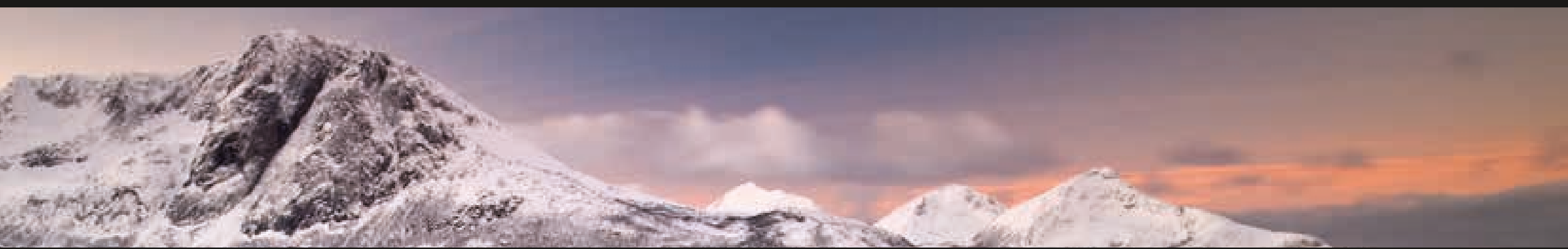
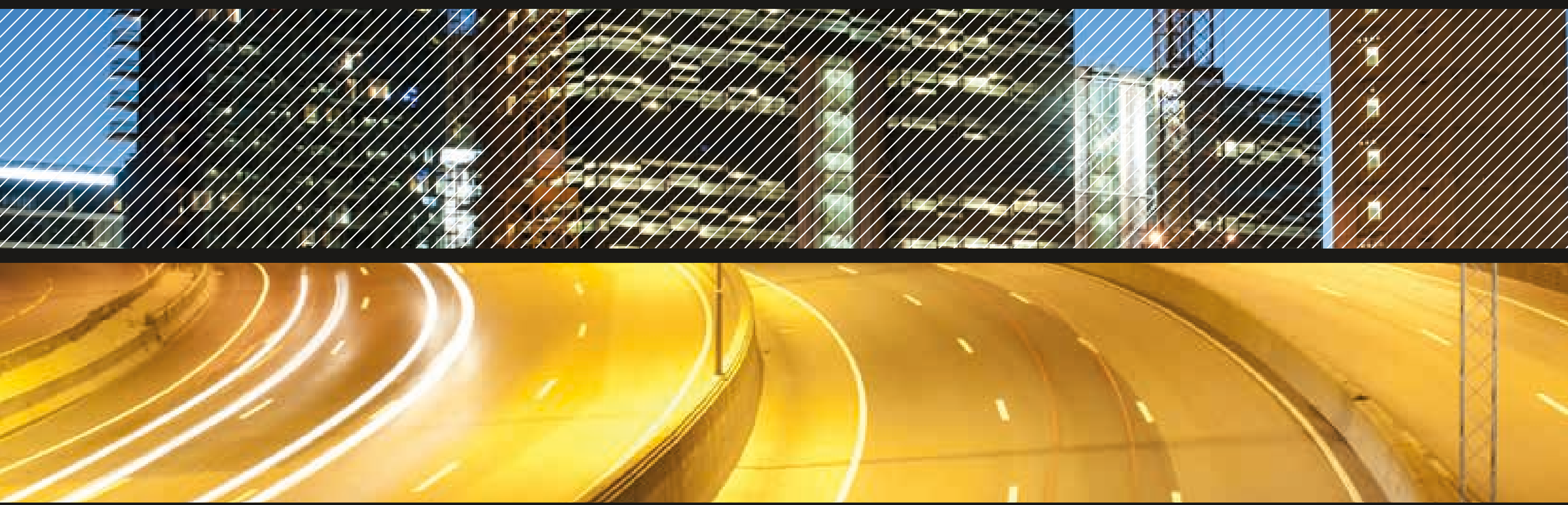
FINANSTILSYNET

THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

ANNUAL REPORT 2013





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. Finanstilsynet shall ensure that the institutions it supervises attend to consumer interests and rights in their activities."

(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 2014: The Financial Market in Norway.*

PREFACE

The world economy continues to be affected by major uncertainty. Growth in the emerging economies has fallen. Activity levels in the industrialised countries appear to be picking up somewhat, but growth is slow and fragile. Many countries still have high unemployment and sizeable budget deficits. Economic activity is largely sustained by extraordinary monetary policy measures. Although long-term interest rates rose somewhat in 2013, the expectation is still for very low rates ahead.

The risk of a collapse in the euro area appears to have diminished. The European Central Bank's willingness to purchase, if necessary, bonds issued by debt-stricken governments has greatly calmed the markets. Government bond risk premiums in crisis countries have fallen substantially. However, the underlying imbalances in government finances are still present, and many banks' lending capacity is reduced due to inadequate profits and impaired standing in the financial market.

The oil price remains high, contributing to a continued high activity level in Norway, even though growth in the mainland (non-oil) economy slowed last year. Growth is expected to pick up, but prospects are uncertain. Lower growth in the world economy could bring a significantly lower oil price, and households' high debt ratio could lead to lower private consumption and housing investment.

Household debt growth continued to exceed household income growth in 2013. Household debt and house prices are closely linked. In the second half-year Norwegian house prices fell somewhat after a long period of strong growth. A levelling-off of house prices will contribute to gradually lower debt growth and thereby to economic and financial stability.

However, the likely path of prices is uncertain. Should house prices accelerate anew, there will be a greater risk of future instability. However, as history shows, a long period of rising prices and debt growth is often followed by a self-augmenting, substantial price fall. Should prices plummet in a situation of record-low interest rates, it may take a long while for prices to recover, and households' need to lower their debt ratio will affect the economy for a long time.

Norwegian banks are solid and profitable. Results in 2013 were good thanks to low loan losses and increased revenue from lending operations. Wider lending margins brought some rise in net interest revenue as a share of total assets last year after a fall lasting several years. The good results provide a sound basis on which to increase equity capital through profit retention.

Banks have raised their capital levels since the international financial crisis, and they must continue to do so in the years ahead. Should the trend in the Norwegian economy prove significantly weaker than expected, strong banks will be needed that are able to provide credit in bad times as in good in order to avoid the downturn being compounded by credit drought.

The Norwegian government established last year new capital and buffer requirements for Norwegian banks with a basis in the new requirements that went into effect in the EU on 1 January 2014. The Norwegian minimum capital adequacy requirements are to be stepped up gradually in the period to 1 July 2016. The requirements are well adapted to a balanced development of the Norwegian economy. Given continued sound earnings, modest dividend payouts and moderate lending growth, the requirements can largely be met by profit retention.

In line with new requirements in the EU, banks will face tighter requirements on liquidity reserves and long-term funding ahead. Norwegian banks still largely obtain their funding in international capital markets. Banks' access to international loan markets is good, and market funding has become more long-term, in particular as a result of covered bond issuance. However, funding in international capital markets is vulnerable to international turmoil, as witnessed during the financial crisis. Heavy dependence on funding backed by the banks' home mortgage loans may also contribute to vulnerability, for instance in the event of a fall in house prices. Hence banks must continue their effort to put their funding on a more robust footing.

Norwegian pension institutions (life insurers and pension funds) have substantial pension liabilities in the form of lifelong guaranteed benefits. In view of the marked rise in longevity, Finanstilsynet introduced at the start of 2013 new mortality tariffs requiring a considerable increase in pension institutions' technical reserves. Although pension institutions have managed to increase their technical reserves somewhat in recent years to accommodate rising longevity, a further considerable increase in reserves is needed.

The main precept of the Insurance Activity Act is that pension institutions must have sufficient reserves at all times. In light of the pension guarantees' long-term nature and the high rate-of-return risk following from nominal rate-of-return guarantees and low interest rates, Finanstilsynet's assessment is that, all in all, beneficiaries' pension claims are best secured by allowing pension institutions a period in which to adapt to new requirements, and to allow return on policyholder assets in excess of the rate-of-return guarantees to meet parts of the need for reserves. Finanstilsynet will approve step-up plans and permit up to 80 per cent of the need for increased reserves to be met by any surplus return on policyholder assets.

After several postponements, political agreement has now been reached on new solvency requirements for insurance (Solvency II) in the EU which will apply as from 1 January 2016. Solvency II is based on risk-sensitive solvency requirements that among other things will reflect the rate-of-return risk that accompanies nominal interest rate guarantees in insurance contracts. The new requirements will entail a considerable capital need at Norwegian insurers. A gradual phase-in is permitted, and Finanstilsynet will in 2014 draft a proposal for new Norwegian solvency requirements with a basis in Solvency II.

The EU has established an extensive and complex body of rules for the financial markets. The rules are largely based on maximum harmonisation and are under constant development, including in the shape of new technical standards. They are accompanied by new, wide-ranging reporting requirements. Building the necessary knowledge of, and complying with, all relevant regulation and reporting requirements is demanding. This applies both to Finanstilsynet and entities under supervision, in particular smaller businesses. Finanstilsynet considers it important to provide full information about the rules, and will set the stage for effective reporting solutions.

The Regulations that govern the activities of the EU's supranational supervisory authorities that were established in 2011 have not been incorporated in the EEA agreement. Hence the EFTA countries in the EEA are not yet covered by the supervisory collaboration, but follow the work done in an observer capacity. The supervisory collaboration in the EU requires national authorities to cede authority in some areas to the European financial supervisory authorities. Since the EU's new financial market legislation builds on a common exercise of authority under the auspices of the supranational supervisory authorities, this legislation is also not a part of the EEA agreement. Norway's domestic legislation is nonetheless, insofar as appropriate, being adapted to the new EU rules pending the latter's inclusion in the EEA agreement.

However, in order for Norway to fully participate in the single market for financial services, the new regulatory regime and Norway's inclusion in the supervisory collaboration need to be enshrined in the EEA agreement. In the short term the absence of an EEA footing may be particularly noticeable for the securities market, where central regulatory measures are based on supranational enforcement. Participation in supervisory collaboration based on surrender of national authority raises testing questions in the negotiations between the EFTA countries and the EU. It is important to resolve these matters in the interest of a clear framework for Norway's participation in the single market for financial services.

Consumer protection is a fundamental consideration across the entire supervisory arena. Robust financial institutions and a well-ordered securities market are crucial to good and secure access to financial services. Finanstilsynet also considers it important for customers to receive sound advice, and that they understand the risk associated with various products. A growing share of private pension saving is in products where the individual insured bears the rate-of-return risk and longevity risk. Pension saving is largely long-term, and risk appetite can provide higher expected return and thus contribute to higher pension benefits. In order for the individual to be in a position to make good choices, it is crucial that the risk and the management costs associated with different investment options are thoroughly explained, and that advice given by product providers is tailored to the needs of the individual.

Oslo, 27 January 2014

Endre Skjørestad	Morten Baltzersen
Board chair	*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

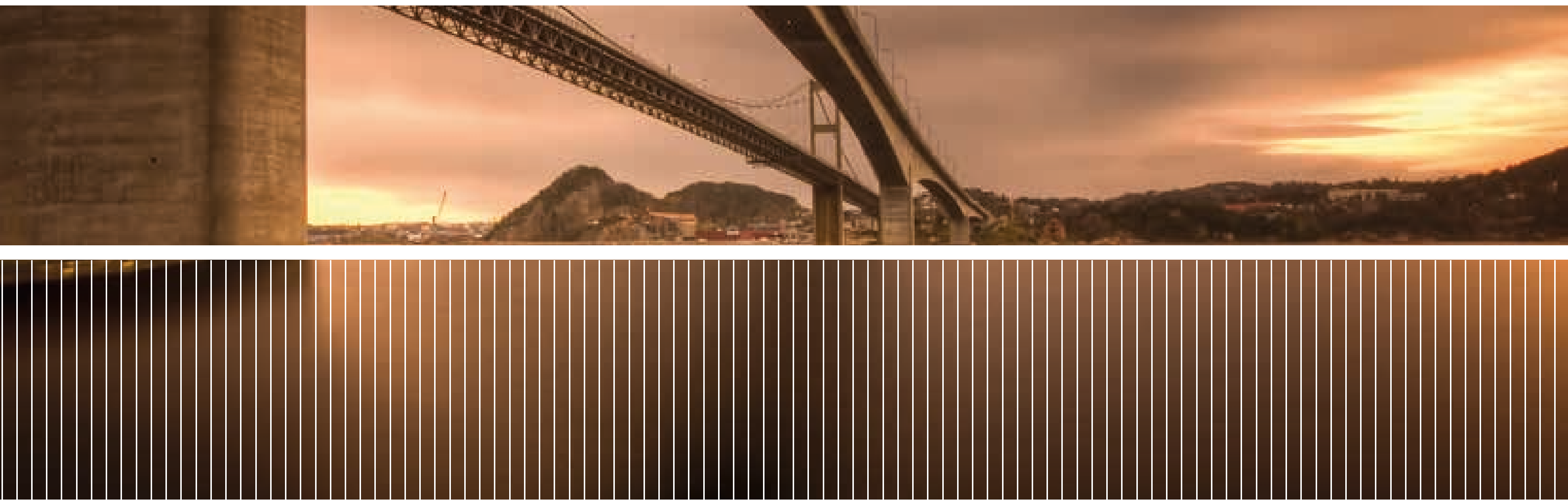
Finanstilsynet is required to see to it that financial institutions and investment firms have sufficient capital to withstand unforeseen setbacks. Sufficient capital has to be accumulated in good times to absorb losses and value falls in deep economic downturns. This capital must be ample enough to maintain 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:

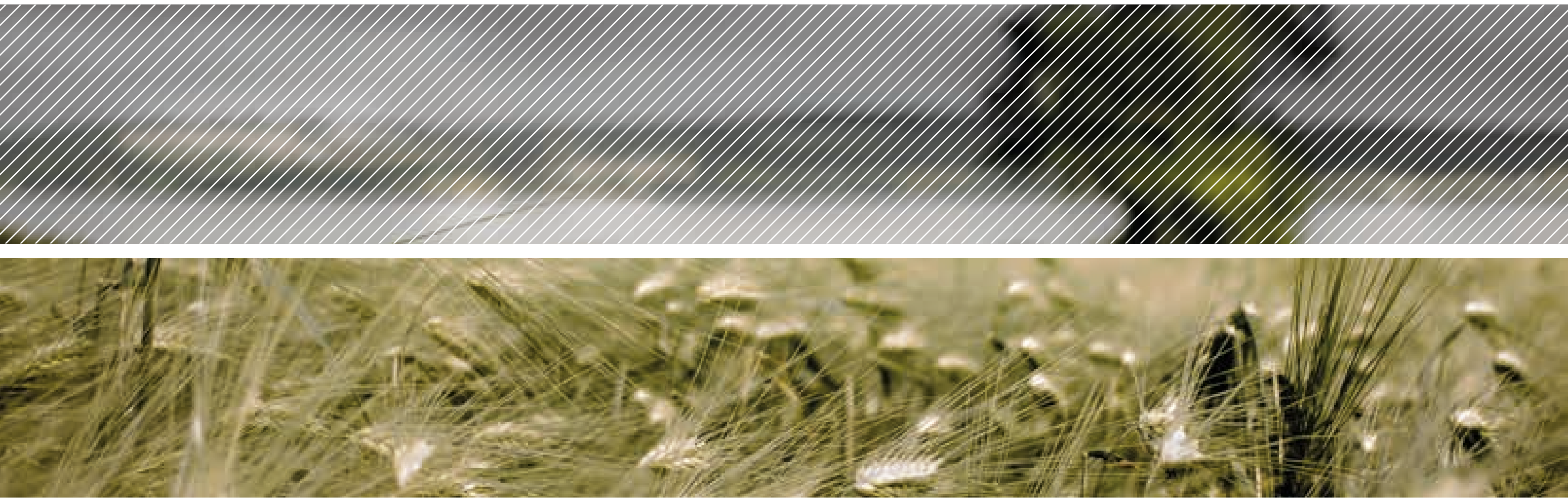
- supervision and monitoring
- licensing
- regulatory development
- information and communication

FINANSTILSYNET'S GOAL ATTAINMENT IN 2013

Finanstilsynet oversees a large number of institutions and markets. Resource use in the respective areas of supervision varies with market developments and the national and international regulatory framework in which institutions operate. Each year Finanstilsynet prepares a plan of operations setting out measures and tasks for each intermediate goal in the strategy. The Ministry of Finance's prioritised tasks are also covered by these measures and tasks.

Finanstilsynet's strategy for 2010–2014 contains main goals and intermediate goals. Further goals for Finanstilsynet's activity in the particular year are set out in the Ministry of Finance's letter of allocation. They are mainly qualitative outcome goals for institutions and markets under supervision. Attaining them will depend on decision-takers and factors additional to the instruments that are available to Finanstilsynet. While Finanstilsynet's activity will contribute to the attainment of these goals, it cannot assure that outcome on its own.

Progress made in the implementation of the individual measures and tasks described in the plan of operations is a key basis for assessing goal attainment. This is reported on separately to the Ministry of Finance. Finanstilsynet has in the main implemented the measures and tasks planned for 2013.



SOME IMPORTANT EVENTS IN 2013

SUPERVISION AND MONITORING

Finanstilsynet's oversight of banks' credit risk

In its supervision of credit risk at large banks in 2013, Finanstilsynet focused in particular on loan portfolios likely to be particularly affected by the financial crisis. Finanstilsynet drew attention to high risk evident in some portfolios and asked the banks to apply tighter limits to such lending.

NIBOR fixing reviewed

In April, on commission from the Ministry of Finance, Finanstilsynet reviewed, in conjunction with Norges Bank, the system for determining reference interest rates in the Norwegian financial market and possible steps to strengthen the existing system. In 2013 Finanstilsynet conducted on-site thematic inspection at the NIBOR's six panel banks: DNB Bank ASA, Nordea Bank Norge ASA, Handelsbanken, Danske Bank, Skandinaviska Enskilda Banken AB and Swedbank Norge. Final post-inspection comments will be available early in 2014.

Equity trading followed up at small savings banks

In autumn 2013 Finanstilsynet reviewed 95 small banks' trading in shares. A survey in 2012 showed that about 20 small banks traded heavily in shares. This activity was greatly reduced in 2013, and only three of the above banks still traded frequently in shares at the latest review. Finanstilsynet asked for the three banks' management boards be made aware of this activity. The three banks responded that it would be reduced or terminated.

Warning issued against virtual currencies

The European Banking Authority (EBA) warned consumers against possible risk involved in buying, trading in and possessing virtual currencies, such as Bitcoin. Since virtual currencies are not subject to supervision, and Bitcoin investments are not covered by any guarantee scheme, there may be a larger risk of loss than in the case of other investments. Finanstilsynet played a part in drawing up the warning and published it on its website.

Compliance with the anti-money laundering legislation

As a part of 40 on-site inspections in 2013, Finanstilsynet checked compliance with the anti-money laundering legislation. Thirteen post-inspection reports in 2013 drew attention to rule breaches. Non-compliance with the rules was identified at nine small savings banks.

Review of information handling in the public administration

Finanstilsynet looked into a case concerning treatment of inside information in the public administration. Finanstilsynet's investigation prompted a letter to a ministry in which it censured the ministry's information handling. In the wake of this matter Finanstilsynet focused on the handling of market-sensitive information in the public sector. In December Finanstilsynet organised, together with ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime) and Oslo Børs, a seminar for the public administration on topics related to information handling.

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Thematic inspection of depositories

Finanstilsynet conducted thematic on-site inspections at all five depositories for Norwegian securities funds to check their compliance with control obligations under applicable rules. Both the way the depositories' control activity was set up and their level of control varied. Finanstilsynet is following up on aspects of one depository's management and organisation of its business.

Rules on nominee accounts at the VPS breached

In the course of its supervisory work Finanstilsynet has become aware of a large number of breaches of the rules governing nominee accounts at the VPS. In 2013 Finanstilsynet took steps to ensure compliance with the rules in future. The project continues in 2014.

Financial reporting checked – Noreco, Ekornes and Norske Skog

Finanstilsynet checked certain aspects of the annual financial statements of Noreco, Ekornes and Norske Skog. Some errors and deficiencies were identified, and the entities were asked to rectify them.

Checks on the audit of entities that deal with client funds

Finanstilsynet conducted a round of thematic inspections at entities that deal with client funds. The inspections covered just over 30 audit firms, about 50 statutory auditors, 60 real estate agencies and ten lawyers and insurance brokers. Finanstilsynet brought to light deficiencies in auditors' work in most of the audit assignments reviewed. The overall report is published on Finanstilsynet's website.

Licences in the securities area revoked

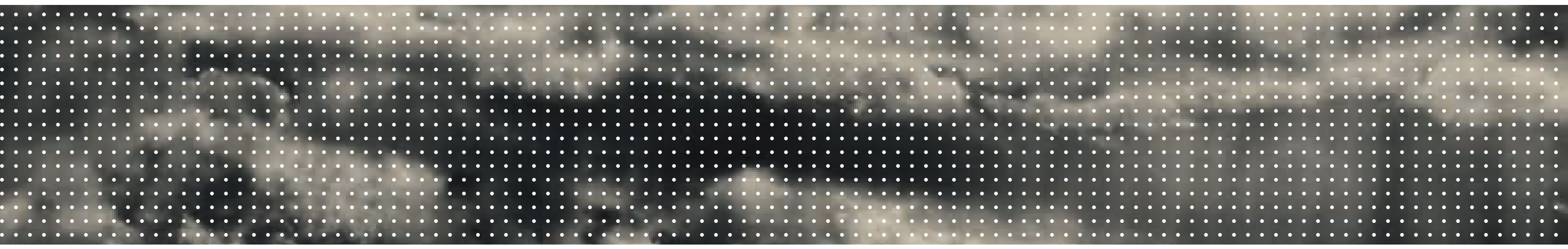
Atlas Securities AS and Aktiv Link Kapitalforvaltning AS saw their licences withdrawn in 2013 after on-site inspections in 2012. Serious, systematic breaches of central provisions on customer protection, including those dealing with interest conflicts and good business conduct were uncovered at Atlas Securities AS. Aktiv Link Kapitalforvaltning AS had carried on active portfolio management without the requisite licence. At two further inspections Finanstilsynet found serious, systematic rule breaches. Both entities surrendered their licences.

Licences of Terra Markets AS and Acta Asset Management AS revoked

In October the Ministry of Finance rejected appeals from the investment firms Terra Markets AS and Acta Asset Management AS regarding Finanstilsynet's decision to withdraw the two entities' licences to provide investment services.

Action taken on payment service infrastructure failures

The spring of 2013 saw two lengthy network disruptions at two key providers of payment services to the banks. In both cases the fault arose in a network component giving access to a number of payment services. The events showed how vulnerable payment services are to a failure of common infrastructure, and Finanstilsynet asked the banks and their provider to take steps to prevent repeat events.



LICENSING

New mortality tables for collective pension insurance

Finanstilsynet decided on the introduction of new mortality tables for collective pension insurances written by life insurers and pension funds with effect from 2014 onwards. The new mortality tables are being introduced owing to increased life expectancy.

Licences granted

- Finanstilsynet recommended the Ministry of Finance to authorise Komplett Bank ASA to operate as a commercial bank. The ministry also authorised Komplett AS to own up to 20 per cent of the shares of the bank.
- Finanstilsynet recommended the Ministry of Finance to authorise the merger of Sparebanken Pluss and Sparebanken Sør.
- Finanstilsynet recommended the Ministry of Finance to authorise the merger of Nes Prestegjelds Sparebank and Hol Sparebank.
- Finanstilsynet recommended the Ministry of Finance to grant Safe Deposit Bank of Norway AS a commercial bank licence.
- Finanstilsynet recommended the Ministry of Finance to authorise OBOS-banken AS to carry on commercial bank business.

Approval of Nasdaq OMX Stockholm AB's settlement system

In September 2013 Finanstilsynet approved that part of Nasdaq OMX Stockholm AB's securities settlement system that is regulated under Norwegian law. The entity had made necessary changes to the settlement system following the rejection of its application for approval in 2012.

REGULATORY DEVELOPMENT

Draft consultation document on systemically important institutions

In November Finanstilsynet sent a draft consultation document to the Ministry of Finance proposing criteria for the identification of systemically important institutions. The document also proposed special capital adequacy requirements and business rules for such institutions.

Capital requirements and mortgage risk weights proposed

In March Finanstilsynet sent its report on capital requirements and mortgage risk weights to the Ministry of Finance, which had commissioned the report. The report sets out possible measures for increasing risk weights on home mortgage loans.

Covered bonds

In March Finanstilsynet sent a report to the Ministry of Finance on the legislation governing covered bonds. While Finanstilsynet considered covered bonds to have contributed to more robust bank funding, it concurrently highlighted the potential risk accompanying a large volume of such funding.

Consultation document on occupational pension insurance

The Ministry of Finance tabled in October a bill concerning a new tax-favoured collective retirement pension product for the private sector. The proposal was based on a report from the Bank Law Commission and on Finanstilsynet's consultation document of January 2013, as well as on feedback on both documents. The bill was passed into law by the Storting in December, and entered into force on 1 January 2014.

Rules proposed to improve documentation of investment advice

In September Finanstilsynet recommended the Ministry of Finance to introduce new rules on documentation, good business conduct and voice recording for vendors of alternative savings products. Better documentation of advice and sales of such products will strengthen consumer protection.

Transposition of the AIFM Directive

On commission from the Ministry of Finance, Finanstilsynet headed a working group that proposed amendments to the Norwegian regulatory framework to implement the Alternative Investment Fund Managers (AIFM) Directive. The Directive – which regulates the management of collective investment structures that are not UCITS funds (alternative investment funds) – covers domestic funds, hedge funds, actively managed funds and property funds.

Guidelines on the invoicing of credit card debt

A survey conducted by Finanstilsynet showed that a majority of credit card issuers failed to disclose all mandatory information. The survey prompted Finanstilsynet to issue guidelines (circular 6/2013) for invoicing credit card debt.

Greater security for estate agents' customers

In April Finanstilsynet recommended to the Ministry of Finance changes to the estate agency regulations to tighten the requirements on guarantees furnished by firms and lawyers engaged in real estate agency.

New bidding rules

On Finanstilsynet's recommendation, the Ministry of Finance added new rules to the estate agency regulations with regard to bidding. The new rules, in force as from 1 January 2014, require bidding rounds to be documented and that bidders provide proof of identify to the estate agent. Communication during the bidding process must be in writing – all bids, bid increases, reservations, rejections and acceptances must be delivered to the agent in writing.

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 2013:

Endre Skjørestad
attorney-at-law
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
partner
second alternate

Arild J. Lund
special adviser at Norges Bank
attends as observer

Sindre Weme
director
alternate for observer from Norges Bank

Two members elected by and from among the employees supplement the Board when administrative matters are dealt with. As from May 2013 the employee representatives have been:

Anders S. Hole
senior supervisory adviser

Gry Evensen Skallerud
special adviser

Their alternates were senior supervisory adviser **Aud Kogstad**, senior executive officer **Anne Nybohm** and special adviser **Irene Støback Johansen**.

Eleven ordinary board meetings and one extraordinary board meeting were held in 2013. The Board dealt with 33 administrative matters and 55 supervisory matters requiring formal decisions. The Board received information on a further 30 administrative matters and 44 supervisory matters, bringing total items dealt with to 162. In addition, the Board is given a verbal briefing on relevant matters at each meeting.

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BOARD OF DIRECTORS OF FINANSTILSYNET

Endre Skjørestad	*Attorney-at-law, 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	*Partner at Oslo Economics*
Arild J. Lund	*Special Adviser, Norges Bank Financial Stability*
Anders S. Hole	*Senior Supervisory Adviser, Finanstilsynet*
Gry Evensen Skallerud	*Special Adviser, Finanstilsynet*

From the left: Vivi Lassen, Beate Sjåfjell, Anders S. Hole, Endre Skjørestad, Hilde C. Bjørnland, Harald Indresøvde, Gry Evensen Skallerud, Arild J. Lund, Jostein Skaar, Mette Bjørndal
Photo: Jarle Nyttingnes

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FINANSTILSYNET'S MANAGEMENT TEAM

Morten Baltzersen	*Director General*
Emil R. Steffensen	*Deputy Director General, Banking and Insurance Supervision*
Anne Merethe Bellamy	*Deputy Director General, Capital Markets Supervision*
Cecilie Ask	*General Counsel*
Gun Margareth Moy	*Deputy Director General, Administration*
Kjetil Karsrud	*Communications Director*

From the left: Anne Merethe Bellamy, Cecilie Ask, Kjetil Karsrud, Morten Baltzersen, Gun Margareth Moy, Emil R. Steffensen
Photo: Jarle Nyttingnes

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PERSONNEL POLICY AND ORGANISATION

New organisation structure

In the first half of 2013 Finanstilsynet made changes to its organisation structure to better adapt it to future demands and challenges. The organisation's overall structure remains based on sectoral approach. Importance is attached to preserving line management, to clearly defined and extensive delegation of responsibilities, and to strengthening cross-disciplinary coordination and cooperation. A key goal was to set the stage for strategic leadership to enhance flexibility and to accommodate constant changes in financial markets and the regulatory regime. The changes were effective as from 1 June 2013.

Finanstilsynet works continuously to further develop its organisation. At centre-stage are measures designed to attract, recruit and further develop managers and staff with a high level of competence in the respective areas of supervision. A management development programme for mid-level managers was started in autumn 2013. Work environment surveys are conducted regularly, most recently in December 2013. The results will be available early in 2014.

Overseeing the various industries requires cross-disciplinary competence, spearhead competence in the various areas of supervision and sound industry knowledge. At the end of 2013 91 per cent of Finanstilsynet's staff held a university degree or the equivalent. Moreover, a significant portion of staff of the supervisory departments have valuable experience from entities under supervision. Staff turnover has been stable in recent years, in 2013 measuring 6.4 per cent. Applicants for vacant positions are generally of high quality.

With its espousal of the Government-sponsored "IA Agreement" designed to promote inclusive employment, Finanstilsynet attaches importance to reducing sickness absence, to diversity and to a good policy on older employees. Sickness absence was 3.6 per cent in 2013 compared with 4 per cent in 2012. The work environment and gender equality committee systematically follows up such matters and considers what need there is to take action.

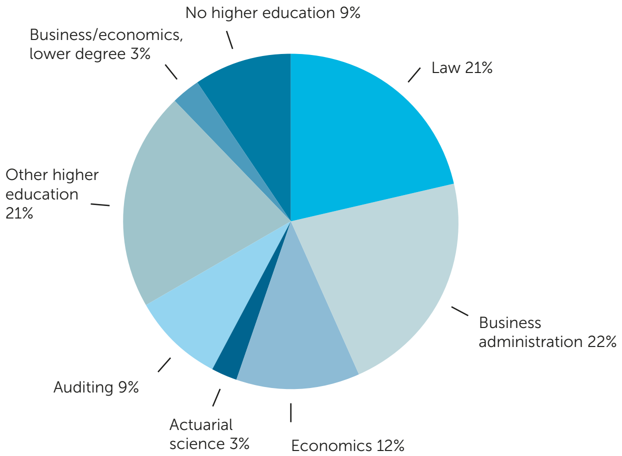
FINANSTILSYNET: FACTS AND FIGURES

At the end of 2013 Finanstilsynet had 280 full-time staff, compared with 281 at the end of 2012. Fifty-two per cent of the full-time staff are women. The management team comprised equal proportions of women and men at year-end. Women made up 48 per cent of all staff with managerial responsibilities.

The Director General's salary at the end of 2013 totalled NOK 1,382,000. Fixed annual remuneration to the Board Chair was NOK 232,000, to the Deputy Chair NOK 156,000, and to each board member NOK 135,000. Remuneration to the first alternate was NOK 114,000, and to the second alternate NOK 36,000 in addition to NOK 9,400 per meeting attended.

Twenty-seven vacancies were advertised in 2013. Six were in-house, compared with two in 2012. Applicants totalled 878 in 2013.

CHART 1: STAFF EDUCATIONAL BACKGROUND AS AT 31.12.2013



Source: Finanstilsynet

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.

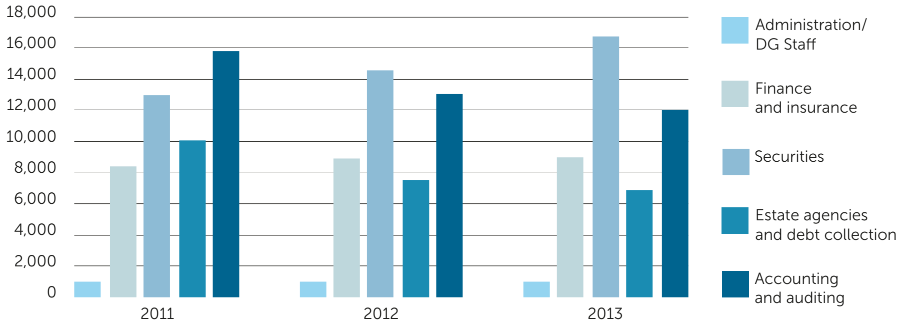
An improvement was noted in all areas in 2013 compared with 2012. Target attainment remains unsatisfactory and efforts to reduce case processing time will continue.*

TABLE 1: CASE PROCESSING TIME AT FINANSTILSYNET IN 2013

	2012		**2013**	
	No. of cases	Target attainment	**No. of cases**	**Target attainment**
Total no. of cases with processing time target	3,391	85%	**2,042**	**80%**
Supervisory reports (preliminary)	219	86%	**193**	**77%**
Supervisory observations (final)	218	84%	**168**	**71%**

** Due to a revision of the tool for measuring case processing time, fewer cases were measured in 2013 than in 2012.*

CHART 2: REGISTERED CASE DOCUMENTS – BY SECTOR



	2011	2012	**2013**
Total number of cases	48,156	45,052	**45,604**

The number of incoming and outgoing documents registered rose slightly from 2012 to 2013 after falling from 2011 to 2012, partly because the transitional arrangement for estate agents following the introduction of a new Estate Agency Act no longer generated the same volume of applications and because notifications of change of auditor are no longer received and processed. The volume of e-mails received is generally higher.

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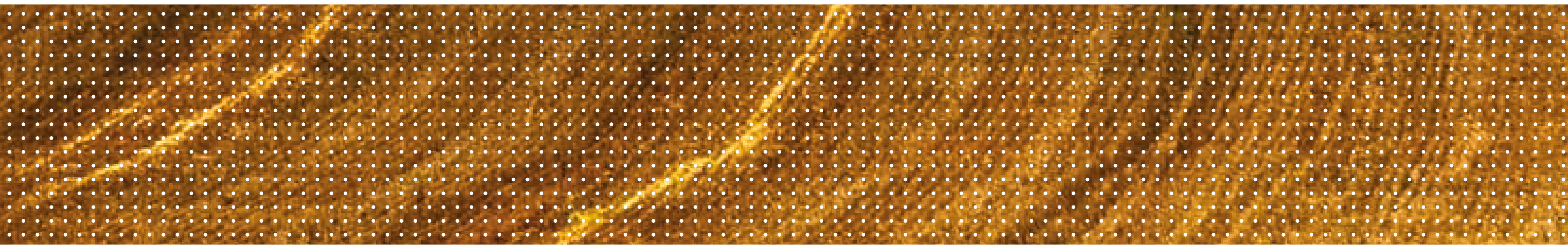

Document access at Finanstilsynet

Finanstilsynet received a total of 2,759 requests for document access in 2013. Just under 200 documents were distributed as public versions, and 503 were not released since their entire content was barred from publication. These figures compare with last year's. Most access requests are received via the public electronic mail journal, used by all central government agencies.

TABLE 2: REQUESTS FOR DOCUMENT ACCESS

	2011	2012	**2013**
Orders placed	3,210	2,751	**2,759**
Not released	678	491	**503**

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 other bodies with which it collaborates. Security and preparedness are accordingly an integral aspect of Finanstilsynet's activity. Finanstilsynet adheres to Norges Bank's security regulations, which cover physical security and preparedness with respect to the office premises. Finanstilsynet has taken into use a new security and preparedness tool to put its in-house effort on a more systematic footing. In time this will be utilisable both internally and in cooperation with Norges Bank and other partners. Separate security rules apply to internal ICT solutions and the technical infrastructure, and safety tests and drills are regularly conducted in the ICT area.

FINANCES

Expenditure

The Storting determines Finanstilsynet's budget as part of the government budget. The budget for 2013 originally totalled NOK 333.8 million. An additional appropriation of NOK 3.1 million was made as compensation for the public sector wage settlement. Including NOK 18.4 million carried forward from 2012 and refunds of parental and sickness benefits worth NOK 3.4 million, the aggregate disposable budget came to NOK 358.7 million.

Aggregate expenditure came to NOK 345 million, an increase of 5.9 per cent. Total salary expenditure rose by 2.5 per cent. The smaller growth in the year's salary expenditure at Finanstilsynet than in the state sector as a whole is attributable to a temporary reduction in pension premium in 2013 and to the fact that more positions have remained vacant for longer periods than previously. Expenditure on goods and services rose by 15.6 per cent in the same period, largely due to IT costs. One of Finanstilsynet's key aims is to develop licensing and supervision solutions able to enhance the agency's efficiency and effectiveness, and to be better equipped to comply with future reporting requirements from, for example, the European supervisory authorities. There were also increased outlays on security solutions in the crisis preparedness and information security areas. Expenditure is also rising due to expanded floorage under lease and higher fees payable to EU supervisory authorities. Finanstilsynet's aggregate expenditure was NOK 13.5 million less than disposable revenues. Unutilised revenues were carried forward to 2014.

As in the case of other government agencies included in the central government accounts, Finanstilsynet's accounts are kept on a cash basis. As from 2013 Finanstilsynet has introduced a new common chart of accounts used across central government, 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 3 June 2013 from the Office of the Auditor General on the accounts for 2012 had no adverse comments with regard to the accounts or to Finanstilsynet's implementation of the budget.

TABLE 3: ACCOUNTS

Figures in NOK 1000s	2011	2012	**2013**
Salaries	223,685	237,673	**243,733**
Of which:			
Salaries and social costs (all positions)	220,094	232,073	**239,363**
Stand-ins/substitutes	2,792	4,388	**3,361**
Other remuneration (board members' fee)	799	1,212	**1,009**
Goods and services	87,794	87,884	**101,678**
Of which:			
Operating expenses	29,762	31,114	**32,386**
Information	1,843	1,615	**1,107**
Travel and meeting attendance, subscriptions	9,988	12,495	**13,889**
Inspections and other supervisory work	2,972	2,144	**2,609**
Organisation development, management and competence development	5,511	5,585	**6,915**
ICT expenditure	37,818	34,931	**44,772**
Total expenditure	311,479	325,557	**345,411**
Contribution from supervised institutions	280,933	292,870	**312,004**
Prospectus fees	7,151	6,565	**8,381**
Budget carryover from previous year	7,627	10,520	**18,413**
Benefit refunds (parental and sickness)	4,272	4,161	**3,498**
Total revenues	299,591	314,116	**342,296**

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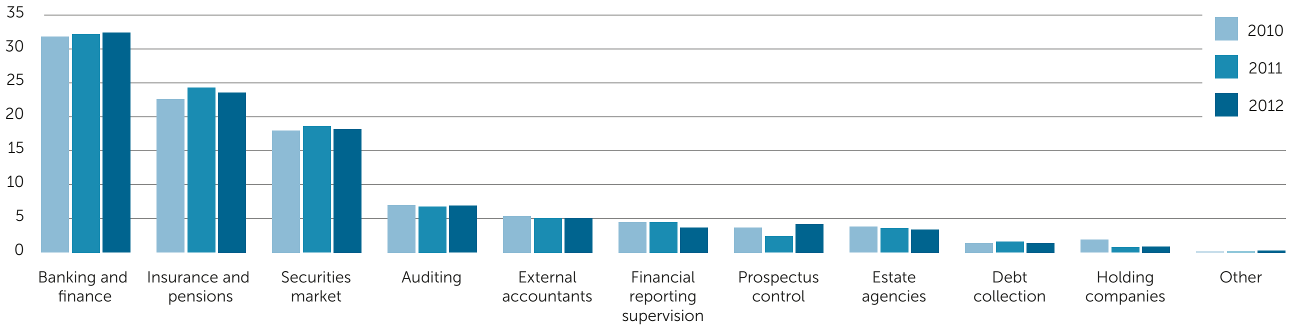
Revenues

Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision over 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 payable in arrears. Contributions are also claimed from branches of companies from other EEA states.

Contributions from institutions under supervision totalled NOK 312.1 million in 2013. Total revenues were smaller than actual expenses since contributions from supervised institutions are paid in arrears and unutilised revenues from the previous year are deducted. The levy proposed by Finanstilsynet for 2012 was approved by the Ministry of Finance on 28 June 2013 after prior consultation with the trade organisations concerned. Supervised entities liable to pay the amount levied for 2012 numbered 14,080, of which 70 were foreign branches. The largest category of supervised entities is accountants, numbering 10,919. The overall figure in 2011 was 13,998 entities.

The total amount levied for 2012 was 6.5 per cent higher than for 2011. 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

	2011		2012		**2013**	
	FTEs	Per cent	FTEs	Per cent	**FTEs**	**Per cent**
Banks	50.6	20.1	55.7	21.4	**54.0**	**20.8**
Finance companies	2.8	1.1	2.4	0.9	**2.9**	**1.1**
Mortgage companies	2.7	1.1	3.2	1.2	**2.8**	**1.1**
Payment institutions	1.8	0.7	2.0	0.8	**2.3**	**0.9**
Insurers	36.6	14.5	38.6	14.8	**38.5**	**14.8**
Holding companies	1.4	0.6	1.7	0.7	**1.7**	**0.7**
Pension funds	7.3	2.9	7.7	3.0	**8.1**	**3.1**
Securities market	42.4	16.8	43.2	16.6	**46.6**	**17.9**
Prospectus control	9.2	3.7	9.9	3.8	**8.6**	**3.3**
Financial reporting	6.9	2.7	7.2	2.8	**8.8**	**3.4**
Accounting rules et al.	0.7	0.3	0.6	0.3	**0.0**	**0.0**
Auditors	14.1	5.6	14.4	5.5	**13.8**	**5.3**
External accountants	11.6	4.6	11.4	4.4	**11.8**	**4.5**
Estate agents	9.0	3.6	8.4	3.2	**7.8**	**3.0**
Debt collection	3.9	1.5	3.4	1.3	**3.3**	**1.3**
Miscellaneous	2.6	1.0	2.9	1.1	**1.8**	**0.7**
Undistributed	48.3	19.2	47.4	18.2	**47.2**	**18.1**
Total	251.9	100	260.1	100	**260**	**100**

KEY FIGURES ON SUPERVISORY ACTIVITIES

TABLE 5: FIGURES FOR SUPERVISED ENTITIES AS AT 31.12.2013

	2009	2010	2011	2012	**2013**
Banks and financial institutions					
Savings banks	118	113	111	109	**106**
Commercial banks	20	20	19	17	**18**
Finance companies and mortgage companies	59	57	56	52	**54**
Foreign branches of Norwegian banks and other credit institutions	16	17	14	16	**17**
Norwegian branches of foreign banks and credit institutions	44	35	42	42	**42**
Savings bank foundations and financial foundations					
Savings bank foundations and financial foundations	4	12	18	23	**25**
Payment institutions					
Payment institutions[1]	–	1	17	22	**21**
E-money institutions					
E-money institutions	3	3	3	2	**2**
Insurance					
Life insurers	12	12	12	12	**12**
Non-life insurers	45	44	43	43	**44**
Local marine insurance associations	13	13	13	12	**11**
Local fire insurance associations	20	20	19	19	**15**
Norwegian insurers' foreign branches	11	5	12	16	**15**
Norwegian branches of foreign insurers	41	43	37	36	**34**
Insurance intermediaries[2]	97	98	99	96	**97**
Private pension funds	76	66	63	56	**51**
Municipal pension funds	31	31	32	32	**33**
Pension schemes	9	8	7	5	**5**
Holding companies					
Holding companies	11	11	11	12	**12**
Securities institutions					
Investment firms	150	154	143	136	**129**
Norwegian branches of foreign investment firms	17	17	19	23	**21**
Fund management companies	26	27	29	32	**31**
Clearing houses	3	3	3	3	**3**
The Norwegian Central Securities Depository	1	1	1	1	**1**
Regulated markets, incl. stock exchanges	6	4	4	4	**4**
Auditors					
Auditors	5,943	6,210	6,484	6,704	**6,973**
Audit firms	820	776	674	600	**563**
External accountants					
External accountants	8,780	9,260	9,971	11,128	**11,611**
External accounting firms	2,693	2,691	2,817	2,862	**2,853**
Estate agency					
Estate agency firms	516	550	530	517	**508**
Lawyers' practices that include estate agency	1,346	1,294	1,317	1,329	**1,325**
Debt collection					
Debt collection agencies	105	110	96	94	**98**
Debt purchase businesses	6	5	5	4	**5**

Finanstilsynet also oversees the financial reporting of 247 listed firms.

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

	2009	2010	2011	2012	**2013**
Banks/finance	58	70	53	51	**63**
Payment institutions	–	–	1	–	**–**
E-money institutions	–	–	–	–	**–**
Holding companies	–	–	–	–	**–**
Insurers	8	12	14	8	**8**
Insurance intermediaries	7	6	7	3	**5**
Pension funds	4	8	2	6	**5**
Investment firms	21	24	19	17	**12**
Other securities institutions (incl. fund management companies)	3	5	8	5	**3**
Auditors	47	87	47	48	**55**
External accountants	49	58	56	60	**46**
Estate agencies	30	49	93	43	**43**
Debt collection agencies	12	13	12	11	**11**
Data processing centres / IT providers	2	4	5	3	**1**
Other	–	1	–	–	**–**

* Eighteen IT inspections were conducted, of which four were thematic inspections of payment transmission services in conjunction with Norges Bank. Inspections are conducted either separately or in conjunction with ordinary on-site inspections. Finanstilsynet also conducted 44 simplified IT inspections and processed 38 notifications received under the Payments 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

	2012	**2013**
Cases pursuant to the Savings Banks Act No. 1 of 24 May 1961	23	**44**
Cases pursuant to the Commercial Banks Act No. 2 of 24 May 1961	20	**19**
Cases pursuant to the Financial Institutions Act No. 40 of 10 June 1988	154	**201**
Cases pursuant to the Insurance Activity Act No. 44 of 10 June 2005	90	**77**
Cases pursuant to the Securities Trading Act No. 75 of 29 June 2007	22	**19**
Cases pursuant to the Estate Agency Act No. 73 of 29 June 2007	1	**6**

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

[2] 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.

INFORMATION AND COMMUNICATION

Information and communication are one of four strategic instruments of the supervisory regime, along with supervision and monitoring, licensing and regulatory development. The information effort is directed in the first instance at entities and sectors under supervision, but also the media and the general public.

Finanstilsynet has many areas of responsibility featuring extensive bodies of rules and complex issues that require an active approach to information provision. The information and communication effort is based on the principles guiding the central government information policy, and are accordingly a management responsibility in each area of supervision.

COMMUNICATION DIRECTED AT ENTITIES AND SECTORS

Finanstilsynet is dependent on the confidence placed in it by supervised entities and by the wider society. Confidence is largely a product of high quality supervision, but also of clear and consistent communication. Good communication with market actors, trade organisations, various government authorities, the media and the wider society is imperative if Finanstilsynet is to properly discharge its social role.

A key channel of communication with supervised entities and individuals is letters written and distributed by Finanstilsynet each year. A total of 17,601 letters (outgoing documents) were sent in 2013. A central aim is to communicate and inform in a clear and comprehensible language.

Rule clarifications, report-filing requirements and matters which entities and sectors must take on board are usually communicated in the form of circulars. Finanstilsynet released 13 circulars in 2013.

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. In 2013 Finanstilsynet also held a seminar for the public administration on handling inside information.

Collaboration

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

User survey 2013

Finanstilsynet conducts user surveys at regular intervals with a view to improving the discharge of its remit. In autumn 2013 Finanstilsynet conducted a new quantitative survey of about 1,200 entities under supervision. The response rate was good, averaging 68 per cent of entities surveyed.

The survey asked broadly the same questions as earlier surveys, the most recent one of which was carried out in 2010. The questions covered on-site inspections, reporting, analyses, information from Finanstilsynet, communication with Finanstilsynet and Finanstilsynet's expertise.

The survey found no significant changes in findings compared with 2010. Finanstilsynet's main strengths relate to its conduct of on-site inspections. The inspectors' ability to assess entities' rule compliance, and the quality of the final report, received a high score. The quality of Finanstilsynet's information and its focus on relevant and important risk areas was also considered good.

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The most important areas for improvement are a) case processing time, b) entities' opportunity to engage in dialogue concerning, and to be afforded an insight into, their particular case, and c) the time taken to respond to entities' correspondence.

Compared with 2010, the findings of the 2013 survey show that Finanstilsynet has strengthened its relations with its users in terms of predictable and consistent rule interpretation and enforcement, industry understanding, administrative practice across Finanstilsynet's areas of responsibility, reporting format and the usefulness of its information. Aspects where relations with users are considered weak are the quality of observations made following on-site inspections, ease of information retrieval on Finanstilsynet's website, and information provided via reports, talks and seminars.

On a general level, users' assessment of Finanstilsynet's handling of its tasks was identical to 2010. The results were consistently good. Finanstilsynet's score on the TRI*M Index (68 points in 2010) was 66 points in 2013, an insignificant change.

FINANSTILSYNET'S COMMUNICATION STRATEGY

Main points:

1. All relevant public information to target groups shall be available at all times at www.finanstilsynet.no.
2. Rules and amendments, guides and assessments of particular importance shall in addition be communicated actively through other channels.
3. Finanstilsynet shall maintain good contact with trade organisations and other important actors in the drafting of rules and in matters of consumer protection.
4. Finanstilsynet shall profile activities designed to protect the consumer.
5. Finanstilsynet shall tailor its communication to the target group concerned.
6. Finanstilsynet shall regularly evaluate and adjust its communication regime.

Communication objectives:

1. To ensure that society has a knowledge of Finanstilsynet and its role. The organisation must be open and predictable.
2. To ensure that Finanstilsynet performs its social role in a manner that instils public confidence.
3. To ensure that financial market participants have good access to structured information on current rules, proposed amendments, practices and administrative decisions.
4. To ensure that that the users of financial services have good access to structured information on products, services and rights.
5. To ensure that communication in critical situations is handled in such a way as to minimise harmful effects.
6. To ensure that Finanstilsynet is accountable, to the point and focused in all communication.

GENERAL INFORMATION ACTIVITY

Twenty-five press releases were issued in the course of the year. Three press conferences were held. In April Finanstilsynet presented *Risk Outlook 2013: The Financial Market in Norway* and the report *Risk and Vulnerability Analysis* on the use of information and communication technology in the financial sector. In November Finanstilsynet presented the report *Financial Trends 2013*. These reports analyse and review trends and risk in the financial market and potential sources of future stability problems in the Norwegian financial sector.

The broad media coverage of Finanstilsynet's guidelines for banks' home mortgage lending continued in 2013. The authorities' capital adequacy requirements for banks were also an important theme in 2013. Home mortgage risk weights and the process for fixing the NIBOR reference rate received much attention in spring 2013. The same was true of the adoption of a new mortality tariff in collective pension insurance. At year-end much interest focused on Finanstilsynet's proposed criteria for identifying systemically important financial institutions. Cases illuminating consumer rights were also in the public eye.

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.

In 2013 the website had 470,000 visits. Around 18 per cent of all visits were by users outside Norway.

FINANSTILSYNET'S KEY RELATIONS

- Storting
- Government
- Ministry of Finance

FINANSTILSYNET

- Norges Bank
- Statistics Norway
- Oslo Børs and other regulated markets
- ØKOKRIM
- Consumer Council and Consumer Ombudsman
- Brønnøysund Register Centre
- Competition Authority

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

Consumer protection is at centre stage in the development of rules for the financial market and in the supervision of financial services providers. Solid, well capitalised institutions have highest priority at Finanstilsynet and are the principal requisite for good consumer protection. At the same time, changes made to rules and supervision with a view to improving the position of consumer and customer when purchasing financial services are an increasingly important part of the work. As from 1 January 2013 a clarification was added to the Financial Supervision Act requiring Finanstilsynet to ensure that supervised institutions safeguard the interests and rights of consumers.

In 2013 Finanstilsynet established a cross-disciplinary working group to coordinate the work on consumer protection. The group will inter alia develop and profile Finanstilsynet's consumer protection effort, in particular by posting information on the Authority's website. It will in addition ensure that all matters related to the protection of consumers who purchase financial products receive identical treatment irrespective of the type of supervised entity that is selling or mediating the product.

ICT systems and payment services

Internet banks, payment terminals, cards etc., have become an important and vulnerable part of most consumers' everyday life. Finanstilsynet regularly follows up on disruptions in the financial sector's ICT systems and payment services based for example on event reports from banks and information from on-site inspections.

Guidelines for invoicing of credit card debt

In autumn 2012 and spring 2013 Finanstilsynet conducted a survey of 24 credit card issuers designed to improve its knowledge of credit card issuance and customer invoicing.

With a basis in the survey Finanstilsynet drew up guidelines for invoicing credit card debt in circular 6/2013. The guidelines require a credit card application to be refused when the credit assessment is negative, the invoice's amount box either to be blank or to state the customer's total outstanding credit amount, and the customer to be allowed to contract to pay the total outstanding amount each time he or she is invoiced.

Home mortgage loan survey and mortgage lending guidelines

Finanstilsynet conducts a home mortgage loan survey each year, most recently in autumn 2013. Thirty banks, accounting for 88 per cent of total home loans, reported details of a sample of loans secured on dwellings. The survey showed that the proportion of new repayment mortgages with a loan-to-value ratio above 85 per cent was somewhat smaller compared with the 2012 survey. As regards mortgages with a high loan-to-value ratio, the banks largely comply with the guidelines' requirement of additional collateral and a special prudential assessment. See the chapter Banking and finance on page 33–34.

Documentation of bidding in property sales

With effect from 1 January 2014, amendments were adopted in the real estate agency regulations on bidding. Most importantly, bids must now be made in writing and participants in bidding rounds must identify themselves to the estate agent. Electronic messages, for example e-mails and SMSs, or use of bidding platforms will meet the documentation requirement.

Documentation requirement and voice recordings in sales of alternative savings products

Finanstilsynet has drawn up a consultation document for the Ministry of Finance recommending rules to widen the documentation requirement for entities that sell and provide advice on alternative savings products. Under the new requirement, telephone conversations will also have to be recorded. Such rules will strengthen consumer protection and harmonise the rules governing financial instruments and alternative savings products. These products include in the first instance defined contribution pension products and unit linked life insurance. For further details see the chapters Insurance and pensions on page 42 and Securities market supervision on page 53.

Sales and advisory services in the securities field

As previously, Finanstilsynet's on-site inspections of investment firms focused on their provision of investment advice. It checked the suitability of recommended investment services and financial instruments for the clients concerned and that the information provided by the firms was balanced and comprehensible. Finanstilsynet also looked into the investment advice given by investment firms' broker desks to check that their advice with regard to short-term trading was in keeping with the conduct of business rules. See also Securities market supervision on page 51.

Virtual currencies (Bitcoin)

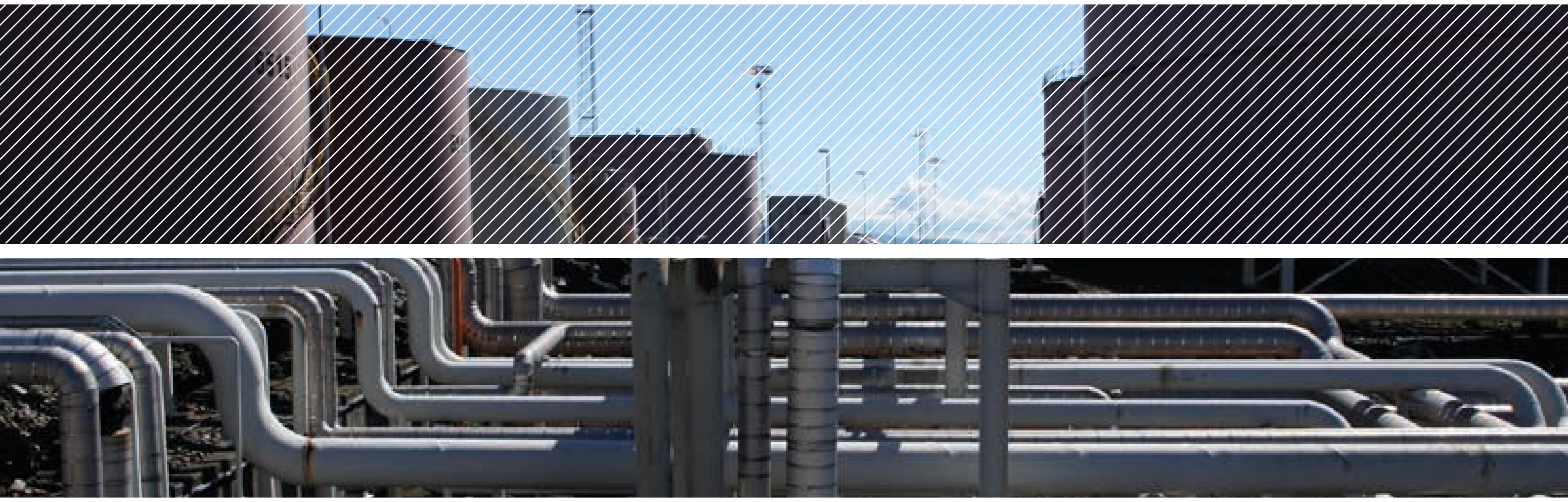
The European Banking Authority (EBA) warned consumers of possible risks when buying, trading in or possessing virtual currencies such as Bitcoin. Virtual currencies are not subject to supervision, and investments in such currencies are not covered by insurance arrangements. Hence the risk of loss may be greater than in the case of other investments. Finanstilsynet participated in drawing up the EBA warning, which was duly published on Finanstilsynet's website.

Unit-linked paid-up policies

Based on a proposal from the Bank Law Commission, new rules were added to the Defined Benefit Pensions Act on 14 December 2012 to permit holders of paid-up policies to manage their unit-linked paid-up policies themselves. The insurer will be required to provide information and advice to the policyholder before any unit linked agreement is signed. See the chapter Insurance and pensions on page 45.

Guidelines for insurers' handling of complaints

Finanstilsynet issued in circular 4/2013 guidelines for insurers' internal handling of complaints. See the chapter Insurance and pensions on page 43.



Finance Portal

Finanstilsynet collaborates closely with the Finance Portal. The portal will inter alia publish consumer-oriented guidelines and market warnings produced by Finanstilsynet. Finanstilsynet follows up on any non-compliance with the obligation to disclose prices etc. to the portal. In 2013 Finanstilsynet wrote to 26 insurers about inadequate information accompanying non-life insurances covering accident and illness. See the chapter Insurance and pensions on page 43.

Market warnings

In 2013 Finanstilsynet published 29 warnings on its website against entities that had provided financial services in Norway without the requisite authorisation. It also published 346 warnings from foreign supervisory authorities. Many of these entities engage in fraud, and persons who transfer money to them must often consider their money lost. Finanstilsynet warns against dealings with such entities. Finanstilsynet's website contains information on investment fraud and advice on how investors can protect themselves against fraudsters.

EBA Opinions on responsible mortgage lending practices

The European Banking Authority (EBA) published in 2013 two Opinions on good practices for responsible mortgage lending and for the treatment of borrowers in mortgage payment difficulties. The ultimate aim of the Opinions is to enhance consumer protection and to promote a well-functioning financial system. Finanstilsynet will base its enforcement of Norwegian rules in this area on the EBA recommendations. See the chapter Banking and finance on page 35.

International cooperation

Consumer protection is also considered important in international cooperation. The European Commission has presented a series of Directive proposals designed to strengthen consumer protection in the financial field, and the EU's financial supervisory authorities attach much importance to the work done on consumer protection through their own working groups. The OECD and the G20 countries have established overarching principles for consumer protection in the financial field. The aim of FinCoNet, the recently established International Financial Consumer Protection Organisation, is to promote healthy financial markets and good consumer protection through rational and effective supervisory methods and thereby contribute to consumer protection through its oversight of financial sector stability.

BANKING AND FINANCE

Banks play a key role for the entire economy as providers of finance and savings solutions. 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.

DEVELOPMENTS

Norwegian banks have posted sound profits for several years, the main contributor being low loan losses. In 2013 net interest revenues and cost effectiveness in the sector continued to rise. Banks' common equity tier 1 capital adequacy has strengthened in recent years thanks to increased equity capital, made possible by good performances and profit retention, and to lower growth in risk weighted assets.

The turmoil in international financial markets subsided through 2012, and stock markets rose substantially in 2013. But there are major imbalances in government finances and uncertainty about banks' financial position in many countries which could trigger renewed financial turbulence. New liquidity problems among international banks would spread to Norwegian banks, as witnessed in autumn 2008. The securities markets are important for Norwegian banks, the largest of which obtain much of their funding in the market. Market turbulence and increased uncertainty often bring higher risk premiums in the money and bond markets and falling stock markets. This can impair access to, and raise the cost of, funding for the banks.

A number of regulatory changes have been made or are in process in the financial sphere. The EU's new capital adequacy framework, CRD IV, brings stricter capital requirements for credit institutions and investment firms. The financial crisis has led to much focus on systemically important banks and crisis management systems.

SUPERVISION AND MONITORING

Monitoring and analysis

Finanstilsynet conducts regular analyses of developments in the financial industry and of the economic framework conditions, national and international. Analyses of credit, liquidity and financial positions for the banking sector as a whole are integral to the supervision of individual banks and finance companies.

Each spring and autumn Finanstilsynet presents analyses of developments in financial institutions and assesses macroeconomic conditions and other trends which may pose a risk to financial stability in the Norwegian market. The *Risk Outlook* report was presented in April 2013, and the *Financial Trends* report in November. In addition, Finanstilsynet publishes *Report for Financial Institutions* providing quarterly analyses of financial institutions' results and developments in their liquidity and financial positions. Other analyses of topical themes are also conducted over the year. The various public reports with press releases are available on Finanstilsynet's website.

Risk Outlook and *Financial Trends* for 2013 pointed to the continuing weak growth in the international economy. A further weakening would adversely affect competitively exposed activity and at the same time increase the risk of a sizeable, lasting decline in the oil price. This would adversely affect the petroleum sector and Norwegian firms that deliver goods and services to the sector, and could in the slightly longer term have substantial ripple effects to the rest of business and industry. Recent years' high employment, strong income growth and low interest rates have contributed to very high house prices and household debt. Many households are therefore vulnerable in the event of income reduction, higher interest rates and falling house prices. If households need to tighten consumption, there will be negative repercussions for business and industry. A marked downturn will impair the debt servicing capacity of firms and households, and banks' loan losses will rise.

Reporting

To ensure close monitoring of developments in financial institutions and markets, Finanstilsynet is dependent on data submitted by the institutions. All credit institutions in Norway report to ORBOF (a database for accounting information from banks and finance companies) on which Finanstilsynet collaborates with Statistics Norway. In addition credit institutions report capital adequacy and liquidity positions to Finanstilsynet. Finanstilsynet also obtains reporting from savings bank and financial foundations, payment institutions and electronic money institutions.

The European Supervisory Authorities have in recent years compiled more and more information on developments in the respective countries' financial markets. This information is used by the European Banking Authority (EBA), both for its own supervisory purposes and to pass on to the European Systemic Risk Board (ESRB). Finanstilsynet collects data for Norwegian institutions, and is responsible for reporting on the situation among Norwegian institutions to the EBA.

In view of the introduction of the new prudential framework for credit institutions and investment firms, CRD IV, the EU Commission has established binding technical standards in many areas, including the reporting area. CRD IV requires full harmonisation of reporting requirements, i.e. identical reporting in all countries with no opportunity for national adjustments. CRD IV covers, in addition to capital adequacy reporting, financial reporting, reporting of liquidity ratios, large exposures and unweighted capital adequacy ratios. Finanstilsynet is responsible for setting the stage for new reporting for Norwegian institutions. Under EU auspices ongoing impact studies in which Norwegian institutions participate will be conducted to assess the effect of a new regime and to tailor the final requirements.

Financial soundness and profitability of Norwegian banks

Recent years' sluggish trend in the international economy has had little impact on the Norwegian economy, and banks have shown sound profitability for several years. Norwegian banks again performed well in 2013, posting profit growth compared with 2012. Improved profits were mainly down to increased net interest revenue, which is banks' main revenue source. Banks have for some time reduced their operating expenses as a share of total assets, and continued to do so in 2013. Loan losses declined somewhat compared with the previous year, and the level of losses relative to volume loaned was moderate. The level of non-performing exposures also declined slightly in 2013.

Growth in lending to retail borrowers remained relatively high in 2013 while growth in lending to corporates was more moderate. Norwegian banks obtain much of their funding in international money and capital markets, and enjoyed ample access to market funding in 2013. Banks have increased their long-term financing, and liquidity reserves have grown in recent years.

Norwegian banks have improved their financial positions in recent years, both as a result of profit retention and stock issues. Common equity ratios rose in 2013, and all banks met the minimum requirement of 9 per cent at year-end.

FACTS:

At the end of 2013, 106 savings banks, 18 commercial banks and 54 finance companies were licensed to operate in Norway. In addition Norwegian banks and other credit institutions had 17 branches abroad and foreign banks and credit institutions operated 42 branches in Norway. Twenty-five savings bank and financial foundations, 21 payment institutions and two electronic money institutions held a licence at year-end.

Liquidity monitoring

Large Norwegian banks and mortgage companies obtain much of their funding in international money and credit markets. Conditions in these markets are liable to change rapidly, and refinancing during a crisis of confidence may be both costly and difficult. Finanstilsynet accordingly has a tight focus on liquidity risk. Increased liquidity buffers and a larger element of long-term funding have put Norwegian banks in a better position to meet scarcer liquidity. Covered bond issuance has made a contribution here. In the past year the market situation has favoured senior bonds and covered bonds alike. Risk premiums fell over the course of the year and are now at their lowest level for several years, but funding in the bond markets remains dearer than prior to the international financial crisis in 2008–2009.

The CRD IV framework introduces quantitative liquidity regulation. The requirements, yet to be finalised, involve two indicators: Net Stable Funding Ratio (NSFR) which measures the degree to which an institution is long-term funded, and Liquidity Coverage Ratio (LCR) which measures the institution's liquidity buffer. Introduction of the NSFR requirement of 100 per cent is proposed in 2018. LCR is to be phased in as a binding requirement from 60 per cent in 2015 to 100 per cent in 2018. Norwegian banks face a challenge in fulfilling the LCR requirement due to the limited supply of LCR-compliant securities in the Norwegian market.

From September 2011 onwards all banks have reported their LCR in accordance with the Basel III definition given in December 2010. In addition, Finanstilsynet computes an expanded liquidity buffer indicator (LBI) based on banks' reporting of LCR. LBI has a broader definition of securities eligible for inclusion in the liquidity buffer and, in contrast to LCR, does not entail a reduction of securities portfolio values. Finanstilsynet will until further notice use LBI as a key indicator of the adequacy of banks' liquidity buffers.

In addition Finanstilsynet computes each quarter the ratio of banks' long-term funding to illiquid assets ("liquidity indicator 1 and 2") on the basis of data submitted by the banks to the financial database. Institutions with liquidity indicators significantly below the average of the 13 largest Norwegian-owned banks, or with low LBI values, are followed up.

Assessments and feedback in the liquidity risk area were at centre stage at on-site inspections and in ICAAP reviews in 2013. Post-inspection reports to a number of banks pointed to insufficient levels of one or more of Finanstilsynet's liquidity indicators, that funding was too short or that deposit-to-loan ratios should be raised. Some were told that other management limits adopted by the board of directors were insufficiently precise, or that the minimum limits applied to manage the risk level were too few or too low. Some were told that strategy or policy was inadequate, or not complied with. Some were asked to improve emergency preparedness planning or stress testing. Challenges related to resources, competence or the way the work on liquidity management was organised were brought to light at some banks. Issues regarding the volume of loans transferred to residential mortgage companies and internal pricing were also taken up with some banks.

Assessment of banks' risk and capital need

Each year Finanstilsynet requests documentation of the internal capital adequacy assessment (ICAAP) made by the 18 largest banks and a number of smaller and mid-size banks selected on the basis of risk profile or actual capital adequacy. With a basis in its risk assessment, Finanstilsynet reviews each bank's ICAAP. In 2013 reviews were sent to 36 banks and three finance companies. Moreover, the banks' ICAAP documents were examined and commented on in connection with ordinary inspections.

The underlying aim of the review process is to contribute to further strengthening the respective banks' financial position. In 2013 Finanstilsynet focused on the increase in capital levels required under the new capital adequacy regime. All banks are expected to prepare capital plans showing how they intend to meet the minimum requirements and the buffer requirements. They were asked to make allowance for a countercyclical buffer of up to 2.5 percentage points being brought into play at one year's notice and for continuation of the Basel I floor. Systemically important banks were asked to take into account the effect of an extra capital buffer (O-SII – Other Systemically Important Institutions), while non-systemically important banks were asked to take into account capital market actors' capital adequacy expectations resulting from higher requirements imposed on the largest banks. Further, Finanstilsynet attached importance to the possible increase in risk weights on home mortgage loans. Banks are also asked to take account of any extra capital need arising from Pillar II assessments.

Several large banks were asked to submit a revised capital plan and if necessary to take steps to comply with the new capital and buffer requirements. The ICAAP reviews to the respective banks also raised other issues with regard to management and control that are relevant in the assessment of capital need.

On-site inspection

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

A total of 47 inspections were carried out at banks and finance companies in 2013. In addition, six thematic inspections were carried out in the ICT area and ten inspections related to IRB applications or to follow up of IRB-approved banks.

Compliance with the anti-money laundering legislation was checked at 40 on-site inspections in 2013; rule breaches were pointed to in 13 inspection reports. At small savings banks (nine institutions), general poor compliance with the rules was identified. At large savings banks and at one finance company attention was drawn to a continued failure to critically assess the origin of client assets. Following credit inspections, DNB and Nordea were also shown to have inadequately investigated the origin of client assets.

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. In the credit area Finanstilsynet examined credit quality and management and control. This included scrutiny of individual exposures, assessment of banks' credit limits and lending process and compliance with the bank's management documents and with public rules. Compliance with the mortgage lending guidelines was also of central importance. In the liquidity area, management and control of liquidity risk were central themes. The supervisory effort focused on ensuring the presence of adequate liquidity buffers and a long-term funding structure based on sound deposit-to-loan ratios and long market funding.

With regard to credit risk at larger banks, a particular focus was in 2013 given to loan portfolios liable to be particularly affected by the financial crisis. These include shipping, commercial property and acquisition finance. 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 apply tighter limits to such exposures.

Finanstilsynet called on several banks to increase their liquidity ratios or deposit-to-loan ratios. Attention was also drawn to the need for clearer policies on the size of liquidity buffers and on the quality of liquid assets included in the buffer.

Finanstilsynet also conducted thematic inspections of the procedure for fixing the NIBOR (the Norwegian Interbank Offered Rate). See the chapter Securities market supervision on page 52.

Compliance with mortgage lending guidelines

Finanstilsynet has issued guidelines for prudent mortgage lending for residential purposes. The guidelines are designed to promote robust institutions and financial stability and to reduce the risk of individuals taking out mortgages they are unable to service. Banks must assess the customer's ability to service overall debt on the basis of his/her income and all costs of subsistence. Their assessment must make allowance for an interest rate increase of at least 5 percentage points. Home mortgage loans must normally not exceed 85 per cent of the property's market value. Higher loan-to-value ratios require either additional collateral or a special prudential assessment. Finanstilsynet monitors banks' adjustment to the home mortgage lending guidelines both through off-site investigations and on-site inspections.

Home mortgage loan survey

In the mortgage lending survey carried out in autumn 2013, the 30 largest banks, accounting for 88 per cent of overall home loans, reported on a selection of mortgages granted after 1 August. Data were gathered from a total of just over 7,000 mortgages. The survey showed that the proportion of new repayment loans with a loan-to-value ratio in excess of 85 per cent was somewhat lower than in the 2012 survey. Where such loan applications are concerned the banks largely adhere to the guidelines when it comes to additional collateral and special prudential assessments: they employ add-ons of at least 5 percentage points above the current interest rate level. The volume of instalment-free mortgages and the length of the instalment-free period had declined since the previous year's survey. The volume of loans with a high loan-to-value ratio is substantial. Given households' debt level, which has risen more quickly than incomes for some time, this gives cause for concern. Borrowers with a high debt burden and a large proportion of mortgages with a high loan-to-value ratio were usually in the younger age groups.

On-site inspections to check compliance with home mortgage loan guidelines

On-site inspections at small and mid-size banks in 2013 showed that the mortgage lending guidelines were largely incorporated in their internal policies. Any weaknesses to which attention was drawn in the implementation of the guidelines involved failure to take into account all loans secured on the dwelling, including public start-up mortgages ranking behind bank mortgages, when calculating loan-to-value ratios. Attention was also drawn to poor compliance with prudential criteria established by the board of directors for dealing with anomalous mortgage applications.

Analysis of small banks' business portfolios

In 2013 Finanstilsynet carried out an analysis of small banks' business portfolios using the SEBRA ("system for EDP-based financial statement analysis") model. A total of 97 banks submitted data on their (up to) 40 largest loan exposures in excess of NOK 1 million. Altogether 2,075 borrowers (limited companies), accounting for loans and guarantees worth a total of NOK 36.1 billion, were analysed.

SEBRA calculated the average probability of default (PD) of the analysed banks at 1.7 per cent. This is well above the average produced by the corresponding analysis of the 18 largest banks subject to special risk assessment (1.22 per cent) and average PD for all Norwegian limited companies ("Norway portfolio") (1.2 per cent). Similarly an average high-risk proportion (PD above 3 per cent) of 13.7 per cent was computed for the analysed banks. This is also well above the corresponding average for the 18 largest banks (9 per cent) and the Norway portfolio (7 per cent).

At the analysed banks an average proportion of 19 per cent of borrowers (debt-weighted) had negative equity (2011 accounts). The corresponding average (debt-weighted) for all limited companies in Norway was 1.7 per cent, while the corresponding proportion for companies with total assets below NOK 50 million was 20 per cent.

The analysis indicates that about 60 of the banks in the analysis incur higher risk in their business portfolio than do the large banks.

Follow-up of equity trading at smaller savings banks

In autumn 2013, 95 small banks' equity trading was reviewed. According to a survey in 2012, trading in shares was substantial at about 20 small banks. This activity was substantially reduced in 2013, with only three of these banks still engaged in equity trading on a frequent basis. Finanstilsynet wrote anew to the banks concerned requesting that their management boards be informed of the said activity. The three banks replied that their trading in shares would be reduced or terminated.

Accounts meetings

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

BANKING UNION

The European Union is in the process of establishing a banking union for the euro area and for other EU member countries who wish to join the banking union. In addition to common legislation, the banking union will comprise a common supervisory body, a common crisis management mechanism and, in time, possibly a common deposit guarantee scheme. In autumn 2013 the European Council and European Parliament adopted a Regulation on a common banking supervisor, the Single Supervisory Mechanism (SMM). The European Central Bank will directly supervise significant credit institutions and will work closely with national competent authorities to supervise all other credit institutions. The SMM is scheduled to enter into force in autumn 2014.

In summer 2013 the European Commission put forward a proposal for a joint crisis management mechanism, the Single Resolution Mechanism (SRM). The proposal is for a joint banking crisis fund to be built up over time and funded by the industry itself. The proposal also entails a joint crisis management authority with power to adopt the liquidation of banks under the provisions of the forthcoming Crisis Management Directive, described on page 38. The ECON Committee of the European Parliament issued its report on 17 December 2013, and member countries reached a political agreement on 18 December. The European Commission aims to reach agreement at trilogue talks in the course of spring 2014.

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 what in EU parlance is termed 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 2013 Finanstilsynet held meetings with Handelsbanken, Skandiabanken and Danske Bank.

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 2013 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 nine supervisory colleges for foreign banks operating in Norway.

Consumer protection/information

The EBA published in 2013 two Opinions on good practices for responsible mortgage lending and treatment of borrowers in payment difficulties. Both statements addressed supervisory authorities in the EU-EEA countries. Their aim is to establish a common approach to such problems among member countries. The good practices on responsible mortgage lending are based on the Principles for Sound Residential Mortgage Underwriting Practices identified by the Financial Stability Board (FSB). FSB meetings are attended by all G20 countries and the EU Commission. The EBA Opinions' overarching aim is to bring about improved consumer protection and a well-functioning financial system.

Finanstilsynet will have a close eye to the content of the above recommendations in its practice and enforcement of Norwegian rules in this sphere.

SYSTEMICALLY IMPORTANT INSTITUTIONS

An institution is systemically important if problems at that institution could have substantial negative consequences for the financial system and the real economy. The regulation of systemically important institutions aims to reduce the risk of problems at such institutions, and to reduce the ripple effects if problems arise.

The Basel Committee has drawn up a framework for identifying global systemically important banks. They are subject to a buffer over and above the ordinary capital adequacy requirements. The buffer must be between 1 and 3.5 per cent, and consist of common equity tier 1 capital. The buffer requirement is to be introduced in parallel with the other buffer requirements, as from 1 January 2016 with full effect from 1 January 2019. Twenty-eight banks are currently defined as global systemically important banks. The list contains no Norwegian banks, but the Nordea Bank group is included. The Basel Committee has also drawn up a supplementary framework for domestic systemically important banks which is designed to lessen the likelihood and consequences of problems at, or closure of, banks at the national level. The regulation of systemically important banks in the European Union builds largely on the Basel Committee's recommendations. CRD IV requires systemically important institutions to be identified against the background of at least one of the following criteria: size, economic significance for the European Union or the member country, significance for cross-border activities and/or interlinks with other financial institutions.

The buffer requirement for systemically important institutions will according to the statutory requirements be 1 per cent as from 1 July 2015, rising to 2 per cent on 1 July 2016. Finanstilsynet has assessed criteria for identifying systemically important financial institutions and investment firms, and special requirements as to capital adequacy and business rules for such institutions and firms. A consultation document and draft regulations were forwarded to the Ministry of Finance on November, and are undergoing a consultation round until 10 February 2014. The introduction is proposed of various quantitative criteria for identifying systemically important institutions whereby institutions that meet one or more of the criteria are at the outset defined as systemically important.

Weaknesses of quantitative criteria prompt a need for discretionary assessments. Finanstilsynet therefore recommends that it should be possible, with a basis in qualitative assessments, to add institutions to, or remove them from, the sample. Using the proposed identification method, Finanstilsynet has identified seven banks as systemically important institutions based on figures as of 31 December 2012.

In addition to the requirement of an extra capital buffer, Finanstilsynet proposes that systemically important institutions should draw up recovery plans in the course of 2014. It also recommends requiring systemically important institutions to meet the quantitative minimum liquidity coverage ratio (LCR) in full from 1 July 2015, subject to the EU's final wording of the requirement. For the time being Finanstilsynet recommends the additional imposition of a minimum level of 110 for liquidity indicator 1. Finanstilsynet also recommends the establishment of a formalised annual self-evaluation to assure due competence of the management boards of these institutions. Further measures for systemically important institutions will be considered in light of international practices, after implementation of CRD IV and the Crisis Management Directive.

LICENSING

Licence applications

Banks

- Finanstilsynet recommended the Ministry of Finance to authorise Komplett Bank ASA to operate as a commercial bank. The ministry also gave Komplett AS permission to own up to 20 per cent of the shares of the bank. Authorisation was granted subject to further conditions.
- Finanstilsynet recommended the Ministry of Finance to give permission for the merger of Sparebanken Pluss and Sparebanken Sør, with Sparebanken Pluss as the acquiring bank. The merger was effective from 2 January 2014.
- Finanstilsynet recommended the Ministry of Finance to give permission for the merger of Nes Prestegjelds Sparebank and Hol Sparebank with the former as the acquiring bank. The merger was approved by the ministry in June 2013.
- Finanstilsynet recommended the Ministry of Finance to grant Safe Deposit Bank of Norway AS a commercial bank licence and Safe Deposit Holding ASA a licence as parent company in a financial services group. The bank's business model is to accept deposits and place the funds in Norges Bank.
- Finanstilsynet recommended the Ministry of Finance to authorise OBOS-banken AS to carry on commercial bank business. This entity's former licence as a finance company was to be retained for up to one year after fulfilment of all licence conditions. All savings and lending business was transferred to OBOS-banken AS, and the new licence was taken into use.

Finance companies

- Finanstilsynet authorised the establishment of the finance company Vestbo Finans AS. The company offers advance payment of invoiced maintenance fees and protection against loss. Vestbo Finans AS is wholly owned by Vestlandske Boligbyggelag.
- Finanstilsynet authorised Hypo Næringskreditt AS to operate as a mortgage company subject to terms and conditions that must be met before the authorisation can be taken into use.
- Finanstilsynet granted Tavex a finance company licence. The licence is limited to foreign exchange activity.
- Finanstilsynet granted Ria Financial Services Norway AS a finance company licence. The licence is limited to foreign exchange activity.
- SpareBank 1 Kredittkort AS was authorised to carry on business as a finance company.

Electronic money institutions and payment institutions

In 2013 Finanstilsynet received 18 applications for authorisation to carry on business as a payment institution. Sixteen of these were applications for limited authorisation to engage in money transfers. Two entities received limited authorisation to engage in money transfers. Eleven applications were refused, two were withdrawn, while three are being processed. Finanstilsynet received ten applications for renewal of limited authorisation to engage in money transfers from the entities that received time-limited authorisation in 2011. Three of these applications were granted, and seven are being processed. In 2013 one payment institution's authorisation was revoked due to non-compliance with reporting obligations and the obligation to appoint an auditor.

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, subject to Finanstilsynet's permission. Requirements for the use of such models are set out in the capital requirements regulations. In 2013 Finanstilsynet processed applications to change models or to extend existing use of IRB from DNB, Nordea Bank Norway, Sparebanken Vest, SpareBank 1 SR-Bank, SpareBank 1 SMN, SpareBank 1 Nord-Norge, Bank 1 Oslo Akershus and Sparebanken Hedmark and first-time applications from BN Bank, Sparebanken Møre, Storebrand Bank and SG Finans.

REGULATORY DEVELOPMENT

New capital adequacy and liquidity requirements – CRD IV

In July 2011 the European Commission presented a proposal for a new regulatory framework for credit institutions and investment firms, CRD IV. The framework builds on the Basel Committee's recommendations for new capital and liquidity standards adopted in December 2010, Basel III. While CRD IV is drawn up as a fully harmonised framework, national leeway is provided for in some spheres to assure adequate regulation at the macro level.

Norwegian law provisions on the capital and buffer requirements of CRD IV were adopted by the Storting on 10 June 2013 as the initial phase of adjustment to CRD IV and given effect as from 1 July 2013. The law sets a minimum Common Equity Tier 1 (CET1) ratio of 4.5 per cent, a minimum tier 1 ratio of 6 per cent and a capital adequacy ratio of 8 per cent. In addition to the minimum requirements, institutions must have capital buffers consisting of CET1 capital.

A capital conservation buffer of 2.5 per cent has been required since 1 July 2013. The systemic risk buffer is being introduced step by step, initially 2 per cent as from 1 July 2013 rising to 3 per cent as from 1 July 2014. The law allows for the buffer to be set at a higher or lower level. The buffer for systemically important banks will be 1 per cent as from 1 July 2015 and 2 per cent as from 1 July 2016. The Ministry of Finance has established that the countercyclical capital buffer is to be 1 per cent as from 30 June 2015. Under the transitional arrangements the requirement of a CET1 ratio of 9 per cent will continue until 30 June 2014. At that point the requirement rises to 10 per cent, and further to 11 per cent as from 1 July 2015 (the sum of the minimum 4.5 per cent requirement + a 2.5 per cent conservation

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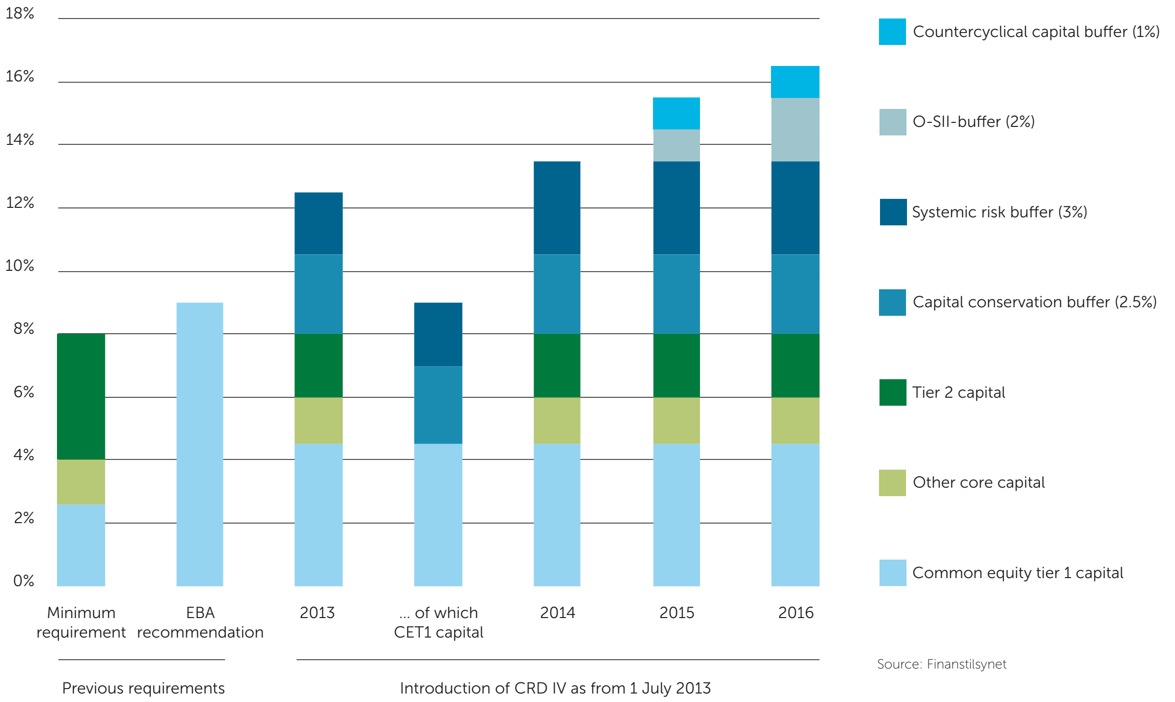
buffer + a 3 per cent systemic risk buffer + a 1 per cent countercyclical capital buffer from 1 July 2015 onwards). Banks identified as systemically important will also be subject to an additional buffer requirement. In the preparatory works to amendments to the Financial Institutions Act and the Securities Trading Act (Proposition 96L (2012-2013), the Ministry of Finance plans until further notice to exempt all investment firms from the requirement of a capital conservation buffer, countercyclical buffer and systemic risk buffer.

CRD IV has thus far not been incorporated into the EEA agreement. Finanstilsynet, on commission from the Ministry of Finance, has framed Norwegian rules which, insofar as appropriate, correspond to the CRD IV framework. Finanstilsynet's consultation document has been sent to the Ministry of Finance.

CHART 4: TRANSITION TO NEW CAPITAL REQUIREMENTS



Source: Finanstilsynet

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

The US Congress passed the Foreign Account Tax Compliance Act (FATCA) into law in March 2010. The act requires foreign institutions to report to the US tax authorities persons who tax to the United States and are customers of Norwegian financial institutions. Norway has formalised an agreement with the US to facilitate Norwegian institutions' reporting obligation.

Under the agreement, institutions subject to disclosure requirements such as banks, intermediaries, managers, mutual funds, life insurers etc., can report information to US tax authorities via Norwegian tax authorities in compliance with Norwegian rules. Institutions are thus not required to relate directly to US rules and US tax authorities. Norwegian tax authorities are obliged to exchange information automatically with the US. In return, the agreement obliges US tax authorities to exchange account details of persons residing in Norway to Norwegian tax authorities.

Amendments proposed to the Tax Assessment Act to implement the FATCA were circulated for comment by the Ministry of Finance in April 2013. The Tax Administration is in the process of drawing up a consultation document for regulations. Finanstilsynet has contributed to this process.

EU Commission's proposal for a new crisis management directive

The European Commission presented on 6 June 2012 a draft directive on crisis management at banks and financial institutions. In summer 2013 the EU finance ministers reached agreement on a proposal for a "loss hierarchy" entailing that shareholders, bondholders and depositors will have to take losses (bail-in) before the government possibly injects bail-out funds. The Directive proposal was considered by the European Council on 4 June 2013 and the European Parliament on 27 June 2013. Trilogue talks took place in December 2013, and the Directive is expected to enter into force on 1 January 2015.

Tighter risk weights on home mortgage loans

Average risk weights on home loans granted by Norwegian banks that use internal risk models stood at 7–13 per cent at the end of 2013. Because the Basel I floor is in effect for almost all IRB banks, even a considerably higher risk weighting will have limited impact on the capital charge. The Basel I floor means that the capital tie-up for new mortgages is just as large as it would have been with a 40 per cent risk weight, i.e. 80 per cent of the Basel I weighting of 50 per cent. The floor add-on applies to all risk-weighted assets and cannot be assigned to the various exposure types for conversion to an "effective risk weight" for mortgages. If mortgage weights rise, the floor add-on will be reduced, and will disappear at a certain level. This level depends inter alia on entity weightings and the proportion of home mortgage loans in the portfolio. At a risk weight of 20–25 per cent for home loans, the floor will no longer have any effect for the majority of IRB banks, but for some banks with low entity weightings or a large element of home mortgage loans the floor will remain in effect at a 35 per cent risk weight.

The capital requirements regulations were amended with effect from 1 January 2014 to raise the lower threshold for the LGD (loss given default) parameter from 10 per cent to 20 per cent. The requirement applies to all loans secured on residential property in Norway. The raised threshold will bring a doubling of risk weights for banks that were close to the earlier threshold and a slightly smaller increase for others.

COUNTERCYCLICAL CAPITAL BUFFER

Regulations on countercyclical capital buffers were adopted on 4 October 2013. The regulations require Norges Bank each quarter to prepare a basis for determining the level of the countercyclical capital buffer. To this end Norges Bank and Finanstilsynet exchange relevant information and assessments. Four times yearly Norges Bank, by the end of each quarter at the latest, advises the Ministry of Finance on the level of the buffer. The first time it did so was in the fourth quarter 2013. Finanstilsynet concurrently provided its own assessment of the buffer in a letter to the ministry.

The Ministry of Finance determines the level of the buffer, which must consist of common equity tier 1 capital. The buffer should as a rule be between 0 and 2.5 per cent. On 12 December 2013 the Ministry set the level at 1 per cent, to become effective on 30 June 2015. The decision on buffer level is taken on a quarterly basis, and is revised in steps of one or more times 0.25 percentage points. The banks should normally adapt their business to a new buffer requirement within 12 months of the decision being taken. A decision to reduce the level can take effect immediately. The advice given by Norges Bank is barred from the public domain until the Ministry of Finance's decision is announced.

The countercyclical capital buffer is designed to make institutions more solid and robust to loan losses in a future downturn and to dampen the risk of banks intensifying a downturn by reducing their lending. The countercyclical buffer is one of a number of capital adequacy and prudential initiatives, and determination of this buffer must be viewed in conjunction with other capital and buffer requirements. An important indicator for the assessment of whether the buffer is to be brought into play (or increased), as also highlighted in the international rules, is the relationship between credit and GDP relative to the underlying trend in this ratio. A high credit volume relative to aggregate value creation may be a signal that imbalances are building up in the economy. Strengthening banks' financial position by introducing or increasing the countercyclical buffer in such a phase will render banks more robust in the event of an economic turnaround. Assessments of the countercyclical buffer should be based on an overall assessment of risk in the financial system and the banks' position. In Finanstilsynet's view, the buffer should not automatically be lowered in the event of reduced imbalances measured by indicators or in the event of a cyclical weakening. Equally, it should be possible to increase the buffer based on an overall risk assessment, not just when called for by indicator trends.

In Finanstilsynet's view, banks must under normal conditions maintain capital adequacy ratios in excess of the regulatory requirements, including buffer requirements. Further, the Authority's assessments of the overall capital need of each individual bank under Pillar II may call for some banks, or groups of banks, to hold capital and buffers in excess of requirements under Pillar I.

By tightening the risk weights for home mortgage loans, Norwegian authorities are making use of the leeway granted by CRD IV to institute specific measures to dampen risk in the housing market in particular, and systemic and macro risk in more general terms. The supervisory authorities are also responsible for assessing whether the safety margins are sufficient to cover uncertainties inherent in the historical data and the models. Should the supervisory authorities find significant flaws in the models or the use made of them, they are required to ensure that the flaws are rectified or to take steps to curb their consequences. The latter can be done by, for example, imposing more stringent capital adequacy requirements.

Deposit guarantee scheme

The European Commission presented on 12 July 2010 a Deposit Guarantee Schemes Directive in draft form. The European Council presented a revised proposal on 10 February 2012, while the European Parliament put forward its proposal on 29 February 2012. Trilogue negotiations were completed at the end of 2013, and the Directive, containing a harmonised coverage level of EUR 100,000, is expected to enter into force in 2014. In Norway several aspects of the proposed directive have already been included in legislation, including an amendment to the Guarantee Schemes Act as from 1 January 2013 to cut the payout period from three months to five working days. A transitional period of five years for the Norwegian coverage level of NOK 2 million is included in the proposal.

Proposal for new Payment Services Directive

A new Payment Services Directive drafted by the European Commission is under consideration by the European Council and the European Parliament. The Directive aims to promote securer payment solutions and to increase consumers' freedom of choice and protection as well as reduce the costs of using payment services. It proposes to tighten consumer liability in one area. Where losses are due to gross negligence in the use made of electronic payment instruments, the customer's liability is currently limited to NOK 12,000. This limit is removed in the draft new Directive.

USE OF MODELS AT FINANSTILSYNET

Macroeconomic model (Macro Model)

In 2013 Finanstilsynet started development of a new macroeconomic model for use when stress testing banks. It will be linked together with the SEBRA model and the Bank Model. The model builds on the macro model NAM (Norwegian Aggregate Model), developed by Ragnar Nymoen of the University of Oslo and Gunnar Bårdsen of the Norwegian University of Science and Technology (NTNU). NAM is a small equilibrium correction model of the Norwegian economy, estimated on quarterly data. The new model will be extended to include a finance block for analyses of financial stability.

Model for analysis of credit risk at non-financial firms (the SEBRA model)

Finanstilsynet has for many years used the SEBRA model ("system for EDP-based financial statement analysis") as a tool for analysing credit risk at non-financial firms. The SEBRA model predicts the likelihood of failure of Norwegian non-financial limited companies. Using a transformation process, failure probabilities are converted to probability of default one year ahead. The explanatory variables used by the model are key figures computed on the basis of information from the firms' annual financial statements along with the firms' industry affiliation and age. The explanatory variables in the model are based on a well-established business-economic theory. The firms' debt servicing capacity and book equity ratio are included as key explanatory variables. Use is made of empirical correlations between central key figures in the annual financial statements and a variety of macroeconomic aggregates.

The SEBRA model supplements Finanstilsynet's monitoring of banks' credit risk. The largest banks send each year details of their corporate portfolios to Finanstilsynet. Each borrower in the bank's portfolios is measured against SEBRA model's estimates. This enables Finanstilsynet to perform analyses of the credit risk posed by the particular bank's loans to the corporate market. The SEBRA model is also used in Finanstilsynet's analyses of the overall credit risk attending non-financial firms, which are important for analyses of financial stability. The SEBRA model is also an important part of the Bank Model.

Model for projecting and stress testing banks' results and capital adequacy (Bank Model)

In 2013 Finanstilsynet developed a model to project and stress test banks' results and capital adequacy (the Bank Model). The Bank Model starts out from all Norwegian banks' and mortgage companies' income statements, balance sheets and capital adequacy figures for the latest financial year. The historical figures are linked to a reference path and various stress paths for the coming five years with the aid of the Macro Model and the SEBRA Model. The individual bank's overall result for the year and capital adequacy are projected on a reference path and various stress paths using information from the respective models along with other assumptions.

The results from the stress tests of the banks are used as one of many information bases in Finanstilsynet's risk-based on-site inspections and in Finanstilsynet's macro surveillance and analyses of financial stability.

INSURANCE AND PENSIONS

Insurance companies and pension funds are key actors in the financial markets due to their substantial investment of capital under management. Market developments thus have a major influence on institutions' performance. Regulation and supervision of the insurance and pension sector are important in safeguarding customers' 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.

DEVELOPMENTS

International interest rates have been very low since the financial crisis in 2008, and are expected to remain low for a long time. This also brings very low Norwegian rates, which pose a significant challenge to insurers and pension funds since a number of insurance products come with interest guarantees. A sound financial position is important for pension institutions in particular to have the capacity needed to invest in securities providing satisfactory return over time, and at the same time withstand the risk attending their investments. While pension institutions are compliant with the current capital adequacy requirements, several face a stern challenge meeting capital requirements under the new Solvency II regime.

The capital adequacy challenge posed by the Solvency II regime is prompting a growing transition from defined-benefit to defined-contribution schemes in the pensions sphere. In defined-contribution plans the policyholder bears the risk posed by the investment. Plans with a high equity component may provide high long-term return, but are also riskier. This heightens the need for policyholders to be informed about expected rate of return, risk, the connection between equity component, risk and age, and management costs. Impartial advice based on the policyholder's income and wealth position in general and years remaining to retirement, acquires greater importance. This is also true when the opportunity is given to convert existing paid-up policies to new unit-linked pension agreements.

The introduction of new mortality tariffs based on the population's increased longevity poses a further challenge to pension institutions. New tariffs in force from 2014 are compelling pension institutions to increase their technical provisions.

SUPERVISION AND MONITORING

Monitoring and analyses

Monitoring and analyses of developments in the economy and markets 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 in the financial sector and of various risks faced by Norwegian financial institutions in light of developments in the economy and markets were published in the spring 2013 report *Risk Outlook: The Financial Market in Norway* and the autumn 2013 report *Financial Market Trends*.

Reporting

The reports filed by institutions are 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 at 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. A purpose of the stress tests is to analyse the impact of the forthcoming capital adequacy regime, Solvency II, on insurers. The stress tests are also a key tool of the ongoing supervision of insurers' risk and financial position. The stress test scenarios cover all aspects of insurers' activity and include market risk, insurance risk, counterparty risk and operational risk.

Since the end of 2012, all pension funds have reported stress tests semi-annually in line with insurers.

Preparations for reporting under Solvency II are under way. This includes setting the stage for early reporting in 2015.

FACTS

At the end of 2013 12 life insurers, 59 non-life insurers (including 15 fire insurers) and 11 marine insurance associations were licensed to operate in Norway. A further 15 branches of Norwegian insurers were operating abroad and 34 branches of foreign insurers in Norway. Moreover, 97 insurance intermediaries, 51 private pension funds and 33 municipal pension funds held a licence at year-end.

Financial strength and profitability of Norwegian insurers and pension funds

Since a large proportion of life insurers' and pension funds' managed assets are invested in securities markets, developments in these markets are of great significance to their profits and financial strength. Life insurers and pension funds are dependent on sufficient return on policyholder assets to secure the annual interest guarantee attached to large portions of their insurance obligations. The international equity market climbed steeply in 2013, accompanied by a substantial upturn on Oslo Børs. Long government bond rates rose in the US, Germany and Norway alike.

The equity market upturn helped to strengthen life insurers' buffer capital in 2013. Stress tests that measure risk in life insurance companies under Solvency II show nonetheless that a number of life insurers need to reduce risk and/or be supplied with capital in order to meet the capital requirements under the new regulatory regime. Life insurers also face challenges posed by rising life expectancy in the population, and are expected to devote much of the policyholder surplus achieved in 2013 to provisioning for this.

Pension funds have a higher equity share than life insurers. Over time this has resulted in wide fluctuations in return. The equity market upturn in 2012 and 2013 brought higher return for pension funds than in 2011 when the market trend was negative and pension funds' rate of return low. The equity market upturn contributed to higher revaluation reserves and strengthened buffer capital in 2013. Pension funds are also expected to devote much of any surplus return achieved in 2013 to provisioning for rising life expectancy.

Non-life insurers performed less well in 2013 than in 2012 due to declining financial revenue. Their technical result showed some improvement. Higher growth in premium revenue than in claim payment expenses helped to improve the claims ratio, and also the combined ratio, compared with the same period of 2012. Buffer capital increased somewhat in 2013. Non-life insurers are generally well capitalised, and appear to be broadly well equipped to withstand the capital requirements under Solvency II.

On-site inspection

Life insurers

Only one on-site inspection was conducted at life insurers in 2013. This must be seen in light of the five inspections that were conducted in 2012 and the fact that other supervisory follow up was given priority. Some life insurers were closely monitored over the year.

Pension undertakings

Inspections were conducted at five pension funds in 2013. The reports pointed in particular the importance of ensuring that management boards possess adequate overall competence; see the requirements on suitability testing procedures and the requirement for the board of directors to evaluate its work and its competence annually.

Non-life insurers

Inspections were conducted at three non-life insurers and one fire insurer in 2013. One company that was a relatively recent start-up, was expanding rapidly and was instructed to increase its equity capital.

The remaining inspections, which addressed management and control, covered preparations for the new capital adequacy framework, Solvency II.

Insurance intermediaries

On-site inspections were conducted at five insurance intermediaries in 2013. As in 2012, risk management and internal control were a key theme. Inspectors' view of these entities' compliance with the risk management regulations was summed up in identically worded letters in June 2013.

Consumer protection and information

Documentation and voice recording obligation

In a move to strengthen consumer protection, Finanstilsynet proposed that investment firms', banks' and insurance companies' obligation to document their advice regarding, and sales of, alternative savings products, should also apply to their advice regarding, and sales of, financial instruments. Alternative savings products are primarily defined contribution products and unit-linked products. In the insurance area a documentation requirement is proposed for insurers, insurance intermediaries and agents when

giving advice on and selling alternative savings products. An obligation to record telephone calls made when advising on and selling such products is also proposed for insurers and insurance intermediaries.

Finance portal

Finanstilsynet wrote to 26 insurers about their non-compliance with the obligation to disclose information to *Finansportalen* (the Finance Portal) on non-life insurances providing accident and illness cover. According to regulations on insurers' obligation to provide information about their financial services, insurers that offer standardised products and product combinations as mentioned in the regulations must keep product information available for the Finance Portal. The question of making available to the Finance Portal information on the collective insurance policies and non-life insurance policies of members of various organisations was also taken up with some insurers.

Guidelines for insurers' handling of complaints

In circular 4/2013 Finanstilsynet stated that EIOPA's guidelines on internal complaints handling by insurers should be adopted by Norwegian insurers. Insurers must have in place a procedure for handling complaints, and insurance customers must be given clear, updated information on this procedure – how a complaint is to be submitted, the information the complainant is required to provide and contact details of the person or department at the insurer to which the complaint is to be sent. The complainant must also be given information about complaint processing time, about the Norwegian Financial Services Complaints Board and about any other means to have the complaint heard outside the law courts. The complainant must be kept informed of the further handling of the complaint. The insurer must reply to the complainant without undue delay to explain its decision. The decision must be in writing. The guidelines will strengthen consumer protection, and assure insurers' customers better information and predictability in a complaint process.

Accounts meetings

Finanstilsynet holds semi-annual meetings with the management teams of the largest insurers. At these meetings the insurers present their latest financial results and developments in key risk factors. In addition, updates are given on the markets in which the insurers operate, on organisational matters and on strategic issues at the individual insurer.

Supervisory cooperation

The supervision of large insurance companies operating in two or more countries through subsidiaries or large branches is coordinated through supervisory colleges in which the various countries' supervisory authorities are represented. Finanstilsynet heads the supervisory college for Gjensidige Forsikring ASA, Storebrand ASA and Assuranseforeningen Gard. No meetings were held by these colleges in 2013, but there was continuous contact between them on topical issues, including the process for approving internal models to compute capital requirements under Solvency II.

Finanstilsynet participates in supervisory colleges for the following foreign non-life insurers operating in Norway: Tryg A/S and Alpha Forsikring A/S, Denmark and If, Sweden.

Implementation of recommendations from EIOPA

The European Insurance and Occupational Pensions Authority (EIOPA) has published final guidelines for the preparation of Solvency II which permit parts of the framework to be applied as from 2014. These include requirements on insurers' risk management and internal control in the form of an "own risk and solvency assessment" (ORSA), the requirement of preapplication for internal models and reporting requirements. Finanstilsynet will follow EIOPA's recommendations regarding preparation for Solvency II.

LICENSING

Licence applications

Borettslagenes Sikringsordning AS was in 2011 authorised to establish a non-life insurance company to offer protection against loss of maintenance payments at housing cooperatives. All conditions for establishment were met in January 2013, and the company started trading under the licence.

Ly Forsikring AS was in 2012 authorised to establish a non-life insurance company. In August 2013 Ly Forsikring met all the conditions set, and started trading.

In November 2013 Finanstilsynet authorised Pensjonskassen for helseforetakene i hovedstadsområdet (a new pension fund serving health trusts in the Oslo district) to operate as a pension fund.

In September 2013 Finanstilsynet authorised SAGA Skadeforsikring to engage in non-life insurance business.

In 2013 Finanstilsynet authorised the insurers Frende Skadeforsikring AS and Knif Trygghet Forsikring AS to offer life insurances in the form of pure risk insurances of a maximum of one year's duration and reinsurances with regard to life insurance.

In 2013 Finanstilsynet authorised eleven pension funds to extend their business to continuation insurance and paid-up policies.

Nine insurance intermediaries (three insurance and reinsurance intermediaries and six insurance agents) were awarded licences in 2013. Several Norwegian insurance intermediaries applied for permission to set up branches abroad in 2013. Notifications of cross-border activities into Norway from other EEA states were also processed.

Maximum guaranteed rate of return 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 3.0 per cent to 2.5 per cent for new life insurance contracts. For collective annuity and pension insurances, the maximum permitted interest rate for accrual after 1 January 2012 is 2.5 per cent.

On 26 April 2013 Finanstilsynet circulated for comment a proposal to reduce the maximum permitted interest rate from 2.5 to 2.0 per cent for new life insurance contracts and new pension accrual for collective annuity and pension insurances as from 1 January 2014. Finanstilsynet's decision to reduce the above rate in keeping with the consultation document's recommendation was submitted to the Ministry of Finance. The ministry decided to keep the maximum permitted interest rate unchanged at 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 2013.

REGULATORY DEVELOPMENT

K2013 – NEW MORTALITY TABLES FOR LIFE INSURERS AND PENSION FUNDS

The Insurance Activity Act requires technical provisions to be sufficient to cover existing insurance obligations at all times and action to be taken where provisions are not sufficient. In light of recent years' rise in longevity in the Norwegian population, Finanstilsynet wrote to Finance Norway on 28 September 2010 advising a review of the mortality assumptions underlying collective pension insurance. Finanstilsynet received Finance Norway's final proposal for a new mortality base on 1 November 2012.

Based on Finance Norway's proposal and its own calculations, Finanstilsynet established a new mortality base table (K2013) which was communicated to pension institutions by letter of 8 March 2013. The new mortality base will apply from 1 January 2014 onwards. K2013 states a minimum requirement that Finanstilsynet imposes on insurers' mortality base.

In contrast to the K2005 mortality base table, the new table is dynamic. This means that mortality is assumed to decline in all calendar years in the insurance period. A dynamic mortality function builds on an initial rate and a projection. K2013 employs actual mortality figures for the period 2005–2009 as its initial rate and a projected rate for the period to 2013.

Finanstilsynet's requirements necessitate an increase of NOK 64–68bn in pension institutions' technical provisions, breaking down to NOK 46–48bn for life insurers and NOK 18–20bn for pension funds. Figures from the companies show that an increase of 10–11 per cent will be needed for private pension schemes offering both retirement and survivor's pension, and about half that figure for the public sector.

As a general rule pension institutions must at all times have technical provisions sufficient to cover future obligations. There is a substantial need for increased technical provisions upon introduction of a new mortality tariff, and it is assumed that many pension institutions will need to apply for permission for step-up plans under the derogation clause of section 9–25 of the Insurance Activity Act. Such step-up plans will apply as from the start of 2014.

As a general rule pension institutions are responsible for ensuring that provisions are sufficient at all times. However, section 9–11 of the Insurance Activity Act permits all or part of the surplus for the year to be employed for necessary strengthening of provisions. Use of policyholder surplus requires the consent of, or the issue of an order by, Finanstilsynet. Finanstilsynet states that at least 20 per cent of the need for increased technical provisions must be met out of the pension institutions' own funds.

UNIT-LINKED PAID-UP POLICIES

Based on the Bank Law Commission's proposal, new rules were adopted in the Act on defined benefit pensions on 14 December 2012 to allow paid-up policyholders to convert their paid-up policies to unit-linked pension agreements. The insurer is required to provide information and advice to the paid-up policyholder before a unit-linked agreement is signed.

The amendments were put on hold pending preparation of supplementary regulations and clarification of the position regarding new mortality tariffs. Draft supplementary regulations from Finanstilsynet on information to paid-up policyholders and a proposal requiring full increase of technical provisions prior to conversion to unit-linked pension agreements have been circulated for comment by the Ministry of Finance.

Solvency II – the new European solvency framework for insurers

The European Commission's proposal for a new directive incorporating risk-based solvency rules for insurers (the Solvency II Directive) was adopted in 2009. Towards the end of 2013, after protracted negotiations, agreement was reached on amendments to the Solvency II Directive through the Omnibus II Directive. Solvency II will accordingly become effective on 1 January 2016.

In the first half of 2013 impact studies were made of a number of central proposals related to long-term guarantees, mainly covering adjustments to the yield curve used to discount liabilities with a view to reducing the fluctuations in insurers' capital and capital charges. EIOPA published in June 2013 a report on the results of the calculations together with recommendations regarding the various elements tested. The report has constituted a key basis for the ensuing negotiations on and final adoption of Omnibus II.

The Solvency II Directive does not cover pension funds. Work is ongoing at EU level with a view to arriving at harmonised solvency rules for pension funds; see the next section below on the new Directive on institutions for occupational retirement provision.

New Directive on institutions for occupational retirement provision

Preparations are under way in the EU for revision of the Directive on institutions for occupational retirement provision (2003/41/EC). The Directive applies to pension institutions whose business is confined to occupational retirement provision in employment relationships and sets requirements for pension institutions' organisation, scale, asset management and capital requirements. When the Solvency II Directive was being considered it was decided that the European Commission, in consultation with EIOPA, should draw up new, expanded solvency rules for European occupational pension institutions to replace the

PROPOSED NEW LEGISLATION ON OCCUPATIONAL PENSION INSURANCE

The Ministry of Finance tabled on 4 October 2013 a bill concerning a new tax-favoured collective retirement pension product for the private sector. The proposal was based on a report from the Bank Law Commission and on Finanstilsynet's consultation document of January 2013, as well as feedback during the consultation round. The bill was passed into law by the Storting in December, and entered into force on 1 January 2014.

The new product will be an alternative to today's defined-benefit and defined-contribution plans. Up to the present, companies intending to establish a pension plan have had to choose either a defined-contribution plan or a defined-benefit plan. The new act brings a third alternative – a hybrid product.

During the accumulation period the employer must build up the plan members' pension assets by annually contributing a percentage of salary. The maximum contribution rates are 7 per cent of salary between 0G and 12G, with an optional additional contribution of up to 18.1 per cent of salary between 7.1G and 12G, i.e. a maximum of 25.1 per cent of salary between 7.1G and 12G. The employer can opt to guarantee an annual growth of pension assets in line with salary growth at the enterprise. If the employer does not guarantee such adjustment, the return that is achieved will be added to the pension assets. The pension institution must guarantee that pension assets' nominal value will not fall. The sum total of annual contributions, return on or guaranteed adjustment of the assets, and capital freed-up when other members decease, i.e. the actual mortality transfer, constitute the employee's pension assets.

The act makes clear that the annual pension disbursement will continue to be gender neutral. Hence a larger contribution will be paid for women than men. This is in keeping with the proposals presented in Finanstilsynet's consultation paper of January 2013, and accords with applicable rules.

Members can opt to draw annual retirement pension payments from age 62 or later. The pension assets at the withdrawal date are used to buy a lifelong or time-limited retirement pension benefit. Time-limited retirement pension benefits last for a minimum of ten years and at least to the age of 80. The annual pension benefit to the member is regulated by the return achieved on the pension assets. The employer can also in the decumulation period opt to guarantee adjustment of pension benefits in the same way as retirement pension benefits under the National Insurance Fund Scheme are adjusted.

The Bank Law Commission proposed in NOU 2013: 3 *The pension laws and national insurance reform III* rules for conversion of existing defined benefit pension plans to new occupational plans. The rules in their draft version met much opposition in the consultation round, and in Ministry of Finance' assessment there was no basis for proceeding with a bill based on this draft.

existing occupational pensions directive. The new revised occupational pensions directive is designed to harmonise the rules governing occupational pension institutions across the EU, strengthen the single market and safeguard financial soundness. EIOPA sent its recommendation for new rules to the EU Commission in February 2012.

In 2012 and 2013 EIOPA conducted on behalf of the EU Commission an impact study to test the consequences for insurers of new solvency rules sharing features with Solvency II. From Norway the seven largest pension institutions participated, the same as in the case of impact studies for Solvency II. The results of the calculations were presented in a final report from EIOPA in July 2013.

The study revealed major differences between the various countries' pension systems and their organisation of pension schemes, and the national authorities have differing views on how the pension schemes should be secured. In light of this, but also partly because of the postponement of Solvency II, the EU Commission stated that it would await proposals for new quantitative solvency rules for occupational pension institutions (Pillar I). The EU Commission also stated that in the first instance a directive would be prepared dealing with management and control and with disclosure requirements (Pillar II and III). A draft directive is scheduled for presentation in March 2014.

Accounting rules for the insurance and pensions area

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

Based on a proposal from Finanstilsynet, the Ministry of Finance adopted some amendments to the annual accounts regulations for insurers and pension undertakings. The amendments will require unlisted insurers and pension funds to apply the rules governing recognition and measurement of pension obligations etc., in IFRS (IAS 19 *Benefits to Employees*) as from 2015. Further, certain other amendments are made as a result of changes in IFRS, mainly with effect from 2014. They relate to measurement of assets etc. at fair value and appurtenant note disclosure requirements, to information on transfer and set-off of financial instruments and statements of changes in equity capital. A requirement to publish annual financial statements on the internet from and including the financial year 2013 is also introduced.

THE SECURITIES AREA

Supervision of the securities area includes overseeing issuers' information to the market, securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

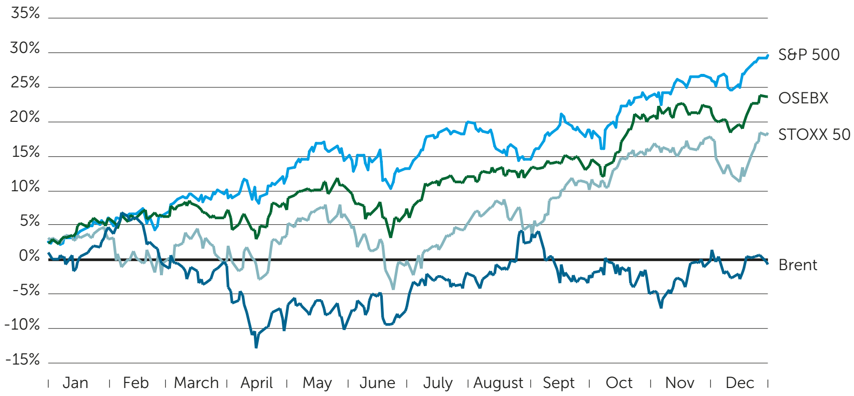
DEVELOPMENTS

The Norwegian stock market again set a new record in 2013. The Oslo Børs Benchmark Index, OSEBX, rose about 24 per cent, despite a flat oil price. The rise was in line with other stock indices such as the US's Standard & Poor's 500 index + 29 per cent, and the European STOXX 50 + 18 per cent.

Oslo Børs recorded a turnover of NOK 838bn in 2013 (including Oslo Axess). This was down 16 per cent from 2012, when turnover in all equity instruments totalled NOK 999bn.

As in 2012, Oslo Børs lost market shares to other European exchanges. Disregarding trading through dark pools, Oslo Børs held at the start of 2013 a share of close to 65 per cent of Europe's traditional order-book-driven stock market. By year-end this figure had fallen to 55 per cent. The trading technology provider Fidessa now ranks the OSEBX as the third most fragmented index in Europe. The proportion of transactions in dark pools and crossing networks continues to rise. These are unregulated, non-transparent marketplaces where major actors trade large blocks of securities without directly impacting the official market.

CHART 5: MOVEMENTS IN SELECTED INDICES IN 2013



Source: Finanstilsynet

The increasing fragmentation complicates market monitoring by making it more difficult to maintain an overview of orders and transactions. Stock exchanges' lower operating margins and reduced insight into the overall market may lead to reduced market monitoring.

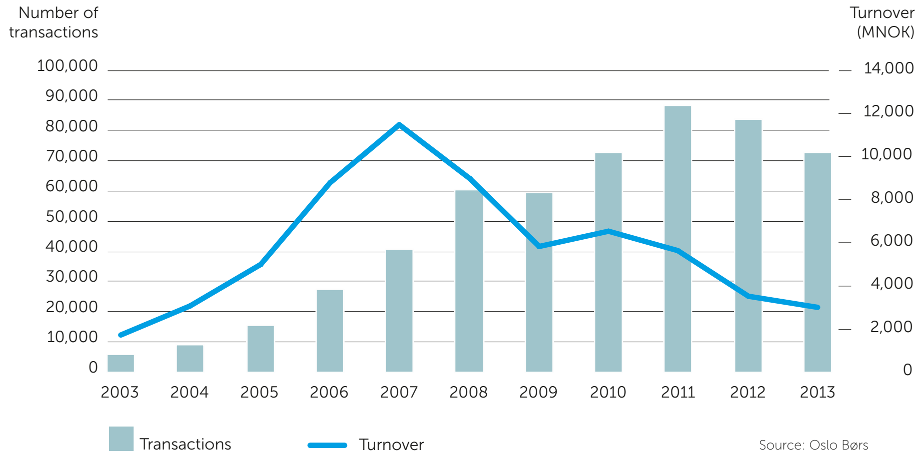
Computers and software have long been part and parcel of the trade in financial instruments, but are now more integrated than previously. This makes new demands of entities involved in such trading. Finanstilsynet's task is to ensure that supervised entities have in place secure solutions that make trading safe and efficient.

The number of new entrants rose in 2013, with eight new entrants to Oslo Børs and four to Oslo Axess, but the overall number of listed companies was reduced by ten. A total of NOK 10.5bn was raised through stock issues.

Trading in quoted derivatives on Oslo Børs rose by 8 per cent in 2013 to an overall contract volume worth NOK 11.7m.

Borrowing on the bond market rose steeply in 2013 and was an important contribution to entities' debt growth. Debt incurrence via the Norwegian bond market explains about 25 per cent of entities' overall debt raised in the period June 2012 to June 2013. Funding in the bond market still accounts for only a small portion of entities' overall debt and is primarily confined to large companies in the electricity supply, shipping and property sectors and the oil and gas sector.

CHART 6: DAILY TURNOVER AND NUMBER OF TRANSACTIONS



Source: Oslo Børs

Electricity market prices stabilised in 2013 at a higher level than in 2012, largely due to lower reservoir replenishment than in a normal year. Towards year-end this tendency reversed as a result of increased precipitation and lower electricity consumption. Turnover value at Nasdaq OMX Oslo ASA fell slightly, from EUR 34.5bn in 2012 to EUR 33.8bn in 2013. Salmon derivative prices remained high through 2013 compared with 2012, with prices in excess of NOK 50 per kilo towards year-end. Price fluctuations in this market were substantial through the year.

In the years immediately ahead important EU Directives in the securities area will be revised. Changes to the Transparency Directive, and a new Market Abuse Directive and Regulation, have already been adopted, while the new Investment Services Directive, MiFID II, is scheduled for adoption in the first half of 2014. In addition, new legislation is in force in the EU in previously unregulated areas, for example the Alternative Investment Fund Managers Directive (AIFMD) and the European Market Infrastructure Regulation (EMIR). All new Directives and Regulations in the securities area assign some powers to the European Securities and Markets Authority (ESMA). Regulatory development is complicated by the current absence of any solution to include in the EEA Agreement those Regulations that established the three European supervisory authorities for banking and the insurance and securities areas.

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

Finanstilsynet's on-site inspections aim to promote an informed attitude to risk among firms and the maintenance of 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. At the end of 2013 there were 150 investment firms in Norway, of which 21 were branches of foreign investment firms.

SUPERVISION AND MONITORING

On-site inspection

On-site inspections were conducted at nine investment firms in 2013. In addition, three inspections specifically targeted investment firms' ICT solutions. Firms' investment advice was a central theme of the on-site inspections. Finanstilsynet checked that the recommended investment services and financial instruments were appropriate to the clients and that the information firms had given their clients was balanced, correct and understandable. Finanstilsynet also checked the investment advice at firms' broker desks to check that the advice given on short-term trading was in keeping with the conduct of business rules.

Finanstilsynet also addressed investment firms' control function, in particular the organisation of this function and how the control effort was structured and arranged. A central theme of on-site inspections was the steps taken to limit potential interest conflicts.

On-site inspections at Atlas Securities AS and Aktiv Link Kapitalforvaltning AS in 2012 led to orders for the withdrawal of these entities' licences in 2013. In the case of Aktiv Link Kapitalforvaltning AS the main justification was extensive provision of active portfolio management services which the entity was not authorised to offer. The withdrawal of Atlas Securities AS' licence was grounded in serious, systematic breaches of key customer protection provisions, including their handling of interest conflicts and good business practices.

Finanstilsynet's observations in 2013 following on-site inspections at OX Norge AS and Oak Capital Group NUF (the branch of a foreign entity) in 2011 and 2012 respectively established that serious, systematic rule breaches had been committed. There was however no question of any response on the part of Finanstilsynet since OX Norge AS handed in its licences before observations were due, while Book Capital Group NUF was reported to have gone into liquidation before Finanstilsynet's comments were made.

The licences of Terra Markets AS and Acta Asset Management AS were revoked by Finanstilsynet in 2012 based on on-site inspections conducted in 2011. In the case of Terra Markets AS the main justification was extensive short-term investment advice. In the case of Acta Asset Management AS revocation was due to general recommendation to clients to shift investments to a new business concept resulting in very high costs to the clients. Both investment firms appealed the licence withdrawals to the Ministry of Finance, which on 11 October 2013 rejected the appeals and in all essentials concurred in Finanstilsynet's assessments.

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Thematic inspection of short trading

In 2012 Finanstilsynet reviewed the Norwegian Central Securities Depository's (VPS) transaction data for customers of small and medium investment firms to ascertain whether they engaged in systematic short-term customer trading. Following its review, Finanstilsynet conducted ordinary on-site inspections at three investment firms in December 2012. In the case of one of the firms the suspicion of such trading initiated by the firm was disproved, and Finanstilsynet's observations contained no criticism. In the case of another firm the initiation of such trading by the firm was confirmed. The observations after this inspection resulted in censure, but not revocation of the entity's licence. In the case of the third entity, similar trading initiated by the entity was confirmed. This inspection also brought to light other serious offences and the matter has yet to be finalised.

Thematic inspection of the NIBOR-fixing system

Finanstilsynet is reviewing the system for fixing the NIBOR (Norwegian Interbank Offered Rate), which covers Norwegian money market rates. In 2013 Finanstilsynet carried out on-site inspections at the six panel banks for NIBOR: DNB Bank ASA, Nordea Bank Norge ASA, Handelsbanken, Danske Bank, Skandinaviske Enskilda Banken AB and Swedbank Norge. Final observations after the on-site inspections will be ready early in 2014.

Market warnings

Finanstilsynet published 29 warnings on its website against firms that had provided financial services in Norway in 2013 without the requisite licence. A further 346 warnings given by foreign supervisory authorities were published. In very many cases the firms in question 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 Finansportalen.no.

Monitoring of firms' financial development

Finanstilsynet monitors investment firms' profitability and financial positions through their periodical reporting. The reporting also provides a picture of trends in income distribution and of the risk associated with the business.

Based on investment firms' and management companies' quarterly returns, Finanstilsynet publishes half-yearly press releases in which trends in these entities' business are presented and commented on. The clearest trend in 2013 was a strong increase in revenue from managing and investing bond issues. This brought steep growth in investment firms' profits in 2013, bringing their aggregate operating profit in 2013 to more than twice the 2012 figure.

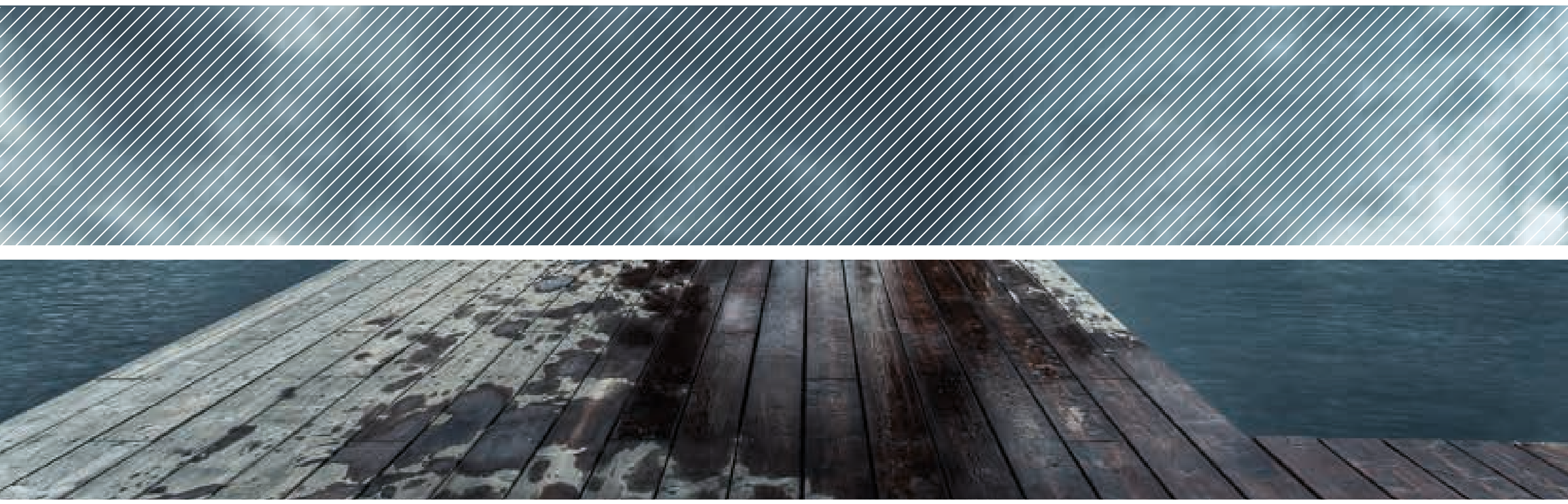
Finanstilsynet noted 45 increases of capital designed to strengthen investment firms' own funds, distributed across 19 firms. Twelve warnings of possible licence withdrawal were issued due to capital inadequacy. All the firms concerned rectified the circumstance by the deadline set. Three firms filing quarterly capital adequacy reports were in November ordered to report on a monthly basis due to marginal compliance with capital requirements, negative profit growth and unverifiable reporting.

LICENSING

Authorisation process

Six new investment firms were licensed to provide investment services in 2013. Two of the licences are related to partnership shares. Five 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 were relatively small with few employees. They mainly provide order reception and transmission services and investment advisory services. Some market entrants also provide active portfolio management services.

Ten licences were revoked due to restructuring, mergers and corporate acquisitions, and business area reorganisations.



Fitness and propriety testing

Again in 2013, a substantial number of fit-and-proper tests were carried out of board members and managers at entities in the securities field. Assessments are made of qualifications, job experience and previous conduct. Testing is carried out in connection with licence applications and management and board changes. In most cases where a manager was not considered suitable the decision cited a lack of relevant experience, and the entities came into line with Finanstilsynet's assessments. In some cases individuals were considered unsuitable due to their previous association with firms guilty of serious law violations.

REGULATORY DEVELOPMENT

Documentation and voice recording requirement

In a move to strengthen consumer protection, Finanstilsynet has in a consultation document recommended that the obligation of investment firms, banks and insurance companies to document their advice regarding, and sales of, alternative savings products, should also apply to their advice regarding, and sales of, financial instruments. Alternative savings products include primarily deposit-based products and index-linked insurance. For investment firms the recommendations will broaden the documentation obligation to cover the entire entity's activity and will make the entire provision governing good business practices applicable to investment services provided in connection with alternative savings products. Broadening the voice recording obligation to include telephone conversations concerning alternative savings products is also proposed. See also the chapters on Finanstilsynet's work on consumer protection on page 28 and in Insurance and pensions on page 42.

Short trading

On commission from the Ministry of Finance, Finanstilsynet drafted rules to implement an EU Regulation on short trading. The Regulation entered into force in the EU in November 2012, but has yet to be incorporated in the EEA Agreement. Finanstilsynet delivered the draft rules to the Ministry of Finance in May 2013. The ministry has not circulated the draft for comment, but is awaiting the outcome of ongoing talks with the EU.

FUND MANAGEMENT COMPANIES

At the end of 2013 31 management companies were licensed to manage securities funds. Twenty-two of these were licensed to carry on "active management of investors' portfolios of financial instruments". The number of securities funds managed by these companies fell from 454 at end-2013 to 447 at end-2013. Of the securities funds, 337 were UCITS and 111 were domestic funds, the latter including five specialised funds. Net new subscription in Norwegian management companies' securities funds amounted to NOK 68bn in 2013. Net subscription was highest in bond funds, including high yield funds, at NOK 35.4bn. Net redemption in money market funds came to NOK 5.7bn in 2013. Total net subscription, combined with a net rise in value over the course of the year, caused total managed assets in Norwegian securities funds to rise by 15% in 2013 to reach NOK 634bn by year-end.

SUPERVISION AND MONITORING

Finanstilsynet conducted four on-site inspections at management companies in 2013. 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 fund rules. The number of reported breaches in 2012 was on a par with previous years, and Finanstilsynet noted none of a sizeable, serious nature. Trustees' obligation to inform Finanstilsynet of any management company where rule breaches are brought to light is an important supplement to off-site supervision. Such reports by trustees were few in number in 2013.

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. Finanstilsynet publishes half-yearly press releases on management companies' results where trends in the companies' business are presented and commented on.

In the second half of 2013 Finanstilsynet held meetings with nine of the largest management companies representing about 70 per cent of total assets in the Norwegian market. Finanstilsynet plans meetings with further management companies in 2014. The meetings are designed to strengthen dialogue with the entities, to gain an overview over their activity and strategy and to exchange views on the challenges facing the industry and market actors.

Thematic inspections of trustees

Finanstilsynet conducted on-site thematic inspections at all five trustees for Norwegian securities funds. The round of inspections investigated trustees' compliance with their control obligations under current legislation. The trustees were

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found to have organised their control activity in differing ways, and the level of control varied. Finanstilsynet's observations to one trustee pointed to deficiencies in the management and organisation of the activity since all operative control of the Norwegian funds was centralised to a location outside Norway. Follow-up of this company has yet to reach completion.

Securities funds' trading on Nordic ABM

In autumn 2013 a management company announced that the rules of certain securities funds had been breached by trading in financial instruments over the Nordic Alternative Bond Market. Finanstilsynet sent identically worded letters to all management companies to bring to light any similar breaches. Breaches were revealed at securities funds managed by several management companies that had wrongly classified Nordic ABM. Thus far no losses for the funds or unit holders have been identified. The matter has yet to be finalised.

FUND MANAGEMENT

One new management company was authorised to engage in securities fund management in 2013, and one management company had its licence broadened to include active portfolio management. Finanstilsynet also authorised the establishment of a branch by a foreign management company. Three companies withdrew their licence applications before completion of the process.

Finanstilsynet authorised the establishment of 22 new securities funds in 2013, while 28 securities funds were wound up in the same period. Many of the largest management companies made substantial changes to their organisational set-up and their array of funds. A large number of applications concerning changes to fund rules, mergers and dissolution of securities funds were dealt with. A tendency is noted for more securities funds to be set up as UCITS funds, and in the course of 2013 62 domestic securities funds were converted to UCITS. Many of the changes to fund rules are designed to bring them into line with the industry standard for fund rules set by the Norwegian Fund and Asset Management Association and to set the stage for fund mergers.

REGULATORY DEVELOPMENT

On commission from the Ministry of Finance, Finanstilsynet reviewed the rules governing securities funds' borrowing and lending of financial instruments. Finanstilsynet did so in conjunction with the Norwegian Fund and Asset Management Association and Finance Norway. Finanstilsynet sent the ministry a consultation document recommending rules for efficient portfolio management in September 2013.

AIFM Directive

On commission from the Ministry of Finance, Finanstilsynet headed a working group tasked with proposing amendments to the Norwegian regulatory framework to implement Directive 2011/61/EU of the European Parliament and of the Council (Alternative Investment Fund Managers (AIFM) Directive). The Directive regulates the management of collective investment structures that are not UCITS funds (alternative investment funds). They include domestic funds, hedge funds, actively managed funds and property funds. The working group recommends largely retaining the Securities Funds Act, and the establishment of a new body of rules for managing and marketing alternative investment funds. In addition to rules implementing AIFMD, the working group recommends rules to govern the marketing of specialised funds to non-professional investors.

The working group delivered its report to the Ministry of Finance on 1 March 2013, and the public hearing was concluded on 20 June 2013. Towards the end of 2013 Finanstilsynet was commissioned to prepare a consultation document containing a proposal for regulations forming part of expected new legislation on the management of alternative investment funds. Necessary rule changes are expected to be in place by summer 2014.

MARKET INFRASTRUCTURE

SUPERVISION AND MONITORING

The securities market infrastructure comprises Oslo Børs ASA, Verdipapirsentralen ASA (Norwegian Central Securities Depository (VPS)), Oslo Clearing ASA, Fish Pool ASA, NOS Clearing ASA, Nasdaq OMX Oslo ASA and Nasdaq OMX Oslo NUF (Norwegian branch of Nasdaq OMX Stockholm AB). The activities of investment firms Icap Energy ASA and Spectron Energy Services Ltd Norway Branch are also regarded as a part of the infrastructure.

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 facilities Burgundy, on which foreign financial instruments are traded, and Oslo Connect on which OTC derivatives are traded. The Central Securities Depository (VPS) maintains the securities register and is operator of the central securities settlement system in Norway (VPO NOK).

The clearing houses Oslo Clearing and NOS Clearing reported quarterly through 2013 on the trend in own funds and risk exposure. No serious events or unusually high risk exposure were reported by the clearing houses in the period.

In 2013 Finanstilsynet monitored Oslo Clearing's compliance with requirements set in its expanded licence to operate as a clearing house for equity instruments. Finanstilsynet also monitored Oslo Clearing's work to expand the clearing system "Clara" to include the registration and administration of derivative and securities borrowing and lending contracts. The transfer to Clara is to take place in February 2014, and no particular problems have been noted.

Finanstilsynet followed up on the supervision of and reporting by the clearing house Nasdaq OMX Oslo NUF in cooperation with the Swedish FSA. Finanstilsynet participated in the Swedish FSA's and the Swedish Central Bank's evaluation of the clearing activity of Nasdaq OMX Clearing AB under the new principles for financial infrastructure entities drawn up by the Committee on Payment and Settlement Systems – International Organization of Securities Commissions (CPSS-IOSCO).

Finanstilsynet acceded to the cooperation agreement between the supervisory authorities in the United Kingdom, Switzerland and the Netherlands on supervision of the clearing houses EuroCCP, EMCF and SIX x-clear which carry on clearing activity related to financial instruments traded on Burgundy.

Finanstilsynet participated in college meetings for Nasdaq OMX Clearing and EMCF in connection with the colleges' consideration of these clearing houses' application to the home state authority for authorisation under EMIR (European Market Infrastructure Regulation).

In 2013 Finanstilsynet guided – in collaboration with Norges Bank – Oslo Clearing's and the VPS' (the Central Securities Depositary) self-evaluation process under the principles for financial infrastructure entities drawn up by the CPSS-IOSCO. The authorities' evaluation of the above entities' compliance with the principles will be published in spring 2014.

Finanstilsynet monitored compliance with the conditions set for the merger between Oslo Børs Holding ASA and Verdipapirsentralen Holding ASA. This included monitoring the trend in the VPS' own funds through the VPS' quarterly reporting of accounts figures. As part of its compliance monitoring, Finanstilsynet gave advice to the Ministry of Finance regarding dividend payout by the VPS for the financial year 2012. The ministry approved a somewhat lower payout ratio than that recommended by Finanstilsynet.

No major operating problems affected the central securities settlement system (VPO) in the course of 2013. Finanstilsynet monitored the settlement rate, which averaged 96.6 per cent. This is considered a high figure. In 2013 about 10.3 million transactions were settled in the VPO system, compared with just over 40 million prior to the introduction of clearing of equity instruments.

Reporting of critical ICT events by infrastructure entities was followed up. IT inspections were conducted at Oslo Børs, VPS and Nasdaq OMX Oslo.

Finanstilsynet collaborates on an ongoing basis with the Water Resources and Energy Directorate and the Competition Authority on supervision of the electricity market. In 2013 particular emphasis was given to rule changes in the EU that are of consequence for this market.

Nominee accounts at the VPS

Only entities duly authorised by Finanstilsynet can manage nominee accounts with the VPS. These accounts must be labelled as nominee accounts. Nominees are obliged on request to disclose to Finanstilsynet information on the beneficial owners of financial instruments that are registered on nominee accounts. In the course of its supervisory work Finanstilsynet has become aware of a large number of breaches of these rules. In 2013 Finanstilsynet initiated measures to secure future compliance with the rules. The project continues in 2014.

LICENSING

Merger between Oslo Børs ASA and Burgundy AB

In March 2013 Finanstilsynet advised the Ministry of Finance to approve a merger between Oslo Børs ASA and its Swedish subsidiary Burgundy AB, a Swedish regulated market authorised to operate a multilateral trading facility. Oslo Børs concurrently received authorisation to carry on business in Sweden through a branch. The Ministry of Finance's decision was in keeping with Finanstilsynet's recommendation. Finanstilsynet also resolved to expand Oslo Børs's licence to operate a multilateral trading facility to enable Oslo Børs to continue Burgundy's business after the latter's absorption.

Approval of Nasdaq OMX Stockholm AB's settlement system

In September 2013 Finanstilsynet approved that part of OMX Stockholm AB's securities settlement system that is regulated by Norwegian law. The entity had made necessary changes to the settlement system following rejection of its application for approval in 2012.

REGULATORY DEVELOPMENT

Rules restricting the right to own stock exchanges and securities registers

On 16 July 2012 the EFTA Court ruled that the Norwegian rules restricting the rights to own holdings in stock exchanges and securities registers in Norway are contrary to the EEA Agreement. On commission from the Ministry of Finance, Finanstilsynet prepared a proposal for new rules governing ownership of stock exchanges and securities registers. It recommends replacing the current ownership ceiling of 20 per cent with a suitability test for acquisitions above given threshold values (10, 20, 30 and 50 per cent of the entity's share capital or votes). The proposal has been circulated for comment and is under consideration by the Ministry of Finance.

EMIR working group

The European Market Infrastructure Regulation (EMIR) is an EEA relevant framework that introduces rules on compulsory clearing of OTC derivatives and reporting of derivative trades to a trade repository. The Regulation also introduces pan-European rules for clearing houses and trade repositories. On commission from the Ministry of Finance, Finanstilsynet headed up a working group charged with transposing the rules into Norwegian law. The working group delivered an interim report in March 2013. The final report was delivered in December 2013.

In the EU a comprehensive effort is under way to frame legislation for the securities market infrastructure. It includes completion of level 2 regulation under EMIR, revision of MiFID and the introduction of Europe-wide regulation of securities registers and settlement discipline. Finanstilsynet followed this process and participated in ESMA committees and working groups.

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 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 target groups 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 an individual and a general deterrent effect in the market. Finanstilsynet works closely with ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime) and Oslo Børs in this sphere.

Most of the large number of cases investigated by Finanstilsynet in 2013 were reported 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.

A number of the cases handled by Finanstilsynet were time-consuming, especially insider trading cases requiring investigation abroad. Such investigations often entail enquiring into foreign investors who have traded ahead of market events. The work requires extensive contact with foreign managers and supervisory authorities. Finanstilsynet also assisted foreign supervisory authorities in their investigations.

In 2013 Finanstilsynet investigated:

- 72 new cases of unlawful insider trading and/or breaches of confidentiality
- 24 new cases of market manipulation / unreasonable business methods
- 36 new cases of securities trading requiring disclosure
- 44 new cases of securities trading requiring notification

Forty-three 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 an adequate response to rule violations.

Over the course of 2013 Finanstilsynet imposed four administrative fines for breaches of the disclosure requirement and seven administrative fines for breaches of the notification requirement. Finanstilsynet publishes the fines on its website on the presumption that this has a preventive effect. One administrative fine for breach of the disclosure requirement was appealed to the Ministry of Finance where it is currently under review.

Notifications to the prosecuting authority

Finanstilsynet reported two cases of suspected unlawful insider trading and/or breach of the duty of confidentiality to the prosecuting authority in 2013. Two cases of market manipulation were reported. Three cases were referred to the prosecuting authority for suspected breach of the insider listing requirement.

Follow up of reported cases

The collaboration between Finanstilsynet, ØKOKRIM and local police districts on reported cases 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 in 2013. Finanstilsynet also gave evidence in a number of court cases.

Surveys in connection with information handling

In 2013 Finanstilsynet investigated a case concerning the treatment of inside information in the public administration. Finanstilsynet subsequently wrote a public letter to a government department censuring its treatment of information. In the wake of the case Finanstilsynet kept an eye on the treatment of market-sensitive information in the public sector. In December 2013 Finanstilsynet, ØKOKRIM and Oslo Børs organised a seminar for the public administration on various topics related to information handling.

Further development of the transaction reporting system

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

In 2013 about 95 million transactions were reported to Finanstilsynet, of which 56 per cent were from foreign and 44 per cent from Norwegian investment firms. Finanstilsynet is constantly in touch with investment firms to ensure that the quality of reporting is maintained. No major problems were brought to light in 2013.

In autumn 2013 Finanstilsynet gained direct access to structured transaction data and position data from the VPS register. This register now includes the bondholder register which previously took time to access. The data are integrated into Finanstilsynet's monitoring systems in a manner that enables ready access to cases requiring investigation.

COURT RULINGS

The following court rulings were delivered in 2013 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

In October 2013 ØKOKRIM issued a listed company with a fine of NOK 20 million for market manipulation after it disrupted and overrode effective and market-appropriate pricing of the company's shares from autumn 2008 to May 2009. The company sold a large portion of treasury shares to a foreign government which resold the shares in the market. The agreement on the share disposal was signed on condition of confidentiality, despite the fact that the agreement and its immediate circumstances were liable to influence the share price. The listed company disclosed on several occasions incorrect, incomplete and misleading information on the event to the market. ØKOKRIM issued the company's CEO with a fine of NOK 1.3 million for the same offence. The fines were accepted.

In 2013 the Court of Appeal acquitted five defendants of insider trading and inducement to such trading at a pharmaceutical company. Through his consultancy firm, one of the defendants was familiar with the pharmaceutical company's work on a vaccine. The grounds for acquittal of the five defendants differed. For two of the defendants a majority of the court took the view that the information in question was not "insider information" in the meaning of the Securities Trading Act at the time they traded. For two other defendants a majority of the court concluded that insider information existed on the day they traded, but that they had not been induced to trade by the defendant who was familiar with the processes pertaining to the vaccine. The judgment is final and unappealable.

In September 2013 the Supreme Court delivered judgment on a number of breaches of the Securities Trading Act committed by a stockbroker, the most serious of which involved insider trading and inducement to insider trading. The court took a serious view of the fact that the defendant, who had a reporting obligation to Finanstilsynet, had committed serious breaches of the insider trading prohibition. The defendant's role required the trust of his customers, his employer and Finanstilsynet. The court emphasised that confidence in the market relies on the probity of central market actors. The court also remarked that the defendant had acted with intent and that potential harmful effects were substantial since the information was spread to many market participants. The defendant was sentenced to 3 years' imprisonment, suspended for one year and six months.

In April 2013 Oslo City Court acquitted three defendants of insider trading and inducement to such trading. One of the defendants was employed by a company in which two of this person's acquaintances acquired and attempted to acquire shares on the same day that negotiations on the sale of the company's subsidiary were about to be concluded. The court put its trust in the defendants' explanation that they had no knowledge of the sale, but had kept track of the market in general. The court did not find it proven that inside information had passed between the defendants, although they were shown to have been in contact prior to the acquisition. Judgment was delivered with dissent and has been appealed.

In 2013 the Supreme Court dismissed an appeal against a judgment for violation of the insider trading rules delivered in Inntrøndelag District Court. The defendant held shares in a company in which he had been employed. In an interview on national TV the defendant alleged that this company was engaged in illegal price fixing. Prior to the televised interview the defendant sold all his shares in the company. The court found it proven that the information that emerged in the interview was of an inside nature and that the defendant had breached the insider trading prohibition. The court remarked that insider trading requires a stringent response since it poses a threat to confidence in the securities market. The defendant was sentenced to ten months' imprisonment, of which five were suspended. The proceeds of the defendant's offences were confiscated.

In January 2013 the Supreme Court delivered judgment in a case concerning insider trading in bonds. A CEO had acquired the bonds the day after being informed of an acquisition process at the company. The defendant did not dispute this was inside information, but cited a mistake of law, claiming ignorance of the fact that the insider trading ban applied to bond trades. In contrast to lower courts, the Supreme Court concluded that insider trading in bonds must be treated on a par with insider trading in shares. Hence earlier Supreme Court rulings in cases of insider trading in shares were also relevant to the sentence handed down. The defendant was handed down an unconditional prison sentence of 45 days.

PROSPECTUS CONTROL – TRANSFERABLE SECURITIES

Finanstilsynet is responsible for approving EEA prospectuses in the case of public offers for subscription or purchase of transferable securities worth at least EUR 5,000,000 calculated over a period of 12 months that are directed at 150 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 additional requirements were introduced for prospectuses for oil, gas and mining companies. Threshold values triggering the prospectus obligation were changed in July 2012, and revised rules on prospectuses and a simplified body of rules entered into force on 1 July 2013.

Prospectus vetting in 2013

Slightly more share prospectuses were approved in 2013 than in previous years. The number of applications for approval of bond prospectuses was high over the course of the year.

Finanstilsynet vetted prospectuses for several sizeable transactions in 2013, some relating to stock issues and new listings in connection with restructuring in various industries. They included, , approval of the prospectus for an initial public offering of Ocean Yield ASA, Odfjell Drilling Ltd and BW LPG Limited.

An overview of prospectuses vetted by Finanstilsynet in 2013 is given in table 8.

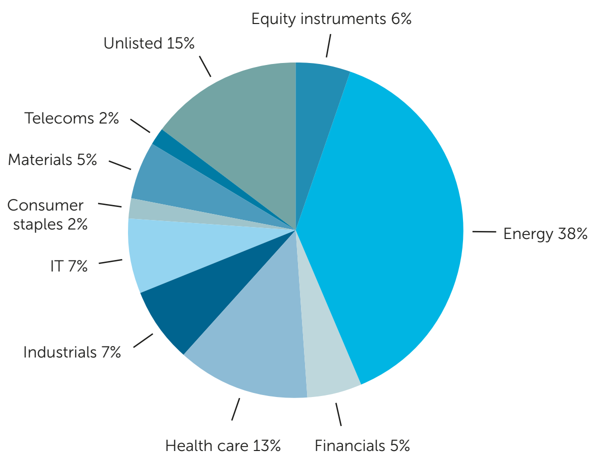
TABLE 8: VETTED DOCUMENTS

	2009	2010	2011	2012	**2013**
Shares (quoted shares in parenthesis)	102 (64)	105 (82)	100 (85)	54 (45)	**60 (52)**
Bonds	94	44	110	146	**178**
Warrants	15	9	14	–	–
Total	211	158	224	200	**238**

In 2013 Finanstilsynet discontinued five vetting processes after share issues and/or admissions to listing were cancelled. Further, a large number of documents were passported to and from prospectus authorities in the EU/EEA area.

Finanstilsynet started the vetting of twelve prospectuses related to new listings in 2013. Of these, eleven prospectuses were for IPOs on Oslo Børs or Oslo Axess, or for transfer of listing to Oslo Børs. A total of fifty-two prospectuses for listed limited companies were vetted. A further five prospectuses for share issues by unlisted companies were vetted, along with three prospectuses related to unquoted equity instruments.

CHART 7: PROSPECTUSES APPROVED BY FINANSTILSYNET IN 2013 – BY SECTOR



Source: Finanstilsynet

Regulatory framework

As a result of changes in the Securities Trading Regulations, effective as from 1 July 2013, a simplified set of rules was introduced for certain issuers and/or certain transactions. The new rules, setting fewer and simpler prospectus content requirements, apply to rights issues by already listed companies, listed companies with low market value and small and medium-sized businesses (SMBs). The simplified set of rules applies to various transferable securities such as shares, bonds and certificates of deposit.

Requirement for historical financial information in prospectuses – Finanstilsynet's guidance

Finanstilsynet has drawn up a guidance entitled "Historical financial information and pro forma financial information in share prospectuses", available at Finanstilsynet's website in Norwegian and English.

FINANCIAL REPORTING ENFORCEMENT – LISTED COMPANIES

All listed companies are required to apply International Financial Reporting Standards (IFRS) when preparing and presenting consolidated accounts. Finanstilsynet oversees financial reporting by Norwegian-registered enterprises that are listed on a regulated market in Norway or elsewhere in the EEA, as well as certain foreign enterprises that are listed on a regulated market in Norway.

The enforcement covers annual accounts at group and company level, management reports and interim accounts. Municipal and intermunicipal enterprises and companies are not covered by the supervision. State-owned enterprises that issue shares and/or bonds are included.

At the end of 2013 247 companies were subject to Finanstilsynet's control of financial reporting. Of these, 34 were foreign. 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 12 new companies were admitted to Oslo Børs, four to Oslo Axess. A total of 25 issuers were delisted, 21 from Oslo Børs and four from Oslo Axess.

ENFORCEMENT OF FINANCIAL REPORTING

Selection

Finanstilsynet applies several criteria to select entities for review. Some entities are selected on the basis of signals given or by rotation, others on the basis of risk assessments. Risk-based analyses rely on data reported by companies via the Altinn internet portal.

Results of the enforcement

In 2013 Finanstilsynet reviewed all or parts of the financial reporting of 60 entities. Particular attention was given to issuers of shares and equity certificates, and some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. Eleven cases were given closer scrutiny, several of which had yet to be finalised at year-end.

No information was received in 2013 from the entities, 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.

Three of the cases started in 2012 and completed in 2013 are described below. All public letters are available at Finanstilsynet's website.

Noreco

The review focused in particular on the company's mineral resources, covering inter alia the company's principles, transaction accounting and impairment testing of selected assets.

The review uncovered significant deficiencies in the 2011 accounts. The following were identified:

- overvaluation of certain assets
- incorrect calculation of gain/loss on the sale of licences
- failure to take into account events after the balance sheet date
- faulty presentation of sale of licences as discontinued operations
- failure to include reclassification of exploration and evaluation assets in the balance sheet
- deficiencies and imprecisions in the company's stated accounting policies

In Finanstilsynet's assessment the annual financial statements should have been presented anew. The company decided to remedy the deficiencies by revising comparatives in the 2012 accounts. Finanstilsynet accepted this, partly in view of the brief period of time to the next reporting date.

Ekornes

Ekornes has foreign exchange earnings and uses forward foreign exchange contracts to hedge future expected cash flows. Ekornes accounts for this as hedging pursuant to IAS 39 *Financial Instruments: Recognition and Measurement.* Hedge accounting entails that unrealised gain/loss on forward foreign exchange contracts is not recognised via ordinary profit/loss: recognition is deferred until the future transaction takes place. The general approach under IFRS is to recognise an unrealised gain or loss in profit and loss. IAS 39 makes clear that hedge accounting can only be used where the hedge documentation meets all the requirements of the standard. In Finanstilsynet's view, Ekornes does not meet all the requirements of IAS 39.

On 14 March 2013 Finanstilsynet ordered Ekornes to account for formalised forward contracts under the general rule of IAS 39 and not as hedging until all necessary hedge documentation is prepared. Comparatives for 2011 were corrected in the financial statements for 2012.

Norske Skog

Finanstilsynet has reviewed the write-down assessment for Norske Skog's factories. The value of the company's equity has for some time been low relative to book values. At end-2012 the company's equity capital had a market value of NOK 750m, giving a price book ratio of 0.17. According to IAS 36 *Impairment of Assets*, an impairment test must be carried out if there are indications that an asset has fallen in value. One such indication is excess book value of equity over market value.

In the fourth quarter of 2012 Norske Skog performed a write-down of NOK 1,6bn on its factories. Impairment testing is largely a matter of discretionary assessments. During its inspection, Finanstilsynet was critical of certain assumptions employed by Norske Skog in its impairment tests. However, the company's impairment assessment for the fourth quarter appears to have demonstrated prudent discretionary assessment of balance sheet values. Finanstilsynet took note of the company's explanatory account on 12 June 2013.

Participation in ESMA

The European Securities and Markets Authority (ESMA) is an independent authority drawing its members from supervisory authorities in Europe. Finanstilsynet considers it important to organise financial reporting supervision in accordance with the principles drawn up by ESMA. European Enforcers Coordination Sessions (EECS) comprises the financial reporting supervisors in Europe. The EECS was established to discuss decisions taken by the national supervisors and experience gained in the application of supervisory standards. In 2013 nine meetings were held, and several of Finanstilsynet's supervisory matters in 2013 were presented to the EECS.

ESMA published two extracts from the EECS' database of enforcement decisions in 2013. ESMA has also published a report on financial institutions' reporting.

Violation charge for late publication of periodic financial reports

Finanstilsynet's enforcement of periodic reporting includes checking that reports are published within deadline. Failure to observe a deadline normally attracts a violation charge.

Violation charges were imposed on three issuers for late publication of their annual reports for 2012.

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. Finanstilsynet is secretariat to the panel.

The Expert Panel met three times in 2013. Matters are taken up either for comment or discussion. The panel's statements are enclosed with letters to companies that are published on Finanstilsynet's website.

The Expert Panel in the period 1 January – 31 December 2013

Frøystein Gjesdal (chair)
Aase Aa. Lundgaard (deputy chair)
Stig Enevoldsen
Signe Moen
Kjell Magne Baksaas
Nina Rafen
Geir Moen
Karina Vasstveit Hestås (alternate)
Roar Inge Hoff (alternate)
Reidar Jensen (alternate)

AUDITING

Finanstilsynet's oversight of auditors comprises approval or licensing of individuals and firms, registration and supervision of statutory audit work. Finanstilsynet checks that auditors maintain their independence, and that they perform their work in a satisfactory manner and in compliance with law and good audit practices.

TRENDS

Although the industry includes a small number of large firms, it still features numerous small businesses. There is nonetheless a tendency towards increased concentration, probably due to the removal of the statutory audit obligation for smaller limited companies.

Audit fees are under increasing pressure as a result of the tender process used for larger audit engagements. This is particularly true in the case of public tenders and tender processes controlled by the client's purchasing department. How far audit quality is affected by this is uncertain.

The EU is in the process of amending European audit rules. It remains unclear when new rules will pass into Norwegian law.

SUPERVISION AND MONITORING

Market participants' confidence in financial reporting by business and industry is key to a well-functioning market. This is particularly true for reporting by public interest entities such as banks and other financial institutions, insurers and listed companies. High audit quality contributes to increased confidence. In order to properly perform his/her role as representative of the general public, the auditor must be independent and perform the audit in conformity with the requirements of the Auditors Act.

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 reviews conducted by the Norwegian Institute of Public Accountants (DnR) of its members. Should the DnR bring to light circumstances that may prompt revocation of an auditor's licence, the matter is referred to Finanstilsynet for further action. The DnR's report for 2013 is presented on page 67. Where public interest entities are concerned, all supervision is carried out by Finanstilsynet. About 20 audit firms audit public interest entities. Public interest entities not covered by the major audit firms are savings banks and small insurers.

In 2013 Finanstilsynet received 56 reports of possible audit deficiencies – fewer than in 2012 – from the DnR, the tax authorities, bankruptcy administrators and other parties. Cases not given priority by Finanstilsynet are likely to conclude with the auditor being asked to assess whether its audit practice should be modified for the future. Such assessments must be documented.

Fifty-five on-site inspections were conducted in 2013 in addition to other supervisory matters. Some of these matters will be finalised in 2014.

TABLE 9: REVOCATION OF AUDITORS' LICENCES

	2009	2010	2011	2012	**2013**
State authorised auditors, licences revoked	1	10	1	19	**0**
Registered auditors, licences revoked	4	13	2	17	**0**
Audit firms, licences revoked	3	1	0	0	**0**

The number of licence revocations is higher after off-site supervision has been carried out since it includes entities that fail to respond to the questionnaire after a reminder is sent warning them of possible revocation. Individuals' compliance with the requirement for continuing education is also followed up on, based on their reply to this particular question.

Supervision of audit firms

In addition to meeting the audit legislation's formal licensing requirements, audit firms must designate a statutory auditor responsible for each audit assignment taken on by the firm. At inspections Finanstilsynet checks that the firm has in place adequate systems for internal quality control of the audit business, including policies and procedures with regard to independence, confidentiality and compliance with anti-money laundering requirements. Finanstilsynet reviews selected audit engagements to check compliance with the audit legislation and the firm's internal policies and procedures.

Nine inspections of audit firms were conducted in 2013, four of which at firms that audit public interest entities. 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. Joint inspections conducted with the PCAOB are headed by Finanstilsynet. No joint inspections of Norwegian audit firms took place in 2013.

Checks on individual assignments brought to light weaknesses in the *planning* of the audit, including in the procedures for the acceptance and continuance of audit engagements, determination of materiality, in assessing the adequacy of the client's IT system and the associated risk of a material misstatement. Failures to assess the impact of the outsourcing on the audit approach were also brought to light. Moreover, the auditor's awareness of regulation and licensing requirements applying to the client was inadequate in several cases.

Checks on the *implementation* of the audit revealed failures on the part of the auditor to take adequate action to remedy deficiencies in the audit client's internal controls, particularly regarding the revenue area. The auditor may perform analytical procedures as a part of the audit, but must in such case decide on the particular procedure's suitability for the purpose and on the reliability of the data on which the procedure is to be based. The inspections brought to light weaknesses in auditors' documentation and implementation of analytical procedures. The auditor may perform sample checks when conducting audit procedures. When selecting a sample, the auditor must take into account the objective of the audit procedure, of the population from which the sample is selected, and must set a sample size sufficient to reduce sample risk to an acceptable level. Examples were also noted of failure to differentiate between the use made of specialists in the audit team, the use made of work performed by experts and the use of consultations with experts, as well as weaknesses in the documentation of work done. Finanstilsynet also noted failures to report identified irregularities which according to the Auditors Act need to be pointed out in numbered letters to the management.

Where audit completion is concerned, Finanstilsynet brought to light poor quality assurance of audit documentation on the part of statutory auditors and audit assignment reviewers in important or critical audit areas.

Other individual cases

Upon closer scrutiny of an audit engagement, Finanstilsynet uncovered material deficiencies and weaknesses in both the planning and conduct of the audit. The auditor had, among other things, placed excessive reliance on management statements, assessments and calculations, without testing them. In Finanstilsynet's view the auditor lacked adequate and appropriate audit evidence to support his conclusions. Finanstilsynet also highlighted the responsibility of an audit firm for designating a statutory auditor once the firm is selected as auditor. The audit firm must assess the statutory auditor's competence and capacity and ensure that sufficient resources are available to perform the audit assignment in a proper manner.

One inspection raised the question of whether the group auditor had performed sufficient audit procedures to ensure that material items of the subsidiary's financial statements posed no risk of material error, and also regarding the required degree of personal involvement by the group's statutory auditor. This matter has yet to be finalised.

Thematic inspections

Each year Finanstilsynet conducts an audit-related thematic inspection. In 2012 the theme was "Audit of revenue recognition, and business understanding". The final report, dated 22 March 2013, is published on Finanstilsynet's website. Deficiencies in auditors' understanding of an entity's business resulted in a deficient risk assessment, and hence to a deficient basis for determining appropriate audit procedures. This has in several instances led to the auditor's failure to obtain sufficient and appropriate audit evidence. The findings from the thematic inspection underline the need for increased awareness in the audit industry with regard to the audit of revenue.

In 2013 the theme was "Audit of companies handling client funds". The inspections covered just over 30 audit firms, about 50 statutory auditors and some 60 real estate agency firms, in addition to about 10 lawyers and insurance brokers. Finanstilsynet uncovered flaws in the auditor's work in most of the engagements checked. The final report is published on Finanstilsynet's website.

2013 also saw the start of a thematic round of inspections focusing on audit firms' internal quality control of completed audit engagements. This is an important mechanism for assuring audit quality. Quality assurance systems for audit activity are also assessed at on-site inspections of other audit entities. The final report resulting from this thematic inspection will be published in the first half of 2014.

Other supervisory activity

On 21 June 2013 Finanstilsynet sent identically worded letters to all auditors and external accountants whose clients included money transfer companies with a limited licence. It did so based on its follow-up of the business of these entities and on information obtained from the entities' external accountants and auditors. The letters highlight matters requiring auditors' close attention in their dealings with these clients.

On 16 July 2013 Finanstilsynet sent identically worded letters to all auditors of insurance intermediaries. The letters were accompanied by Finanstilsynet's letter to the insurance intermediaries summarising the results of on-site inspections of these entities. The letter to the auditors highlights issues Finanstilsynet considers important in these audit engagements.

Finanstilsynet's inspections have revealed that many supervised entities subject to the risk management regulations omit to obtain auditor confirmation as required by the regulations. Failure by the auditor to send a numbered letter to the client in this regard is a deficiency to which attention will be drawn in a letter from Finanstilsynet.

Finanstilsynet has been in touch with the Norwegian Institute of Public Accountants regarding attestations and statements which auditors are required to forward to Finanstilsynet.

Finanstilsynet has submitted a consultative statement on ISAE 3420, which deals with the attestation of pro forma financial information included in a prospectus. Finanstilsynet makes clear that it will not approve prospectuses where the auditor's attestation statement contains qualified opinions or emphasis of matter paragraphs or where the auditor has included a restriction such as "in all material respects". In such cases the attestation will not fulfil the prospectus regulations' requirements for attestation. The Institute of Public Accountants has drawn up an example of an attestation statement taking this into account.

LICENSING

TABLE 10: NUMBER OF APPROVED AUDITORS AND AUDIT FIRMS AT 31.12.2013

	2010	2011	2012	**2013**	**Licensed in 2013**
State authorised auditors	2,984	3,165	3,339	**3,544**	**201**
Registered auditors	3,226	3,319	3,365	**3,429**	**93**
Of which: statutory auditors	–	1,891	1,840	**1,799**	**69**
Audit firms*	776	674	600	**563**	**20**

** Recent years' decline is probably related to the fact that a company that owns audit firms is no longer itself required to be an approved audit firm.*

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 held by Agder University College on behalf of Finanstilsynet. 244 candidates took, and passed, the examination in 2013.

Finanstilsynet regularly checks compliance with statutory requirements, particularly those relating to continuing education. In 2013 Finanstilsynet was in touch with the largest audit firms that offer in-house courses to ensure that course participants are able to meet the documentation requirement in respect of statutory continuing education.

Register of Auditors

All authorised auditors and audit firms are registered in the Register of Auditors. The Register of Auditors is part of Finanstilsynet's licence registry which is available at Finanstilsynet's website. Some information in the Register of Auditors is entered by Finanstilsynet; other information is obtained from other public registers. Since 2012 the register has also contained data which the individual audit firm enters using the Altinn internet portal. Many audit firms fail to meet the obligation to register and maintain information. Finanstilsynet followed up on inadequate registration in 2013, and will continue to do so in 2014.

INTERNATIONAL TASKS

Finanstilsynet is monitoring the progress of the EU Commission's proposal for changes to the Audit Directive and a new Regulation by participating in various groups as observer. Finanstilsynet also maintains contact with the other Nordic audit supervisors.

Beyond the work done under EU Commission auspices, European supervisory authorities have on their own initiative formed a group to develop and harmonise the conduct of supervision. The working group European Audit Inspection Group (EAIG) is setting up a European database for inspection findings of a precedent-setting nature. The working group is also helping to obtain and coordinate member countries' views on proposals for new audit standards to be established by the industry.

The global collaboration between audit supervisory authorities takes place through the International Forum of Independent Audit Regulators (IFIAR). Forty-six countries, including Norway, are represented on the IFIAR.

The audit authorities have also established supervisory colleges for Ernst & Young and KPMG as a result of structural changes made by both audit groups a couple of years ago. Ernst & Young have a company in the United Kingdom which owns the national firms in the network. In the KPMG network some audit firms still have local owners. Finanstilsynet attends meetings of these colleges at which subjects requiring follow up are discussed, as well as compliance with global policies and procedures. Ernst & Young and KPMG's top managements also attend these meetings.

Finanstilsynet
Postboks 1187 Sentrum
0107 Oslo

Oslo, 23 January 2014

DnR Quality Assurance Review of Auditors – Annual Report 2013
With reference to the "Guidelines for periodic quality assurance reviews of auditors and audit firms", 2.3 (k), the Board of the Norwegian Institute of Public Accountants (DnR) hereby presents a summary of the quality assurance reviews conducted in 2013.

Organisation of the quality assurance review
The quality assurance review is described in "Details of the quality control programme for statutory auditors 2013" as posted at www.revisorforeningen.no. It is designed to test compliance with good auditing practice, including International Standards on Auditing, in addition to compliance with the provisions of the Auditors Act concerning independence, indemnity insurance and continuing education, and the auditors' capabilities to fulfil their financial obligations.

The review team comprised 27 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance reviews
In 2013 the quality assurance programme covered 872 statutory auditors. 159 of these were selected for ordinary quality assurance review, including four statutory auditors who had their review in 2012 postponed due to illness. Upon being notified that they had been selected for review, ten statutory auditors announced that they would wind up their business or retire as statutory auditors in the course of 2013. In addition, one statutory auditor was deselected having recently undergone review by Finanstilsynet.

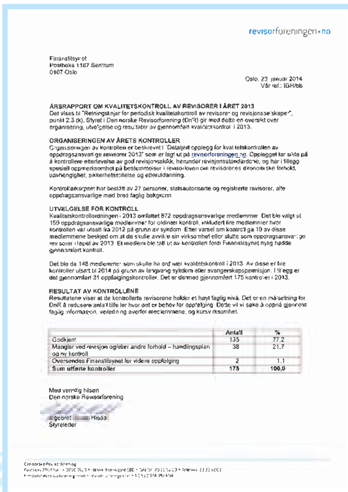
This left a total of 148 statutory auditors to undergo ordinary reviews in 2013. Four of the reviews were deferred to 2014 due to long term illness or maternity leave. In addition to the ordinary reviews, 31 statutory auditors were subject to follow-up reviews, resulting in a total of 175 conducted reviews in 2013.

Result of the quality assurance reviews
The results of the reviews show that Norwegian statutory auditors maintain a high professional standard. It is a continuing goal for the 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 and courses to our members.

	Number	**%**
Approved	135	77.2
Audit flaws and/or other shortcomings – action plan and follow-up review	38	21.7
Submitted to Finanstilsynet for further action	2	1.1
Total number of reviews conducted	**175**	**100.0**

Yours sincerely

(sign.)
Ingebret Grude Hisdal
Chair
Norwegian Institute of Public Accountants



revisorforeningen.no

Finanstilsynet
Postboks 1187 Sentrum
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Oslo, 23. januar 2014
Vår ref.: IGH/bb

ÅRSRAPPORT OM KVALITETSKONTROLL AV REVISORER I ÅRET 2013
Det vises til "Retningslinjer for periodisk kvalitetskontroll av revisorer og revisjonsselskaper", punkt 2.3 (k). Styret i Den norske Revisorforening (DnR) gir med dette en oversikt over organisering, utvelgelse og resultater av gjennomført kvalitetskontroll i 2013.

ORGANISERINGEN AV ÅRETS KONTROLLER
Organiseringen av kontrollen er beskrevet i "Detaljert opplegg for kvalitetskontrollen av oppdragsansvarlige revisorer 2013" som er lagt ut på revisorforeningen.no. Opplegget tar sikte på å kontrollere etterlevelse av god revisjonsskikk, herunder revisjonsstandardene, og har i tillegg spesiell oppmerksomhet på bestemmelser i revisorloven om revisorenes økonomiske forhold, uavhengighet, sikkerhetsstillelse og etterutdanning.

Kontrollørkorpset har bestått av 27 personer, statsautoriserte og registrerte revisorer, alle oppdragsansvarlige med bred faglig bakgrunn.

UTVELGELSE FOR KONTROLL
Kvalitetskontrollordningen i 2013 omfattet 872 oppdragsansvarlige medlemmer. Det ble valgt ut 159 oppdragsansvarlige medlemmer for ordinær kontroll, inkludert fire medlemmer hvor kontrollen var utsatt fra 2012 på grunn av sykdom. Etter varsel om kontroll ga 10 av disse medlemmene beskjed om at de skulle avvikle sin virksomhet eller slutte som oppdragsansvarlige revisorer i løpet av 2013. Et medlem ble tatt ut av kontrollen fordi Finanstilsynet nylig hadde gjennomført kontroll.

Det ble da 148 medlemmer som skulle ha ordinær kvalitetskontroll i 2013. Av disse er fire kontroller utsatt til 2014 på grunn av langvarig sykdom eller svangerskapspermisjon. I tillegg er det gjennomført 31 oppfølgingskontroller. Det er dermed gjennomført 175 kontroller i 2013.

RESULTAT AV KONTROLLENE
Resultatene viser at de kontrollerte revisorene holder et høyt faglig nivå. Det er en målsetning for DnR å redusere antall tilfeller hvor det er behov for oppfølging. Dette vil vi søke å oppnå gjennom faglig informasjon, veiledning overfor medlemmene, og kursvirksomhet.

	Antall	%
Godkjent	135	77,2
Mangler ved revisjon og/eller andre forhold – handlingsplan og ny kontroll	38	21,7
Oversendes Finanstilsynet for videre oppfølging	2	1,1
Sum utførte kontroller	**175**	**100,0**

Med vennlig hilsen
Den norske Revisorforening

Ingebret Hisdal
Styreleder

SUPERVISION OF IT AND PAYMENT SYSTEMS

TRENDS

More phishing but low losses

2013 saw further attempts at phishing[1] designed to trick people into giving away payment details. A very large number of e-mails were sent to random recipients, ostensibly from VISA, Teller, Western Union, Nets, SpareBank 1, Danske Bank or other financial institutions. Ever new scenarios were presented, often citing necessary security updates as a reason for asking for a credit card or account number. Most were written in poor Norwegian, whereas e-mails purporting to be from international financial institutions such as Western Union or Visa were written in English and were better worded. Clicking on a link in such e-mails could result in the computer being infected and thus vulnerable to a Trojan attack[2]. Losses due to phishing are included in the loss figures for payment card fraud, in particular card-not-present fraud, and internet bank fraud. Banks' countermeasures were effective: they warned customers, were quick to close down bogus webpages, intercept replies and monitor transactions. Despite the measures put in place, the number of losses in the card-not-present[3] area rose in 2013. Finanstilsynet considers it important for banks to invest in effective measures to enhance the security of this form of payment. Trojan attacks against internet banks were less aggressive in 2013 than in 2012.

The increase seen in DDoS[4] attacks in 2012 continued through 2013. However, measures taken both by institutions themselves and by internet providers (ISPs) were stepped up so that although more attacks were noted, access was little affected. In 2013 a new type of targeted DDoS attack was seen, and in September Gjensidige Forsikring ASA was subjected to a DDoS attack involving concrete threats.

Vulnerable infrastructure

Two serious events in spring 2013 demonstrated the vulnerability resulting from a breakdown of shared infrastructure. On 4 March a network failure at Evry lasted about four hours, and on 18 March a network failure at Nets about two hours. In both episodes a network component was at fault, and the back-up solution failed to function as intended. The network component was the gateway to a number of payment services. Finanstilsynet considers the providers' network structure should be scrutinised to prevent the failure of one component from affecting many critical services simultaneously, and the Authority has asked the banks and their suppliers to initiate measures to prevent repeat events.

Outsourcing – changes at Nets

In November 2012 Nets Norway AS (Nets) announced changes to the Nets Group structure. Since there was talk of a possible "branchification" of Nets' Norwegian business, Finanstilsynet drew Nets' attention to the need to clarify the banks' right to use the solutions for the banks' shared services and shared infrastructure. Many of the solutions

1 Phishing: to masquerade as a trustworthy entity in an e-mail in order to steal someone's credentials.

2 Trojan: malicious code concealed in an apparently useful program which, when executed, gives access to the targeted computer. The program is often undetectable to anti-virus scanners and may cause much harm, for example in internet banks or by spying on the victim's computer.

3 Card-not-present transaction: a payment card transaction not requiring use of a pin code. Most common for transactions over the telephone or internet.

4 DDoS = Distributed Denial of Service: an attempt to make a web address or website service unavailable by bombarding it with requests to cause a server overload.

that are managed and operated by Nets – such as Bank Axept, NICS and Bank ID – are integral to the banks' payment systems. Finanstilsynet also took up the need for management and control of the shared operative infrastructure, especially in an emergency situation if parts of the activity are located outside Norway. Finanstilsynet pointed out to the banks their responsibility for Nets' service provision in key areas of the payment systems in Norway, and their responsibility for assuring the necessary management and control, and thereby an acceptable level of risk. Finanstilsynet asked each bank to confirm that the changes in Nets' organisation structure emanate from the bank's management and board of directors with a background in Nets' vital mission as provider to the banks. The matter has yet to be finalised.

SUPERVISION AND MONITORING

IT inspections

In 2013 Finanstilsynet conducted 18 on-site IT inspections. A further 44 simplified IT inspections were carried out, mainly at real estate agencies and debt collection firms. Four of the on-site inspections were part of a thematic round of inspections of emergency preparedness solutions for domestic fund transfers which Finanstilsynet conducted in conjunction with Norges Bank. In an emergency in which the electronic payments system is not functioning, a three-level preparedness structure was envisaged:

- Level 1 covers the ordinary back-up solutions established by financial institutions, and which comply with section 11, "Disruption of operations and disaster preparedness", of the ICT regulations. This is the first line of defence in an emergency situation.
- Level 2 covers the measures established at an overarching level to tackle a more serious situation in which the first line of defence falls short because parts of the infrastructure are inaccessible.
- Level 3 covers the measures in a situation in which the first two lines of defence fall short because the entire financial infrastructure is inaccessible.

Use of cash was previously considered the most relevant payment option in a situation requiring level 3 measures. In order to map banks' preparedness as regards customer access to means of payment and the position of cash in that regard, inspections were carried out at three selected banks and one clearing house: DNB Bank ASA (universal bank), Storebrand Bank ASA (internet bank), Lillestrømbanken (part of Eika Alliansen) and NICS Operatørkontor (clearing house).

The inspection revealed that an emergency situation in which there is no access to shared infrastructure is easier to handle by means of back-up solutions than an emergency situation in which there is no access to the bank's core solutions. On the other hand, more users will be affected overall when there is no access to shared infrastructure. Since the operation of Norwegian banks' core solutions is fairly dispersed in both technological and geographical terms, there will always be access to the core solution of some banks. The supervisory process has yet to be completed. The results will be summarised in a final report as well as to in reports to the individual banks.

Payment systems

Finanstilsynet received 38 notifications of changed or new payment services in 2013. Most concerned payment services utilised from mobile devices.

Risk and vulnerability analysis (RAV)

The 2012 RAV analysis was presented at a press conference in April 2013. In May Finanstilsynet organised, together with Norges Bank, a seminar at which the RAV analysis and Norges Bank's annual report on payment systems was presented to financial industry players. Overall the reports provide an updated picture of the evolution and use of payment systems and of events and losses.

Finanstilsynet received about 190 event reports in 2013 distributed on some 500 e-mails. The events are analysed to provide a basis for further follow-up. Finanstilsynet always gives feedback to event reports and take direct action where appropriate. Each year a seminar is held on topical issues for those responsible for reporting and following up event reports at supervised entities.

FinansCERT Norge AS was established in October 2013 to work to prevent internet crime perpetrated against banks, life insurers and pension funds that are members of Finance Norway. Finanstilsynet considers this to be a sound measure in the drive against internet crime.

LICENSING AND REGULATORY DEVELOPMENT

Finanstilsynet recommended the following changes to the Ministry of Finance in 2013 as regards outsourcing:

- A general obligation to notify Finanstilsynet of outsourcing
- A specific obligation to notify outsourcing of ICT systems – the entity's board of directors must approve such outsourcing
- New rules on security and risk to apply when payment services are established or changed

Consumer protection

The proposed new regulations to the Payment Services Act are a step in assuring secure payments services for their users. The regulations set specific requirements for the design of payment services with a view to assuring consumers sufficient protection against fraud.

Emergency preparedness

Finanstilsynet is secretariat to, and heads, the Financial Infrastructure Crisis Preparedness Committee (BFI). Three meetings and one emergency preparedness exercise were held in 2013. In addition, Finanstilsynet conducted in conjunction with Norges Bank a thematic round of inspections of emergency preparedness solutions for domestic payment transfers; see page 70.

On commission from the Ministry of Finance, Finanstilsynet coordinated the planning of a joint emergency preparedness exercise between the Ministry of Finance, Norges Bank and Finanstilsynet held in December 2013. The exercise covered serious malfunctions in the financial infrastructure and subsequent dealings with the media, and involved the top management of the three institutions.

Finanstilsynet has followed up on the effort to provide a firm basis for the financial sector to prioritise access to electricity and telecommunications in an emergency situation and has set the stage for a meeting between major financial actors and the electricity and telecoms providers. The location of technical installations may change over time. It is therefore important to establish communication between financial actors and electricity and telecoms providers at a high level to enable electricity and telecoms providers to act on the priorities set by the authorities in a crisis situation.

INTERNATIONAL COOPERATION

Turbulent financial markets and uncertainties in the world economy have since 2008 prompted a number of initiatives to improve supervision and regulation of financial markets. Sound rules and oversight promote well-functioning financial markets and ensure that potential risks to financial stability are duly addressed.

Principles have been established at the global level for solid financial institutions and improved supervision and, based on these principles, the EU and other countries and regions have developed their respective bodies of rules. The EU initiatives address capital requirements, supervision of systemically important banks, crisis management and a joint banking supervisor for the euro area through the establishment of a banking union. See "Banking and finance", page 34.

Norway is closely tied to the EU through the EEA Agreement which provides financial institutions in the EEA area with a uniform market framework in terms of regulation, enforcement and supervisory practices. In most areas overseen by Finanstilsynet, Norwegian legislation largely comprises transposed EU legislation. Regulatory enforcement and supervisory practices are also coordinated across the EEA area.

Finanstilsynet and Norway are affected by principles and rules in effect in the EU and across the world. Finanstilsynet also collaborates on supervision in the global and the EEA context. An important aim of cross-border supervisory cooperation is to identify risk factors present in firms and markets in the international financial market at an early stage. The supervisory cooperation also enables the launching of coordinated risk management measures.

SUPERVISORY COLLABORATION ACROSS THE EU/EEA

Finanstilsynet's collaboration with EU financial supervisors

The EU has three supervisory authorities (ESAs) in the financial area:

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

The ESAs' mission is to support effective regulation and effective supervision across the single market. They aim to promote well-functioning markets and a level playing field, prevent supervisory arbitrage and improve consumer protection. The three bodies collaborate in a joint committee on cross-sectoral matters such as anti-money laundering and oversight of financial conglomerates.

The EU also has a European Systemic Risk Board (ESRB) with overarching responsibility for macroprudential surveillance of the EU's financial system. Its mission is to ensure that risk build-up in the financial system does not pose a threat to financial stability.

Finanstilsynet has since 2011 been invited to attend meetings of the Boards of Supervisors of the supervisory authorities (apart from the ESRB) as Norway's observer and it participates in the work of the boards' subgroups, both as regards regulatory development and supervision of markets and firms. As from 2013 Finanstilsynet and Norges Bank have attended meetings of the ESRB's Advisory Technical Committee as observers.

The supervisory authorities have certain supranational powers in the EU which are difficult for the EFTA/EEA countries to accept. Among them is the power to issue an order to a national authority, or in some cases to a financial institution. For Norway to allow an international body, of which Norway is not a member, to take decisions directly affecting Norwegian firms or individuals, would violate the Norwegian constitution. Norway, Iceland and Liechtenstein are in talks with the EU Commission on this difficult issue. Until a way forward is agreed, the EFTA/EEA countries' relationship to the EBA, ESMA and EIOPA will not be incorporated in the EEA Agreement.

Because the legislation governing the EU supervisory authorities is not currently part of the EEA Agreement, other sectoral bodies of rules will also not be included in the Agreement. Where interpretation of EU rules and exercise of supervision is concerned, Finanstilsynet takes account of guidelines and recommendations issued by the EU supervisory authorities. Finanstilsynet's follow-up of guidelines from the supervisory authorities is reported on Finanstilsynet's website.

REGULATORY DEVELOPMENT IN THE EU AND TRANSPOSITION INTO NORWEGIAN LAW

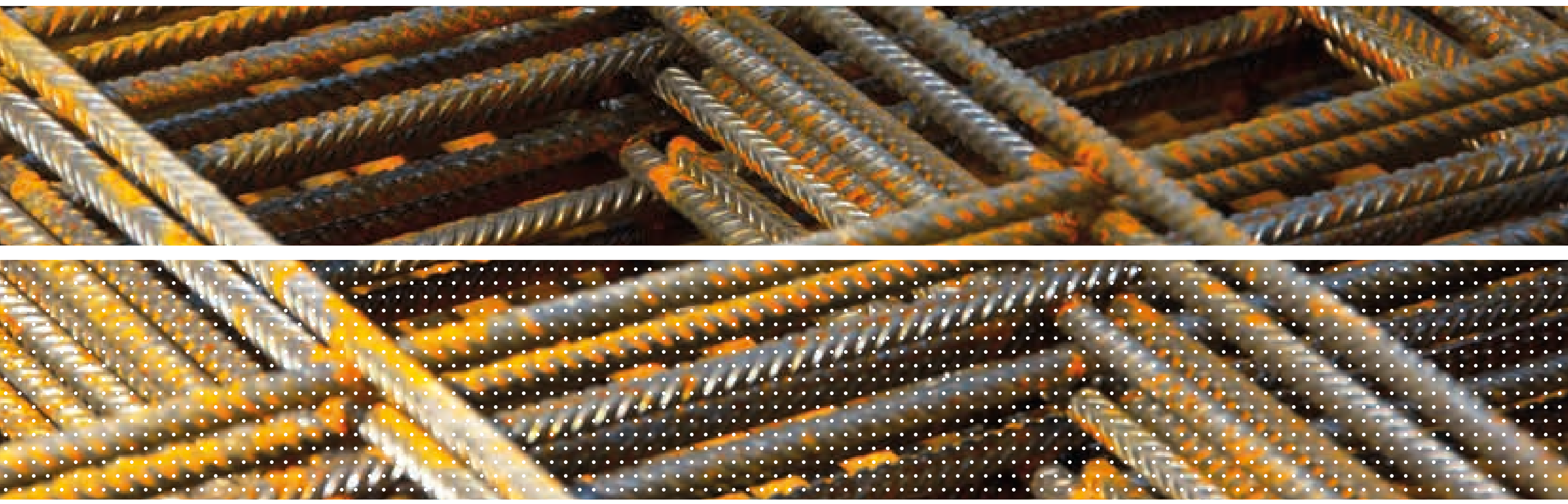
Norway is part of the EU's single market by way of the EEA agreement and is accordingly obliged to implement rules adopted by the EU that are EEA relevant.

The EU Commission is responsible for proposing new EU legislation. Norway participates in expert groups that provide advice to the EU Commission in various areas. In the financial area the Commission is often assisted by the EU's financial supervisory authorities when drafting legislation. These authorities can also make recommendations regarding interpretation of the legislation.

Finanstilsynet participates in a number of working groups under the EU supervisors that prepare regulatory documents. It does so in order to build up the competence needed to transpose new rules into Norwegian law, to identify and promote Norwegian interests and to play a part in producing sound, relevant legislation.

Once adopted by the EU, rules governing the financial area must be incorporated in the EEA agreement before being 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 the incorporation of legislative acts in the financial area into the EEA agreement.

Topical, concrete EU legislative matters receive further comment in the chapters covering the respective areas of supervision. See also a separate box on EEA papers.



EEA PAPERS – INFORMATION ABOUT EU LEGISLATION

The government publishes EEA papers on EU regulatory initiatives at www.europaportalen.no in "EØS-notatbasen". The papers provide a good overview of rules under preparation in the EU, both of their content and relevance to Norway. The portal also explains how legislative acts are, in the event, to be implemented in Norway. Most papers of relevance to finance, insurance, securities and auditing are available by selecting "Søk i EØS-notatene" in the left hand menu, and then selecting "Kapitalbevegelser og finansielle tjenester" under "Spesialutvalg" on the right hand side. The portal is not available in English translation.

SUPERVISORY PRACTICES

The EEA Agreement sets the stage for banks, insurers and investment firms to operate across national borders with fewest possible impediments. Many foreign entities operate in Norway, and many Norwegian entities operate elsewhere in the EEA. To ensure well-functioning markets, not only the legislation but also its enforcement and supervisory practices must be consistent.

Not least, close collaboration is needed with other national supervisors in Europe in order to identify risks present in markets and firms.

By participating in the Boards of Supervisors and working groups under the EU supervisory authorities' auspices, Finanstilsynet contributes to the development of good supervisory practices. Colleges have been established for the supervision of individual conglomerates. Each college comprises the national supervisor in each country in which the particular conglomerate is established, and the relevant EU supervisory authority.

NORDIC AND NORDIC-BALTIC COOPERATION

The financial market in the Nordic region is well integrated, and a number of financial institutions sell services in other Nordic countries through subsidiaries and branches. The extensive cross-border activity in the region means close cooperation is needed to assure well-functioning markets and financial stability. The cooperation covers supervision of the respective financial institutions, monitoring of risks that pose a threat to financial stability, regulatory development, rule enforcement and development of supervisory practices.

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

The Nordic-Baltic Stability Group (N-BSG) was established in 2010 drawing representatives from the finance ministries, central banks and financial supervisors in the Nordic-Baltic countries. The group has drawn up a framework for coordination of cross-border measures in the event of a crisis situation at systemically important, cross-border financial institutions. Finanstilsynet attended several N-BSG meetings and subgroups in 2013.

The Nordic-Baltic Macroprudential Forum (NBMF) brings together the top management at central banks and financial supervisors and discusses macroprudential surveillance and other supervisory work 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. Finanstilsynet attended several of the NBMF and subgroups in 2013.

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COLLABORATION WITH OTHER SUPERVISORS ON THE GLOBAL STAGE

In the wake of the financial crisis, global institutions, headed up by the G20 countries, took the initiative for, and coordinated, principles for financial market reform. The Financial Stability Board (FSB) oversees the implementation of the reforms. In addition, both the Basel Committee and the International Association of Insurance Supervisors (IAIS) have revised their principles for the supervision of banks and insurers. In 2013 much effort was, for example, put into reaching global agreement on standards for the supervision and regulation of systemically important institutions.

In order to keep abreast of market developments and to play its part in the development of principles and legislation, Finanstilsynet participates in global supervisory organisations covering most of Finanstilsynet's areas of responsibility. An overview of Finanstilsynet's participation in international organisations can be found on page 77.

The International Monetary Fund (IMF) resolved in 2010, as a result of the global financial crisis, that the 25 most significant countries should undergo a mandatory financial review once every five years. In December 2013 the IMF considered its methodology anew, and extended its surveillance to a further four countries. The financial sectors in Poland, Denmark, Finland and Norway are now regarded as systemically important. The IMF is expected to visit Norway in 2015.

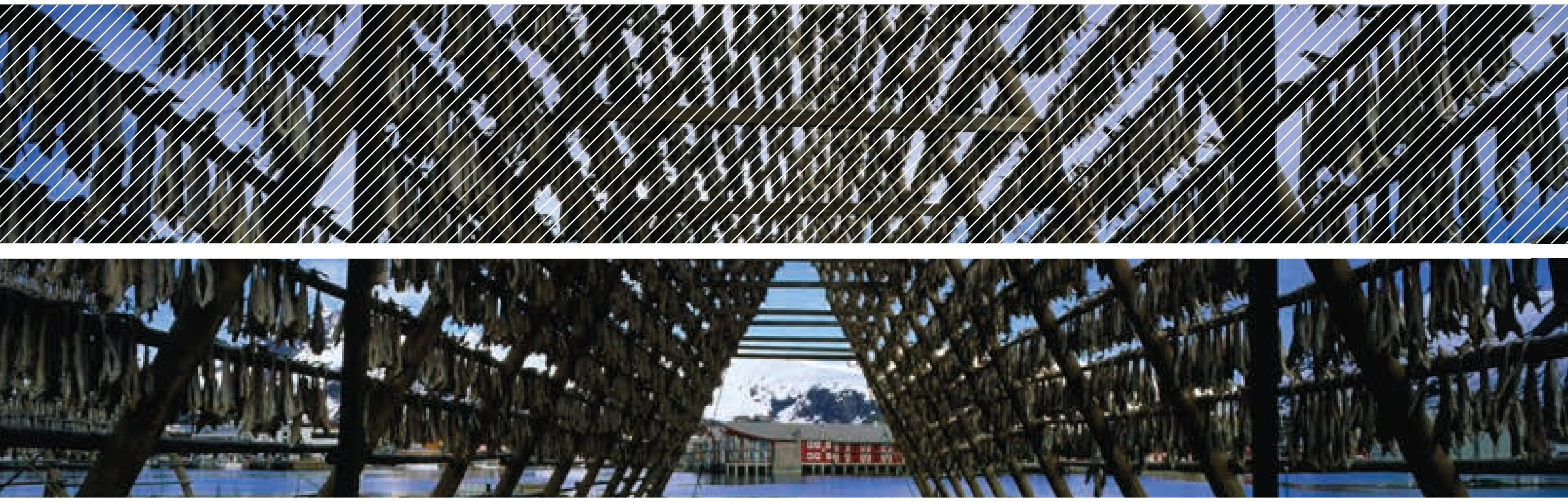

TABLE 11: INTERNATIONAL ORGANISATIONS AND EU/EEA RELATED COMMITTEES IN WHICH FINANSTILSYNET PARTICIPATES OR ATTENDS AS AN OBSERVER

Cross-sectoral meetings

- EFTA Working Group on Financial Services
- Financial Stability Board (FSB)
  – Regional Consultative Group Europe
- Integrated Financial Supervisors Conference
- FinCoNet – Financial Consumer Network
- Project Link, the UN's annual macroeconomic meeting
- Nordic supervisory meetings at director general level
- Nordic-Baltic Macroprudential Forum
- Nordic-Baltic Stability Group
- EU Commission Expert Group on Banking, Payments and Insurance (meeting with the Ministry of Finance)
- The Legal Entity Identifier Regulatory Oversight Committee (LEI ROC)

Banking/finance

- Basel Consultative Group
- Macroprudential Supervision Group (Basel Committee)
- International Conference of Banking Supervisors (ICBS) – arranged by the Basel Committee every two years
- OECD's Financial Markets Committee
- European Banking Committee (EBC) – (meeting with the Ministry of Finance)
- European Banking Authority (EBA)
- Nordic meetings on banking supervision
- European Systemic Risk Board – Advisory Technical Committee (ESRB ATC)

Insurance

- International Association of Insurance Supervisors (IAIS)
- International Organisation of Pension Supervisors (IOPS)
- OECD's Working Party on Private Pensions (Task Force on Private Pensions)
- European Insurance and Occupational Pensions Committee (EIOPC)
- European Insurance and Occupational Pensions Authority (EIOPA)
- International Forum of Insurance Guarantee Schemes (IFIGS) – Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance
- Nordic supervisory meetings for insurance

Securities and prospectuses

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

Accounting and auditing

- International Forum of Independent Audit Regulators (IFIAR)
- Accounting Regulatory Committee (ARC)
- Audit Regulatory Committee (AuRC)
- European Group of Auditors' Oversight Bodies (EGAOB)
- European Audit Inspection Group (EAIG)
- IAIS sub-committee on accounting
- European Securities and Markets Authority (ESMA)
- Nordic collaboration

Money laundering and financing of terrorism

- Financial Action Task Force (FATF) – the international forum for measures against money laundering and the financing of terrorism, with its secretariat in the OECD
- Joint Committee's Subcommittee on Anti-Money Laundering – a collaboration between the EBA, ESMA and EIOPA

ICT supervision

- Information Technology Supervision Group (ITSG)
- 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
- 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
- European Central Bank – SecuRe Pay (mobile payment security)
- Nordic supervisory meetings for IT

FINANSTILSYNET'S ORGANISATION

THE BOARD
Endre Skjørestad
Chairman

DIRECTOR GENERAL
Morten Baltzersen

DIRECTOR GENERAL'S STAFF

- Eirik Bunæs — Director
- Knut Lykke — Head of International Relations (acting)
- Rune Grundekjøn — Special Adviser / Controller
- Cecilie Ask — General Counsel
- Anders N. Kvam — Consumer Coordinator
- Anne Kari Østmo — Board Secretary

COMMUNICATIONS
Kjetil Karsrud
Communications Director

ADMINISTRATION
Gun Margareth Moy
Deputy Director General

- **HR** — Tone Lise Bjørvik Risan, Head of Section
- **IT** — Kjell Skaug, Head of Section
- **Finance and Services** — Maj Kristin Sæther, Head of Section
- **Records Management and Archives** — Lone Tudborg Lakhan, Head of Section

BANKING AND INSURANCE SUPERVISION
Emil R. Steffensen
Deputy Director General

- **Licensing and Crisis Management** — Ole-Jørgen Karlsen, Head of Section
- **IT and Payment Systems** — Olav Johannessen*, Head of Section
- **Capital Adequacy and Solvency Regulation** — Bjørn Andersen, Head of Section
- **Analysis and Reporting** — Anne Stine Aakvaag, Head of Section
- **Banking Supervision** — Per Jostein Brekke, Head of Section
- **Macroeconomic Surveillance** — Harald Johansen, Head of Section
- **Insurance Supervision** — Runa K. Sæther, Head of Section

CAPITAL MARKETS SUPERVISION
Anne Merethe Bellamy
Deputy Director General

- **Prospectuses and Financial Reporting** — Gaute S. Gravir, Head of Section
- **Securities Supervision** — Geir Holen, Head of Section
- **Investment Firms and Infrastructure** — Marte Voie Opland, Head of Section
- **Audit and External Accounting** — Kjersti Elvestad, Head of Section
- **Collective Investment Schemes** — Britt Hjellegjerde, Head of Section
- **Estate Agencies and Debt Collection Firms** — Anne-Kari Tuv*, Head of Section

* Takes up office on 1 July 2014

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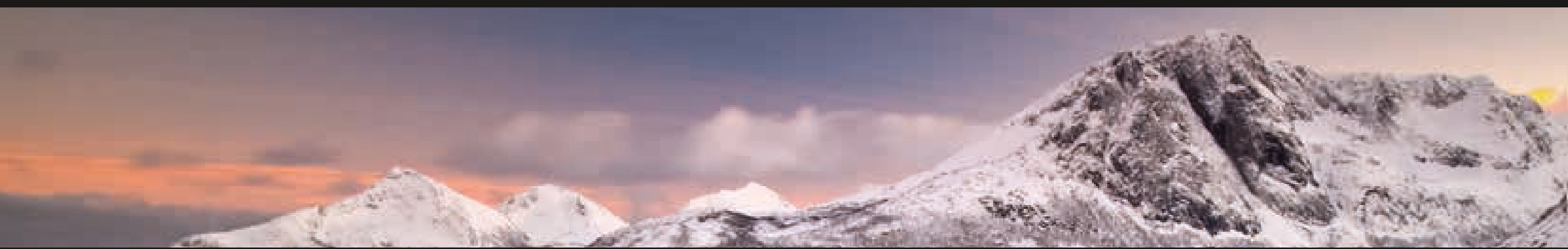
Risk Outlook 2014: The Financial Market in Norway

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, financial strength and risk 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 Trends** in the autumn.



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