supervisors that extend beyond their collaboration under the EEA agreement. The collaboration covers supervision of the respective financial institutions, monitoring of risks that pose a threat to financial stability, regulatory development and development of supervisory practices.

The Nordic countries meet annually at director general level, and regular meetings are held at departmental level for the various areas of supervision.

Nordic-Baltic collaboration has been strengthened since the financial crisis. The Nordic-Baltic Stability Group was established in 2010 drawing representatives from the finance ministries, central banks and financial supervisors in the Nordic-Baltic countries. In 2011 the group drew up a framework for coordinating cross-border measures in the event of a crisis situation in systemically important, cross-border financial institutions. In 2011 the Nordic-Baltic Macroprudential Forum was established. The Forum draws together the top management at central banks and financial supervisors and coordinates macroeconomic surveillance and supervisory follow-up in the Nordic-Baltic area. Similar Nordic collaboration has been established in the audit area where regulatory development and development of supervisory practices are at centre stage.

NEW SUPERVISORY STRUCTURE IN EUROPE AS FROM 2011

In the wake of the financial crisis it was decided to strengthen the supervisory structure in Europe. The new structure was established on 1 January 2011 to promote financial stability, ensure confidence in the financial system and ensure adequate protection for users of financial services.

The European Systemic Risk Board, ESRB, has overall responsibility for macroeconomic oversight of the EU financial system. The ESRB's mission is to ensure that any build-up of risk in the financial system does not threaten financial stability. Its board draws representatives from national central banks, the European Central Bank, the heads of the new European supervisory authorities and representatives of the EU Commission. National supervisory authorities and the head of the Economic and Financial Committee (EFC) can also attend the meetings. EFTA-EEA countries did not attend ESRB meetings in 2011.

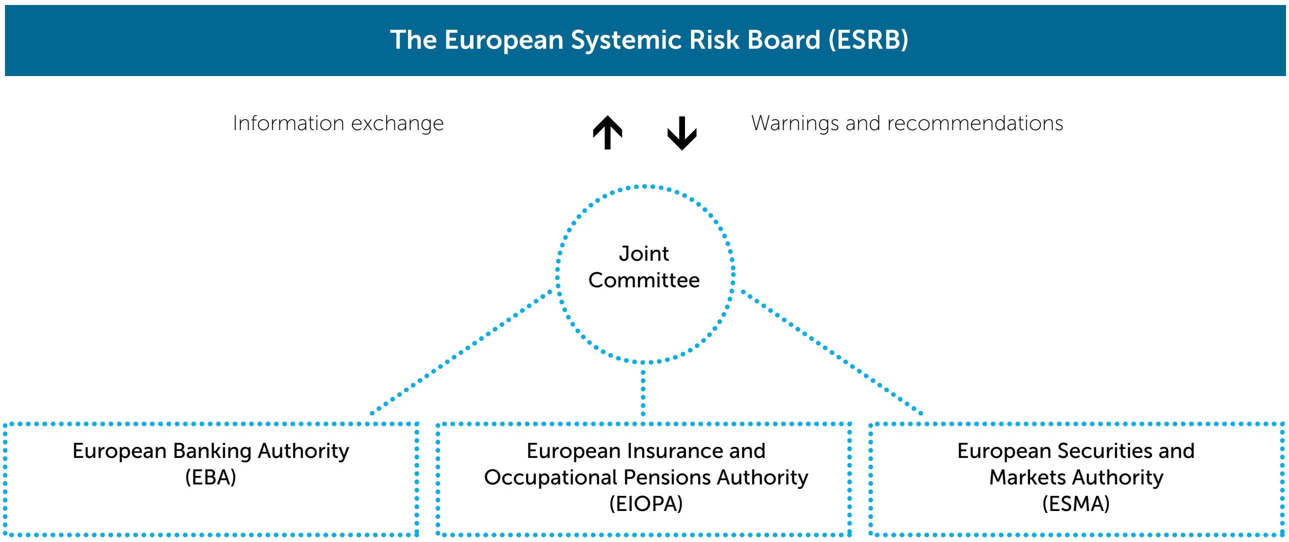
Three new EU supervisory authorities (ESAs) were established: EBA, EIOPA and ESMA. The boards of the new bodies comprise the supervisors in the EU countries. EFTA-EEA countries, including Norway, attend as observers. Meetings were also attended by representatives of the EU Commission, the ESRB and other EU supervisory authorities as non-voting members.

The EBA, ESMA and EIOPA have the following tasks:

- To draft technical standards for the Commission
- To draw up and implement guidelines and recommendations designed to ensure equal implementation of EU rules
- To settle disagreement between national authorities
- To issue instructions to a national supervisory authority or in certain cases also to a financial institution in the EU
- To participate together with national supervisors in supervisory colleges for individual financial institutions

The EU legislation under which the three ESAs were established has thus far not been included in the EEA agreement. A text adjusting the EEA agreement, to be prepared in due course, will make clear that the individual decisions placed in the hands of the ESAs will not be legally binding for Norway. The intention is that Finanstilsynet's supervisory practice will take account of guidelines and recommendations drawn up by the ESAs.

CHART 6: THE EU SUPERVISORY STRUCTURE



The boards of supervisors of EBA, EIOPA and ESMA comprise the EU countries' supervisors. The EFTA-EEA countries' supervisors attend as observers. Representatives from the Commission, ESRB, and from the other European supervisors, also attend.

TABLE 13: INTERNATIONAL ORGANISATIONS AND EU/EEA RELATED COMMITTEES IN WHICH FINANSTILSYNET PARTICIPATES

Cross-sectoral meetings

- FSB, Financial Stability Board – Regional Consultative Group Europe
- Integrated Financial Supervisors Conference (annual conference)
- Nordic supervisory meetings
- Project Link, the UN's annual macroeconomic meeting
- Nordic-Baltic Cross-Border Stability Group
- Nordic-Baltic Macroprudential Forum

Banking/finance

- ICBS, International Conference of Banking Supervisors, arranged by the Basel Committee every two years
- Basel Consultative Group
- OECD's Financial Markets Committee
- EBC, European Banking Committee – Level 2
- EBA, European Banking Authority
- Nordic meetings on banking supervision

Insurance

- IAIS, International Association of Insurance Supervisors
- IOPS, International Organisation of Pension Supervisors
- OECD's Insurance Committee
- EIOPC, European Insurance and Occupational Pensions Committee – Level 2
- EIOPA, European Insurance and Occupational Pensions Authority
- Nordic supervisory meetings for insurance

Securities

- IOSCO, International Organization of Securities Commissions
- ECG, Enlarged Contact Group on Supervision of Collective Investment Funds
- ESMA, European Securities and Markets Authority
- Nordic supervisory meetings for securities

Accounting and auditing

- IFIAR, International Forum of Independent Audit Regulators
- ARC, Accounting Regulatory Committee
- AuRC, Audit Regulatory Committee
- EGAOB, European Group of Auditors' Oversight Bodies
- Nordic meetings

Money laundering and financing of terrorism

- FATF, Financial Action Task Force – the international forum for measures against money laundering and the financing of terrorism, with its secretariat in the OECD
- CPMLTF, Committee on the Prevention of Money Laundering and Terror Financing – Level 2
- Joint Committee's Sub-Committee on Anti-Money Laundering – a collaboration between the EBA, ESMA and EIOPA

ICT supervision

- ITSG, Information Technology Supervision Group
- Security working group under the International Federation for Information Processing IFIP
- ETSI ESI – Groups working on international standardisation in banking and security and on the standardisation of electronic signatures
- CoMiFin, Communication Middleware for Monitoring Financial Infrastructures – a European collaborative network under the EU's seventh framework programme
- Financial Information Sharing and Analysis Center (FI-ISAC) – forum where the banking sector, prosecuting authorities and computer emergency response teams (CERTs) share information on cybercrime in the financial sector
- Nordic supervisory meetings for IT

EFTA

- EFTA Working Group on Financial Services

FINANSTILSYNET'S ORGANISATION

THE BOARD
Endre Skjørestad
Chairman

DIRECTOR GENERAL
Morten Baltzersen

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Kjetil Karsrud
Communications Director

ADMINISTRATION
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Deputy Director General
Staff

HR
Tone Lise Bjørvik Risan
Head of Section

Finance and Services
Maj Kristin Sæther
Head of Section

ICT (internal)
Stig Syversen
Head of Section

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Lone Tudborg Lakhan
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Head of Section

Analysis and Reporting
Anne Stine Aakvaag
Head of Section

Banking Supervision
Per Jostein Brekke
Head of Section

Insurance Supervision
Runa K. Sæther
Head of Section

Solvency Regulation and Risk Models
Bjørn Andersen
Head of Section

Macroeconomic Surveillance
Harald Johansen
Head of Section

ACCUNTING AND AUDITING SUPERVISION
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IT Supervision and Payment Systems
Frank Robert Berg
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Financial Reporting Supervision
Siw-Mette Thomassen
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Deputy Director General
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Securities Institutions
Britt Hjellegjerde
Head of Section

Securities Supervision
Geir Holen
Head of Section

Estate Agencis and Brokers, Debt Collection Firms
Wilhelm Mohn Grøstad
Head of Section

Organisation chart per 01.06.2012

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Risk Outlook 2012: The Financial Market in Norway

Since 1994 Finanstilsynet has systematically analysed and assessed potential stability problems in the Norwegian financial market against the background of developments in the Norwegian and international economy. This is a necessary supplement to Finanstilsynet's ongoing supervision of individual institutions. Much of the assessment of individual institutions' profitability and financial strength needs to be carried out in light of the general state of the financial market. As from 2003 Finanstilsynet has given its view of the state of the financial market in a separate report. The report summarises financial institutions' results for the previous year, and assesses risks facing banks and other institutions in the Norwegian financial market and potential sources of future stability problems in the Norwegian financial system. Finanstilsynet publishes the report **Risk Outlook** in the spring and **Financial Market Trends** in the autumn.

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