



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

ANNUAL REPORT 2018



CONTENTS

I	REPORT BY THE CHAIR AND THE DIRECTOR GENERAL	4
II	INTRODUCTION AND MAIN FIGURES	7
	MANAGEMENT, PERSONNEL POLICY AND ORGANISATION	8
	COMMUNICATION	16
	INTERNATIONAL COOPERATION	19
III	THE YEAR'S ACTIVITIES AND RESULTS	22
	MISSION ACHIEVEMENT	23
	REPORT FROM THE SUPERVISED SECTORS	24
	Banking and finance	24
	Supervision of ICT and payment services	34
	Insurance and pensions	36
	The securities area	42
	Infrastructure	45
	Market conduct	48
	Investment firms	50
	Mutual funds and collective investment schemes	52
	Prospectus control – transferable securities	54
	Financial reporting enforcement – listed companies	56
	Auditing	58
	Measures against money laundering	62
	Consumer protection	64
	Current topics	67
	Fintech	67
	Crowdfunding	67
	Sustainable finance – climate risk	68
	Brexit	68
IV	MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS	69
V	ASSESSMENT OF FUTURE PROSPECTS	73
VI	ANNUAL ACCOUNTS	76



**REPORT BY THE CHAIR AND
THE DIRECTOR GENERAL**



REPORT BY THE CHAIR AND THE DIRECTOR GENERAL

Finanstilsynet's main goal is to promote financial stability and well-functioning markets. Its primary task is to supervise licensable activities. In order to ensure the highest possible overall goal achievement, supervisory efforts are risk-based, and the work on regulatory development and management is as far as possible adapted to the significance of the regulations for goal achievement. Finanstilsynet has in the main discharged its tasks in line with the Ministry of Finance's letter of allocation and the plans made for its activities in 2018.

Finanstilsynet has been assigned new, significant supervisory tasks. Among other things, Finanstilsynet has been designated as the Norwegian resolution authority under new European regulations for the resolution of banks. Finanstilsynet has also been given wider supervisory responsibilities pursuant to the new Anti-Money Laundering Act, as well as additional tasks related to trading in securities and commodity derivatives. The authority's budget was increased in 2018. New supervisory tasks, along with extensive work related to the assessment, implementation and management of complex and expanding European legislation, nevertheless make it all the more important for Finanstilsynet to focus its use of allocated resources and to streamline its activities.

Finanstilsynet receives extensive reports from institutions subject to supervision. The reporting should be effective and secure, and must, together with other information, be adapted for use in supervisory activity. As part of efforts to streamline reporting and internal work processes, as well as strengthen supervision of the industry's ICT and payment systems, Finanstilsynet established a new department for digitalisation and analysis in 2018.

The financial industry makes increasing use of new technology. This has contributed to the streamlining of operations and the introduction of new services, and customer service is increasingly based on digital platforms. New players challenge established institutions, and technological developments affect all industries supervised by Finanstilsynet. New technology may intensify competition and provide better access to financial services, wider options and lower-priced services. At the same time, new products and business models may involve new types of risk for both for the

financial system and the customers. In order to promote financial stability and customer protection, equal risks should be treated equally, regardless of business model.

After a period of low growth as a result of the fall in oil prices, there has been comfortable growth in the mainland (non-oil) economy over the last couple of years, and the rate of unemployment has fallen to a low level. The Norwegian economy is expected to show a continued strong trend over the next few years, although developments are uncertain. Households' debt-to-income ratio is very high, and debt is still growing at a higher rate than income. There was a moderate rise in house prices in 2018, but the high level of household debt and house prices pose a significant risk to financial and economic stability in Norway. Furthermore, the Norwegian economy and Norwegian financial markets are vulnerable to international financial turmoil and a setback in the international economy. Brexit, trade conflicts and high private debt in China are among the factors that may trigger an economic setback and financial market turmoil.

The favourable trend in the Norwegian economy is reflected in low losses and strong profits in the banks. The banks have gradually improved their financial position in the years since the international financial crisis. Financial soundness and healthy profitability give the banks a good basis for handling an economic setback and volatile markets. The European regulation on banks' capital requirements is expected to be incorporated into the EEA Agreement in 2019. Seen in isolation, this will entail slightly lower capital requirements for Norwegian banks as a result of lower risk weighting of bank lending than in the current Norwegian regulation. In order to ensure financial stability, however, banks should retain their financial soundness. Finanstilsynet will enable this through its supervisory practices.

In order to promote competition in the banking market, it is important to open up for the establishment of new entities. In recent years, Finanstilsynet has granted a licence to several new banks, many of which have focused on granting unsecured credit to consumers (consumer loans). In consequence of strong growth and the danger of adverse customer selection, the risk of losses for newly established banks must be assumed to be higher than normal for the industry.



Apart from equity, the newly established banks are generally funded by deposits covered by the Norwegian deposit guarantee scheme. In the event of failure, banks that are largely funded by deposits are more likely to cause losses for the deposit guarantee scheme than banks with a more diversified funding structure. In order to prevent capital inadequacy in newly established banks and claims under the deposit guarantee scheme, Finanstilsynet's capital requirements for these banks are significantly higher than the general capital requirements.

Consumer loans represent a small share of overall household debt, but still show strong growth. These are expensive loans that can be a heavy burden for vulnerable households. Thus far, these loans have been highly profitable for financial institutions. This is partly due to the fact that strong creditor protection has limited the losses when loans are defaulted on. However, in light of strong and protracted growth in such loans, the future credit risk may be underestimated. In addition, such lending activity entails a significant reputational risk for the individual lender and for the financial industry as such and may weaken the general confidence in the creditor protection system. Finanstilsynet oversees the consumer loan market through supervision and has, among other things, proposed regulation of the banks' consumer lending practices in order to promote healthier credit practices.

The financial industry has important tasks and responsibilities to fulfil to combat money laundering, terrorist financing and other financial crime. Compliance with the anti-money laundering regulations is essential to ensure public confidence in the financial industry. Non-compliance entails a significant operational risk for the entities in the form of loss of reputation, fines and liability for damages. Finanstilsynet has increased its supervisory effort and has also been given wider supervisory responsibilities pursuant to the new Anti-Money Laundering Act that entered into force in October. Fight against crime is one of the operational goals in Finanstilsynet's strategy for the next four years. Priority will be given to overseeing compliance with the anti-money laundering legislation.

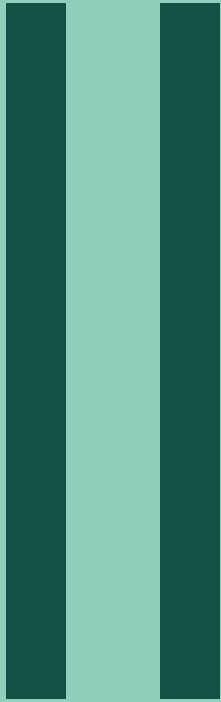
Protection of investor interests, especially consumers, figures prominently in the supervision of the securities and mutual fund markets. New pan-European securities legislation promotes improved investor protection. Parallel to this, new, comprehensive regulation of market venues and other market infrastructure has been introduced, including new reporting requirements, in order to promote financial stability and well-functioning securities markets. This requires extensive follow-up on the part of Finanstilsynet. Therefore, greater resources have been used on securities market infrastructure, and a further increase is anticipated in the years ahead.

The supervision of securities and mutual fund operations must be viewed in light of the supervision of pension institutions. The pension liabilities of life insurers still predominantly represent defined-benefit plans. However, due to the shift from defined-benefit to defined-contribution pensions in the private sector, there is strong growth in individual and collective unit-linked schemes. Investment choices may have a strong bearing on individuals' future pension benefits. This entails special requirements for good customer advice and other investor protection measures.

Oslo, 21 February 2019

Finn Arnesen
Board Chair

Morten Baltzersen
Director General



INTRODUCTION AND MAIN FIGURES



INTRODUCTION AND MAIN FIGURES

Finanstilsynet is responsible for the supervision of banks, finance companies, mortgage companies, e-money institutions, payment institutions, insurers, pension providers, insurance intermediaries, investment firms, securities fund management companies, managers of alternative investment funds, regulated markets (incl. stock exchanges), securities depositories, real estate agencies, debt collection firms, external accountants and auditors. Finanstilsynet is also responsible for prospectus control and oversees listed companies' financial reporting and market conduct.

Basis in law

Finanstilsynet's mission is set out in the Financial Supervision Act (section 3):

"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."

Strategy

Every four years Finanstilsynet reviews the strategy underlying its activities. The strategy is an important basis for ongoing prioritisation and management of the authority's activities. Along with the letter of allocation from the Ministry of Finance, the strategy forms the basis for the annual plans for these activities. The strategy for the period 2015–2018 was adopted by Finanstilsynet's Board of Directors on 15 December 2014. The Board adopted a new strategy for the period 2019–2022 on 18 December 2018.

Main goal

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

Operational goals 2015–2018

In the strategy for 2015–2018, five operational goals were formulated to simplify operationalisation of the main goal and evaluation of activities:

1. Financially sound and well-capitalised financial institutions
2. Robust infrastructure
3. Investor protection
4. Consumer protection
5. Effective crisis management

Instruments

Finanstilsynet's activities are far-reaching, and a range of instruments are deployed with a view to meeting the authority's goals. The instruments are used individually or in combination and can be divided into four main groups:

- Supervision, monitoring and control
- Licensing
- Regulatory development
- Information and communication

Management

Finanstilsynet's Board of Directors has by law the overarching responsibility for Finanstilsynet's activities. The Board has five members. Members and alternates are appointed by the Ministry of Finance for a term of four years. As of 1 March 2018, Finn Arnesen has been chair of Finanstilsynet's Board of Directors.

The day-to-day management is in the hands of the Director General, who is appointed by the King in Council for a period of six years at a time. Morten Baltzersen has been Director General since 15 August 2011 and started his second term in August 2017. The Director General confers with a management team consisting of the directors of the supervisory departments and the Administration Department, the General Counsel and the Communications Director.



Composition of the Board of Directors as of 1 March 2018

Finn Arnesen

chair

Professor – Scandinavian Institute of Maritime Law, head of the Centre for European Law, the Faculty of Law, University of Oslo

Giuditta Cordero-Moss

deputy chair

Professor – Department of Private Law, the Faculty of Law, University of Oslo

Mette Bjørndal

board member

Professor – Department of Business Management and Science, NHH Norwegian School of Economics

Kjetil Wibe

board member

Attorney-at-law – Advokatene Rege & Wibe

Arne Skauge

board member

Retiree, previously Managing Director of the Norwegian Financial Services Association

Thorunn Falkanger

first alternate

Senior lecturer – Department of Law and Governance, BI Norwegian Business School

Bjørn Arild Gram

second alternate

Mayor – Steinkjer municipality

Sindre Weme

observer

Director, Banking Analysis – Norges Bank

Ylva Søvik

alternate observer

Assistant Director, Banking Analysis – Norges Bank

Composition of the Board of Directors up to 1 March 2018:

Endre Skjørestad

chair

Attorney-at-law / partner – Haver Advokatfirma AS

Giuditta Cordero-Moss

deputy chair

Professor – Department of Private Law, the Faculty of Law, University of Oslo

Mette Bjørndal

board member

Professor – Department of Business Management and Science, NHH Norwegian School of Economics

Eirik Wærness

board member

Senior Vice President / Chief Economist – Statoil ASA

Arne Skauge

board member

Retiree, previously Managing Director of the Norwegian Financial Services Association

Thorunn Falkanger

first alternate

Senior lecturer – Department of Law and Governance, BI Norwegian Business School

Kjetil Wibe

second alternate

Attorney-at-law – Advokatene Rege & Wibe

Sindre Weme

observer

Director, Banking Analysis – Norges Bank

Henrik Borchgrevink

alternate observer

Director, Macroprudential Department – Norges Bank

From the left:

Mette Bjørndal

Inga Baadshaug Eide

Arne Skauge

Thorunn Falkanger

Bjørn Arild Gram

Finn Arnesen

Giuditta Cordero-Moss

Sindre Weme

Johan Fredrik Øhman

Kjetil Wibe

Photo:

Jarle Nytingnes



Two members elected by and from among the employees supplement the Board when administrative matters are on the agenda.

The following represented the employees in 2018:

Inga Baadshaug Eide, Senior Supervisory Adviser

Johan Fredrik Øhman, Special Adviser

Their alternates were Senior Adviser **Kaja Solli**, Special Adviser **Elise Ødegård** and Senior Adviser **Marit Skjevling** (as of 26 March 2018). Special Adviser **Hege Bunkholt Elstrand** was first alternate up to 1 February 2018.

Eleven ordinary board meetings were held in 2018. The Board decided 33 administrative matters and 83 supervisory matters. The Board received information in writing on a further 26 administrative matters and 42 supervisory matters. The Board also receives a verbal briefing on relevant matters.

Organisational changes at Finanstilsynet

Finanstilsynet's Board of Directors approved a new department structure which entered into force as from September and included the establishment of a new department for digitalisation and analysis. For further details, see Chapter IV Management and control of Finanstilsynet's operations, page 69.

Finanstilsynet's management team

Morten Baltzersen

Director General

Ann Viljugrein

*Deputy Director General,
Banking and Insurance Supervision
(as from 24 February 2018)*

Anne Merethe Bellamy

*Deputy Director General,
Capital Markets Supervision*

Per Mathis Kongsrud

*Deputy Director General,
Digitalisation and Analysis
(as from 1 September 2018)*

Cecilie Ask

General Counsel

Gun Margareth Moy

Deputy Director General, Administration

Kjetil Karsrud

Communications Director

Up to 24 February 2018, **Emil R. Steffensen** held the position of Deputy Director General, Banking and Insurance Supervision.

From the left:
Anne Merethe Bellamy
Ann Viljugrein
Gun Margareth Moy
Morten Baltzersen
Kjetil Karsrud
Cecilie Ask
Per Mathis Kongsrud

Photo:
Jarle Nytingnes



Personnel policy and organisation

Finanstilsynet works continuously to further develop its organisation in keeping with national recommendations and its own needs. Finanstilsynet attaches importance to measures designed to recruit, retain and further develop competent staff members and managers. In addition, Finanstilsynet focuses on internal mobility to increase the overall level of competence.

Staff turnover was 6.8 per cent in 2018, down from 9.4 per cent in 2017. There has been an increase in the number of recruited employees for several years, and 50 positions were announced in 2018. Finanstilsynet is marketing itself to the target groups it is recruiting from and uses alternative recruitment methods to ensure that the organisation attracts the right competencies. It has proven difficult to recruit qualified expertise in some specialist fields.

Finanstilsynet's activities require both cross-disciplinary competence and spearhead competence in the various areas of supervision. The majority have their training in economics, business economics, law or auditing.

Sickness absence remained low at 4.2 per cent in 2018, compared with 3.6 per cent in 2017. The agency's sickness absence target is 3.5 per cent. With its espousal of the government-sponsored 'IA Agreement' regarding a more inclusive working life, Finanstilsynet attaches importance to following up employees on long-term sick leave and introduces measures against frequent short-term sick leaves if necessary.

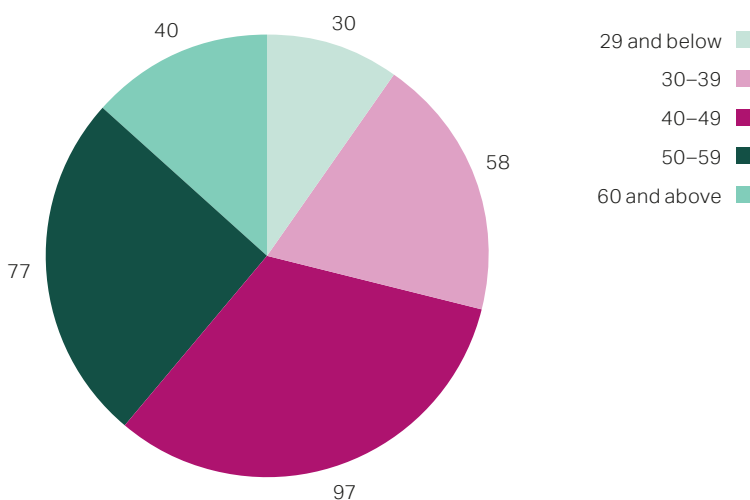
Facts and figures

The number of employees at Finanstilsynet at the end of 2018 was 302, compared with 293 at the end of 2017. This includes short-term appointments. In the annual report for 2017, a total of 276 employees were reported as at 31 December 2017. This number did not include short-term appointments. The number of FTEs at the end of 2018 was 282, an increase from 271 in 2017. FTEs are calculated based on the total number of employment contracts. Days of absence have not been deducted. The gender distribution at Finanstilsynet was 47 per cent men and 53 per cent women as at 31 December 2018, the same as a year earlier. At the end of 2018, the management team comprised four women and three men. Among the heads of section, there were 41 per cent men and 59 per cent women.

The Director General's salary at the end of 2018 was NOK 1,645,000. The fixed annual remuneration to the Board Chair was NOK 270,000, to the Deputy Chair NOK 182,400, and to each board member NOK 158,000. Remuneration to the first alternate was NOK 133,000, and to the second alternate NOK 111,500.

Chart 1: Age distribution

Source: SAP



The chart shows the age distribution of Finanstilsynet's employees. The figures include permanent staff, temporary staff, fixed-term employment contracts and short-term appointments – regardless of FTE percentage.

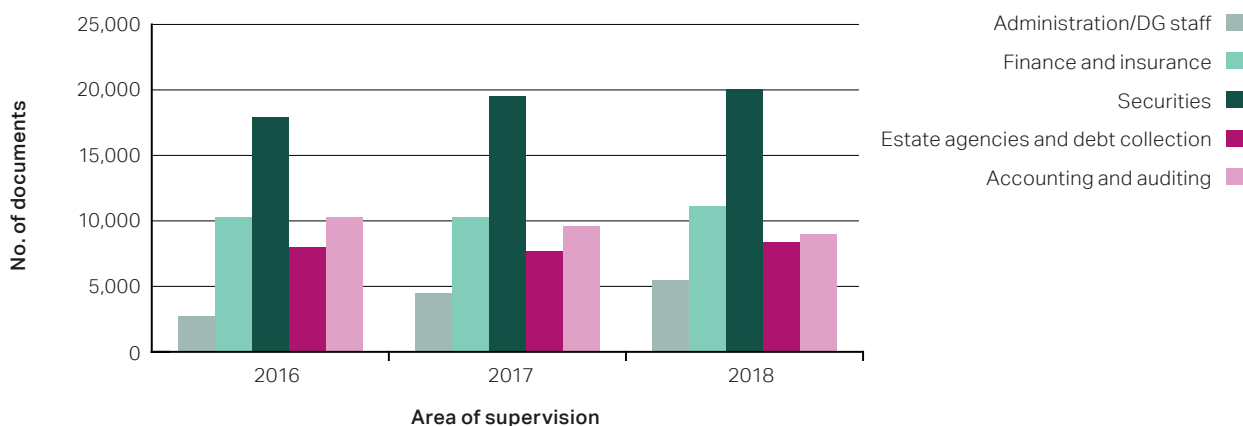


Table 1: Main figures

	2017	2018
No. of FTEs	271	282
Overall allocation, items 01-99	NOK 378,678,000	NOK 414,514,000
Utilisation ratio, items 01-29	97.94%	96.09%
Disbursement to operations	NOK 352,305,231	NOK 381,580,822
Salaries as a share of operating expenses	72.89%	72.00%
Salary expenses per FTE	NOK 947,644.35	NOK 974,214

"Salary expenses per FTE" is the sum total of salary, employer's national insurance contributions, pension expenses, other payments, such as social benefits, insurance premiums etc. Before the sum is divided by the number of FTEs, any refunds relating to salaries are deducted. See also chapter VI, Annual accounts on page 83, note 2: Disbursements to salaries to table 15: Statement of reporting by natural classification 31 Dec 2018.

Chart 2: Document processing



	2016	2017	2018
Total no. of case documents	49,143	51,527	54,024

The number of incoming and outgoing documents registered rose by 2,497 from 2017 to 2018. The increase reflects the fact that Finanstilsynet announced a number of positions in 2018. There was also a rise in the number of fit and proper tests of board members in financial

institutions and in the number of applications from financial institutions for changes in capital. In addition, there was a general increase in cases within estate agency and debt collection.



Table 2: Overview of supervised entities as at 31 December 2018

	2014	2015	2016	2017	2018
Savings banks	105	104			
Commercial banks	19	22	125	126	126
Finance companies			25	24	28
Mortgage companies ²	55	57	34	33	33
Foreign branches of Norwegian banks and other credit institutions	18	7	18	18	12
Norwegian branches of foreign banks and credit institutions	40	41	39	39	35
Savings bank foundations and financial foundations	25	25	30	33	33
Payment institutions	14	15	15	19	16
E-money institutions	3	4	6	7	6
Life insurers	13	13	13	12	12
Non-life insurers, incl. local fire insurance associations ³	59	60	59	58	56
Local marine insurance associations	10	9	6	6	5
Norwegian insurers' branches abroad	15	13	13	13	8
Foreign insurers' branches in Norway	31	32	29	29	28
Insurance intermediaries ⁴	102	102	107	107	101
Private pension funds	52	49	48	47	50
Municipal pension funds	38	39	39	37	37
Defined-contribution pension providers ⁵	–	1	1	1	1
Pension funds	4	4	4	1	1
Holding companies	11	14	17	13	15
Investment firms	106	114	107	106	96
Norwegian branches of foreign investment firms	22	22	19	19	22
Fund management companies	30	30	31	29	29
Alternative investment fund managers (AIFMs) ⁶	–	15	35	37	40
Registered alternative investment fund managers (AIFMs) ⁷	–	51	67	110	107
Central counterparties (previous clearing houses) ⁸	4	3	4	–	–
Norwegian Central Securities Depository	1	1	1	1	1
Regulated markets, incl. stock exchanges	5	5	5	5	5
Auditors	7,191	7,380	7,570	7,807	7,933
Audit firms	533	516	488	447	447
External accountants	11,500	11,558	11,185	11,350	11,606
External accounting firms	2,858	2,835	2,785	2,827	2,772
Estate agency firms	499	500	503	510	506
Lawyers' practices that include estate agency	1,278	1,238	1,164	1,160	1,056
Debt collection agencies	98	100	103	99	101
Debt purchase businesses	4	4	3	7	8

¹ As from 2016, commercial banks and savings banks are combined in the category 'banks'.

² As from 2016, the category finance companies and mortgage companies is split into separate categories.

³ As from 2016, local fire insurance associations are included in the category non-life insurers.

⁴ Insurance agent firms that distribute insurances exclusively for insurers with offices in Norway are not included in this overview, nor are entities engaged in accessory insurance agent business.

⁵ Entities under supervision from 2015.

⁶ Licensable from 1 January 2015

⁷ Licensable from 1 January 2015

⁸ After an amendment of 1 July 2017 to the Securities Trading Act and the introduction of the European Market Infrastructure Regulation (EMIR) from the same date, foreign central counterparties are no longer supervised by Finanstilsynet. Central counterparties can nonetheless continue to operate in Norway under an EMIR licence granted by their own home country authority.

Finanstilsynet also oversees the financial reporting of some 260 listed firms and supervises 423 mutual funds.

**Table 3: Number of on-site inspections by type of institution – incl. IT inspections**

	2014	2015	2016	2017	2018
Banking and finance	67	54	53	42	35
Payment institutions and e-money institutions	1	1	3	–	2
Life insurers	3	3	4	7	4
Non-life insurers	10	6	8	9	6
Insurance intermediaries	3	2	3	5	1
Pension providers and funds	3	2	2	3	1
Investment firms	11	17	8	12	14
Fund management companies	3	2	2	–	2
Infrastructure undertakings and trading venues	–	1	4	3	4
Auditors	29	40	32	41	16
External accountants	50	43	40	57	63
Estate agencies	32	37	29	25	21
Debt collection agencies	3	6	7	6	4

The low number of inspections in the "banking and finance" category in 2018 is partly due to the fact that some thematic inspections prepared in the autumn of 2018 were not carried out until early in 2019 and that Finanstilsynet conducted fewer inspections in 2017 of institutions using internal models (IRB) to calculate capital requirements for credit risk for the bulk of their loan portfolios.



Finanstilsynet's organisation

Organisation chart as at 31 December 2018





Communication

Finanstilsynet's communication effort is directed in the first instance at entities and sectors under supervision, but also at the media and the general public. Finanstilsynet has many areas of responsibility featuring extensive bodies of rules and complex issues that require a pro-active approach to information provision. Communication activity is based on the principles guiding the central government communication policy, and is accordingly a management responsibility in each area of supervision. A separate strategy for external communication is also a part of the basis for the communication effort.

Communication with entities in the financial sector

Finanstilsynet is dependent on the confidence placed in it by supervised entities and by the wider society. High-quality supervision and clear and consistent communication are therefore imperative. Good communication with market actors, trade organisations, various government authorities, the media and the wider society is vital if Finanstilsynet is to properly discharge its role in society.

A key channel of communication with supervised entities and individuals is letters written and distributed by Finanstilsynet each year. A total of 20,581 letters (outgoing documents) were sent in 2018, of which 84 per cent were sent by e-mail. In comparison, 20,040 letters were sent in 2017.

Rule clarifications, report-filing requirements and matters which entities and sectors are required to take into account are usually communicated in the form of circulars. Finanstilsynet issued six circulars in 2018, compared with 17 in 2017. Finanstilsynet's circulars are also published on Lovdata Pro, operated by Lovdata (Norway's law database).

Collaboration

Finanstilsynet has an extensive network of contacts, and meets regularly with collaborating public authorities in Norway and elsewhere, with trade and professional organisations, and with the largest supervised institutions. See an overview of Finanstilsynet's key relations on page 18. Finanstilsynet also regularly conducts user surveys at supervised entities.

Conferences and seminars

Seminars and presentations are an important part of Finanstilsynet's communication with sectors under supervision. Finanstilsynet organises a number of conferences and seminars during the year for the press and the industry. The authority held three press conferences in 2018 which were broadcast on web TV. Finanstilsynet published its Risk Outlook reports in June and December. The report analyses and reviews trends and risk in the financial market and potential sources of future stability problems in the Norwegian financial sector. In May, the authority presented the report *Risk and Vulnerability Analysis* on the use of information and communication technology (ICT) in the financial sector. The report was presented to the industry at a joint seminar with Norges Bank about ICT infrastructure. In November, the authority held a seminar for listed companies about requirements for financial reporting and ongoing disclosure requirements. The seminar was broadcast on web TV.

Presentations

A number of managers and other staff at Finanstilsynet gave various presentations during the year at seminars and conferences organised by supervised institutions, trade organisations and others about regulatory development, the interpretation of regulations and supervisory practices.

Media contact

Twenty-three press releases were issued in 2018 (21 in 2017). Media coverage of Finanstilsynet in 2018 continued to reflect the strong increase in consumer lending and in the number of banks offering such credit. The matter concerning the breach of margin requirements at Nasdaq Clearing AB also received a lot of attention. Finanstilsynet received a number of questions concerning measures against money laundering in Norway as a result of the money laundering cases in Danish and Finnish banks. Great interest was shown in topics such as crowdfunding, cryptocurrencies and fintech. The media monitoring company M-Brain registered 6,110 media entries in 2018 in which Finanstilsynet received mention (4,391 in 2017).



Document access at Finanstilsynet

Finanstilsynet received a total of 4,034 requests for document access in 2018. 1,391 documents were not released since their entire content was barred from publication. This is an increase from 873 documents in 2017. Most access requests are received via the public electronic mail journal elnnsyn.no, used by all central government agencies.

Tabell 4: Requests for document access

	2016	2017	2018
Orders placed	2,116	3,379	4,034
Not released	714	873	1,391

Finanstilsynet's website

Finanstilsynet's website, finansstilsynet.no, is the main channel for information from Finanstilsynet, containing information on rules, licensing requirements, supervision, reporting and various matters of topical interest in the different supervisory areas. Reports, analyses, rules, comments after inspections are published on the website along with circulars and press releases. Major reports and key laws and regulations are translated into English and are also available on the website. The website is secure and mobile-friendly and is designed to give users easy access to relevant information through searches and navigation, structure and entries to the respective topics and supervisory areas.

In 2018, visits to the website totalled 674,800, an increase from 583,200 in 2017. The most used service on the website is Finanstilsynet's registry. This is a searchable registry of all institutions and individuals supervised by Finanstilsynet. Statistics for the website show relatively stable use over time, although there was an increase in the number of visits from 2017 to 2018. The number of visits in 2018 was 674,800, compared with 583,200 in 2017. The website had a total of 233,631 unique visitors.

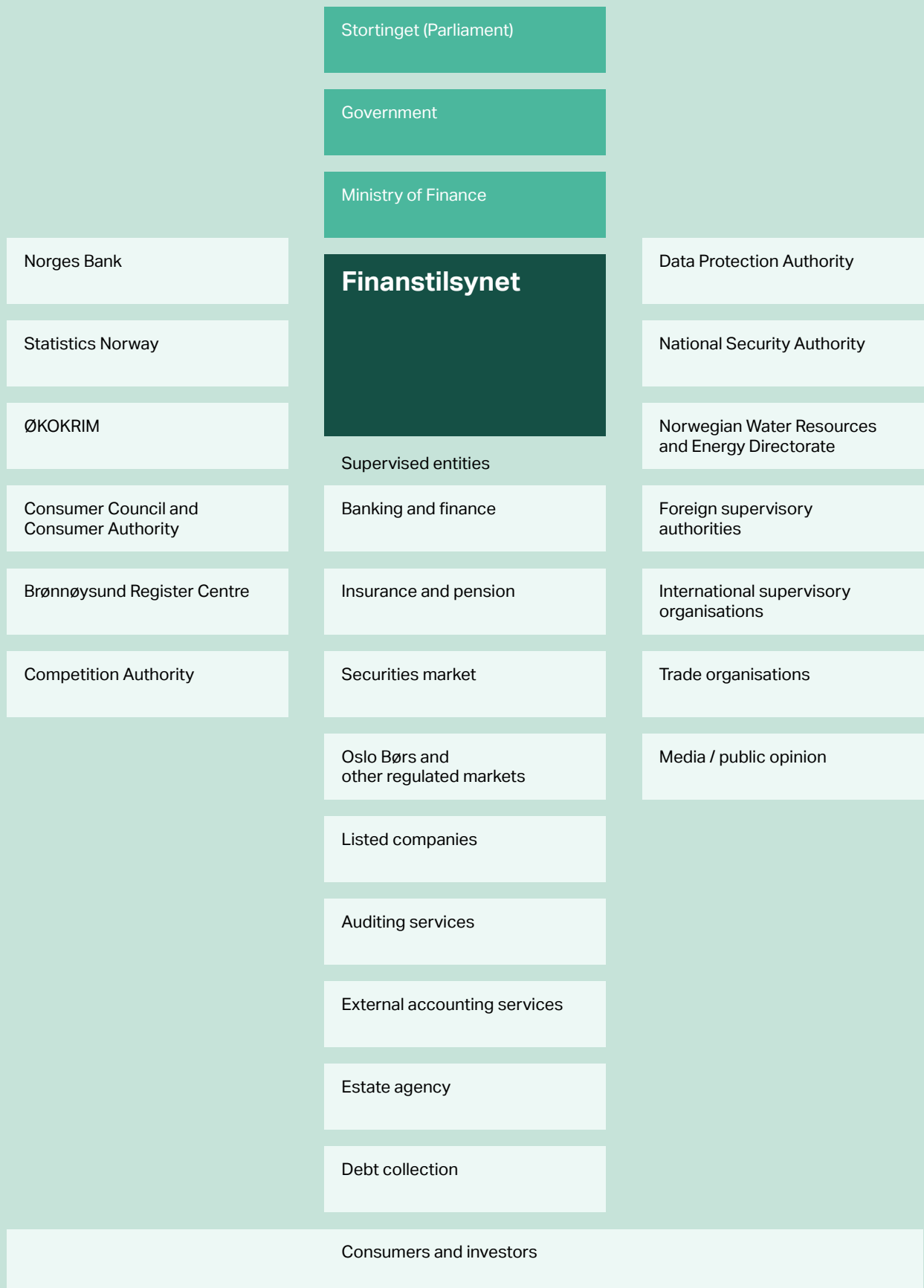
At the end of 2018, Finanstilsynet had 5,904 followers on LinkedIn, up from 4,154 at year-end 2017, and 1,077 followers on Twitter, compared with 916 in 2017. The authority sent 33 Twitter messages in 2018, an increase from 16 in 2017.

Measures for plain language in Finanstilsynet

Finanstilsynet places strong emphasis on using clear and easy-to-understand language. The plain language initiative is based on internal guidelines stating that the language in letters, reports, web texts etc. should be clear and easy to read and be tailored to the recipients. In 2018, much effort was focused on language and presentation in various texts, and this work is continuing along with other measures in 2019. When the language of texts becomes clearer and more concise, Finanstilsynet expects the recipients to understand the message and to use the information from the authority as a basis for their work and for making independent decisions.



Finanstilsynet's key relations





International cooperation

The financial markets are international, and principles for regulations and supervision are prepared at the global level and in the EU. Finanstilsynet therefore collaborates with other authorities both globally and within the EEA on the supervision of the financial markets and financial institutions. 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 coordinated risk management measures to be put in place.

Global cooperation

There is global cooperation between states and authorities to develop principles for regulations and supervision of financial institutions and financial markets. Finanstilsynet participates in a number of international organisations and working groups, see overview on page 21. Several of these which are described in further detail on Finanstilsynet's website. In 2018, Finanstilsynet was represented on the board of directors of the global collaboration between audit regulators, the International Forum of Independent Audit Regulators (IFIAR).

Cooperation between the financial supervisory authorities in the EEA

In 2018, Finanstilsynet gave priority to cooperation within the EEA, especially the cooperation with the European financial supervisory authorities:

- European Banking Authority (EBA)
- European Securities and Markets Authority (ESMA)
- European Insurance and Occupational Pensions Authority (EIOPA)
- European Systemic Risk Board (ESRB)

Finanstilsynet is a member of the European Supervisory Authorities along with the other national financial supervisory authorities in Europe. This is stipulated in the EEA Agreement. The EEA EFTA states are not entitled to vote as members of the bodies that make decisions, and the EU's financial supervisory authorities cannot make decisions aimed at the EEA EFTA states. In 2018, Finanstilsynet's Director General, Deputy Director Generals or their alternates attended all meetings of the Boards of Supervisors of EBA, ESMA and EIOPA. Finanstilsynet also attended meetings of a number of sub-committees that prepare matters for the Boards of Supervisors.

Participation in this cooperation gives Finanstilsynet and other national financial supervisory authorities the opportunity to be involved in preparing relevant draft regulations for the financial markets at an early stage. The overarching legislation is generally prepared at the political level, while Finanstilsynet and other national financial supervisory authorities are mainly involved in preparing proposals for supplementary rules. In 2018, a number of regulations were drawn up, including capital requirements for banks, bank recovery and resolution, requirements for the securities markets, measures against money laundering and requirements for payment systems.

Through the European supervisory cooperation, Finanstilsynet is also involved in monitoring and managing risk at the European level. The financial supervisory authorities in all European countries report financial market figures to the EU's financial supervisory authorities, which form the basis for overarching analyses and the assessment of possible measures. Finanstilsynet provided such regular reporting from the Norwegian financial market in 2018. Norwegian banks and insurers also participated in the stress tests that were implemented at the European level in 2018. Finanstilsynet takes part in so-called supervisory colleges for large cross-border groups. This is a cooperative effort with representatives from financial supervisory authorities from other countries where the group is established. Read more about reporting, stress tests 2018 and supervisory colleges in the chapters on institutions under supervision.

In 2018, Finanstilsynet was an observer in the European collaboration between audit regulators, the Committee of European Auditing Oversight Bodies (CEAOB). The committee registers the inspection findings of auditors in a common European database, which is a useful basis for communication with the standard setters and for the supervision of the largest auditing firms.

As part of the European cooperation for financial supervisory authorities, Finanstilsynet is involved



in assessing good supervisory practices. In 2018, a number of general recommendations regarding such practices were given at the European level. Finanstilsynet has considered whether to follow the individual recommendations and has published the recommendations on its website.

The national financial supervisory authorities in the EEA conduct peer reviews. The supervisory practices of the various countries are examined, and the supervisory authorities provide advice on adaptations and best practices. Finanstilsynet participated in a number of such peer reviews in 2018. The reports issued after the reviews are published on the websites of the European financial supervisory authorities.

The EEA processes

EU legislation in the financial area is normally incorporated into the EEA Agreement and implemented in Norwegian laws or regulations. Finanstilsynet plays its part in this process. The incorporation of legislation in the financial area has been delayed for a long time. In 2018, however, 84 EU directives and regulations concerning the financial market were incorporated into the EEA Agreement. At the end of 2018, more than 300 legislative acts had yet to be incorporated into the EEA Agreement, but a large number of these are now ready for inclusion. This is expected to take place in 2019, including transposition into Norwegian law.

Proposal to change the framework for financial supervision in the EEA

In autumn 2017, the EU Commission presented a proposal for revision of the European System of Financial Supervision (ESFS). The proposal was considered by the European Parliament and the European Council in 2018, but has not been adopted. The proposal from the European Commission will give the EU financial supervisory authorities a larger role in harmonising supervisory practices. The European Commission has proposed direct supervision at EU level of a wider range of the institutions and products that are currently supervised by national supervisory authorities. The European Commission has also proposed changes to the management and financing of the EU financial supervisory authorities. The Ministry of Finance presented comments to the EU public consultation on the matter in May 2017. Finanstilsynet contributed to the comments to the consultation and shares the ministry's assessment that several of the proposals will not contribute to better supervision. The European Parliament and the European Council will not adopt any changes until after the election to the European Parliament in the spring of 2019.

Nordic and Nordic-Baltic cooperation

In the Nordic financial market, a number of financial institutions offer cross-border services through subsidiaries and branches. The financial supervisory authorities in the Nordic countries meet annually at director general and departmental level for the various areas of supervision.

Finanstilsynet participates in the Nordic-Baltic Stability Group. This group has representatives from the finance ministries, central banks and financial supervisors in the Nordic and Baltic countries. The group has drawn up a framework for coordination of measures in the various countries in the event of a crisis situation at systemically important cross-border financial institutions.

Finanstilsynet also participates in the Nordic-Baltic Macroprudential Forum (NBMF) and NBMF sub-groups. The forum brings together the top management at central banks and financial supervisors and discusses macroprudential surveillance and other supervisory activity in the Nordic-Baltic area.



Table 5: International organisations and EU/EEA related committees which Finanstilsynet participates in or attends as an observer

Cross-sectoral meetings

- European Systemic Risk Board
- The Joint Committees of the EBA, ESMA and EIOPA
- EU Commission Expert Group on Banking, Payments and Insurance
- EFTA Working Group on Financial Services
- Nordic-Baltic Macroprudential Forum
- Nordic-Baltic Stability Group
- Nordic collaboration
- Financial Stability Board (FSB), Regional Consultative Group for Europe
- Financial Action Task Force (FATF) – the international forum for measures for combating money laundering and terrorist financing, with its secretariat in the OECD
- FinCoNet, Financial Consumer Network
- LEI ROC, Regulatory Oversight Committee, Global Legal Entity Identifier (LEI) System
- Integrated Financial Supervisors Conference – annual conference

Banking and finance

- European Banking Authority (EBA)
- Basel Consultative Group (Basel Committee)
- Macroprudential Supervision Group (Basel Committee)

Insurance and pensions

- European Insurance and Occupational Pensions Authority (EIOPA)
- International Association of Insurance Supervisors (IAIS)
- International Forum of Insurance Guarantee Schemes (IFIGS) – Finanstilsynet attends as secretariat for the Guarantee Scheme for Non-Life Insurance

The securities area

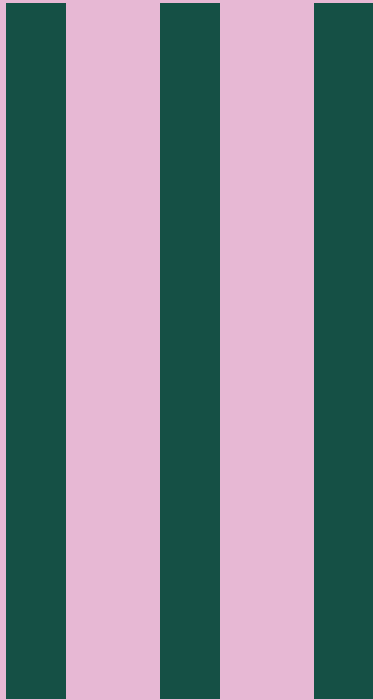
- European Securities and Markets Authority (ESMA)
- International Organization of Securities Commissions (IOSCO)
- Enlarged Contact Group on Supervision of Collective Investment Funds (ECG)

Auditing

- Committee of European Auditing Oversight Bodies (CEAOB)
- International Forum of Independent Audit Regulators (IFIAR)

ICT supervision

- European Banking Authority – project groups
 - European Central Bank, SecuRe Pay (retail payment security)
 - Information Technology Supervision Group (ITSG) – global supervisory collaboration on ICT risk in the financial sector
 - 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
-



THE YEAR'S ACTIVITIES AND RESULTS

Mission achievement

Report from the supervised sectors

Banking and finance

Supervision of ICT and payment services

Insurance and pensions

The securities area

Infrastructure

Market conduct

Investment firms

Mutual funds and collective investment schemes

Prospectus control – transferable securities

Financial reporting enforcement – listed companies

Auditing

Anti-money-laundering measures

Consumer protection

Current topics

Fintech

Crowdfunding

Sustainable finance – climate risk

Brexit



THE YEAR'S ACTIVITIES AND RESULTS

Mission achievement

Finanstilsynet oversees a 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 the institutions operate. Each year Finanstilsynet prepares a plan of operations setting out measures and tasks to support each operational goal in the strategy. Tasks prioritised by the Ministry of Finance are also covered by these measures and tasks.

Finanstilsynet's strategy for 2015–2018 contains a main goal and operational 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. Their attainment will depend on decision makers and factors additional to the instruments that are available to Finanstilsynet

Implementing the various measures and tasks that are described in the plan of operations provides an important basis for gauging mission achievement. This is the subject of a separate report to the Ministry of Finance. Finanstilsynet has in the main implemented the measures and tasks that were planned for 2018.



Banking and finance

Banks play a key role for the entire economy as providers of finance, payment services and savings solutions. Regulation is an important contributor to financial stability and confidence in the financial system. Supervision of the banking and financial sector promotes financially sound and well-capitalised financial institutions with good risk awareness, management and control. The provision of financial services must be compliant with the regulatory framework in the best interest of society and the users of these services.

Developments

The global economic recovery is continuing, although growth is subdued and there are major differences between the various countries. Several central banks have raised their key policy rates, and long-term interest rates have increased somewhat, but from very low levels. Equity prices fell from a high level during the autumn of 2018. Record-low interest rates over a long period have contributed to an increased debt burden and high property prices in a number of countries, while risk premiums are low and equity prices are high. Many countries, enterprises and households are particularly vulnerable to higher risk premiums and rising interest rates. International trade may be affected by increased protectionism, and there is considerable uncertainty associated with developments in the economy and the financial markets as and when interest rates start to rise.

There has been healthy growth in the Norwegian mainland (non-oil) economy since the autumn of 2016. This can largely be attributed to the upswing in the international economy, low interest rates, enhanced competitiveness and higher oil prices. The expansionary fiscal policy has also provided considerable stimulus. The sharp decline in oil investments following the oil price fall in 2014 has been replaced by an increase. Employment is rising and unemployment has receded to a low level.

House prices and household debt in Norway are at historically high levels, which is partly due to ample access to credit at low interest rates. Household debt growth has for several years been significantly higher than income growth, making the debt burden higher than ever. There is a risk that household debt will continue to grow faster than disposable income in the coming years. If so, this will further increase the debt burden. Households are vulnerable to declining incomes and rising interest rates. A high debt burden means that even a relatively moderate rise in interest rates will lead to significantly higher interest expenses. As most loans carry floating interest, an interest rate rise will almost immediately reduce households' disposable income.

The growth in consumer lending, i.e. unsecured loans to personal customers, remains high. There is a risk that financially vulnerable households will take out consumer loans at high interest rates that they are subsequently unable to service. This could result in a heavy personal burden for the individual borrower, and in loan losses and loss of reputation for banks.

In recent years, licences have been granted to a number of banks that concentrate on certain niches of the market, mainly the consumer loan market and the market for loans to small and medium-sized businesses. Several of these focus on loans that are granted within a day based on an electronic loan application and automated credit rating. The competition for customers in these markets must be expected to increase in the period ahead, also as a result of foreign players entering the market. In the face of intensified competition and greater emphasis on short-term returns among investors, there is a risk that the standard for the extension of credit is lowered.

The prices of high-quality commercial properties at prime locations have risen significantly over several years, especially in the Oslo region. A substantial share of property companies' financing is provided by banks. More recently, the companies have based a larger share of their financing on the issue of bonds, while the share of bank loans has been somewhat reduced. Nevertheless, bank lending to commercial property companies still represents approximately 40 per cent of their portfolio of corporate loans. Higher interest rates will weaken the earnings of property companies and reduce the value of creditors' collateral. The risk of losses on loans to these companies will thus increase.

Climate change and the transition to a low-emission society entail risk for the financial services industry. There is a link between climate risk and credit, counterparty and market risk as climate change affects the profitability of certain types of businesses or the value of assets. Climate risk may also subject firms to reputational risk if investors and customers start questioning their corporate image and business model. Climate risk is particularly relevant for non-life insurance and lending and asset management operations.



Supervision, monitoring and control

Monitoring and analyses

Finanstilsynet conducts regular analyses of developments in the financial industry, the markets and the real economy. Analyses are prepared of the financial performance and the capital and liquidity situation of banks, finance companies and mortgage companies. The main results of these analyses are summarised in press releases or public reports. In macroeconomic surveillance, importance is attached both to the risk facing banks as a result of macroeconomic developments and the risk that the banks as a whole pose to the financial system and the economy. Every spring and autumn Finanstilsynet publishes analyses of trends in the real economy, markets and financial institutions along with other developments which could pose a risk for financial stability in Norway. In 2018, the analyses were published in the June and December editions of the report *Risk Outlook*.

Reporting

To ensure close monitoring of developments in financial institutions and markets, Finanstilsynet is dependent on data submitted by the institutions. All banks, mortgage companies and finance companies in Norway report to ORBOF (a database for accounting information from banks, mortgage companies and finance companies), which is a cooperation between Finanstilsynet, Norges Bank (the central bank) and Statistics Norway. In addition, credit institutions report capital adequacy and liquidity positions etc. to Finanstilsynet under the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). Finanstilsynet also obtains reports from savings bank foundations and financial foundations, payment institutions and electronic money institutions.

Reporting under CRD IV, which is fully harmonised across the EU, was introduced in Norway in 2014. CRD IV covers – in addition to capital adequacy reporting – financial reporting along with reporting of liquidity ratios, large exposures, leverage ratios and encumbered assets. The reporting requirements are constantly changing, and new reporting areas are added. This requires continuous adaptation and further development of the reporting material and the reporting systems.

In recent years the European Supervisory Authorities have 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 financial institutions, and is responsible for reporting data from Norwegian institutions to the EBA.

Facts and figures

At the end of 2018, 126 banks, 33 mortgage companies and 28 finance companies were licensed to operate in Norway. In addition, Norwegian credit institutions had 12 branches abroad and foreign credit institutions operated 35 branches in Norway. 32 savings bank foundations and one financial foundation, 16 payment institutions and six electronic money institutions held a licence at year-end.

Ongoing impact studies, in which Norwegian institutions participate, are conducted under EU auspices to assess the effect of the new regime and identify any need for changes or transitional provisions.

Financial soundness and profitability of Norwegian banks

Norwegian banks delivered a strong performance in 2018. Relative to average total assets (ATA), the banks' total pre-tax profits rose from 1.2 per cent in 2017 to 1.3 per cent in 2018. Return on equity increased from 11.4 per cent to 11.5 per cent.

The main factor behind the improved performance in 2018 was a rise in net interest income, in spite of slightly narrower lending spreads than in 2017. Continued strong growth in consumer loans, which in many cases carry very high interest rates, also helped to raise the banks' total net interest income. Low growth in operating expenses also contributed to sustaining banks' profitability. As a consequence of significant reversals on previous loan losses, especially in some of the large banks, total loan losses came to only 0.08 per cent of lending volume, which was half the 2017 figure. Lending growth to personal customers showed a slight decline through 2018 and stood at 6.0 per cent at the end of the year. At 10 per cent, the increase in consumer loans was still significantly higher than the rise in total lending to personal customers, in spite of a slight reduction in the growth rate over the past year.

Norwegian banks have improved their financial position in recent years. High profitability over several years has helped the banks to meet increased capital requirements by way of retained profits. At the end of 2018, the banks' overall common equity Tier 1 (CET1) capital ratio was 16.2 per cent, at the same level as the previous year. The leverage ratio was 7.9 per cent, up 0.1 percentage points from year-end 2017. See the account on page 32 about expected changes in the capital adequacy framework in 2019 in consequence of the incorporation of CRR/CRD IV into the EEA Agreement.



Liquidity monitoring

Banks' funding mainly comprises deposits from customers and funding in the money and capital markets. Deposits have been a stable source of funding for Norwegian banks also in periods of market turbulence. The large banks in particular obtain much of their market funding from foreign sources as size and credit rating are important prerequisites for obtaining funding from these sources. Small banks are nevertheless indirectly exposed through borrowings from the large banks in the interbank market.

When institutions obtain their funding in the market, they have an ongoing need for refinancing in the money and capital markets, and previous crises have demonstrated that professional investors are reluctant to refinance loans in times of market stress. To make the banks more robust when faced by this kind of market turbulence, it has been important to increase the maturity of the funding. More widespread use of covered bonds as a source of funding has contributed to increasing the maturity of banks' market funding. Covered bonds now account for about half of the banks' market funding and one-fifth of total funding.

Conditions in the securities markets are liable to change rapidly, and refinancing during a crisis of confidence may be both costly and difficult. Over the last few years, a larger share of long-term funding and increased liquidity buffers have put Norwegian banks in a better position to cope with potentially scarcer liquidity. A large share of the banks' liquidity reserves consists of covered bonds issued by other banks. In isolation, the high proportion of covered bonds, both as a source of funding and as a liquidity reserve, results in increased systemic risk through cross-ownership and links banks' liquidity risk to a greater degree than previously to the housing market. The fact that the banks maintain large holdings of covered bonds as a part of their liquidity reserve could also give rise to difficulties in a situation in which they all need to sell their liquid assets. Finanstilsynet's stress testing of the liquidity of seven major banks illustrates how vulnerable the banks are should the covered bond market dry up.

Finanstilsynet is keeping a close watch on the financial institutions' liquidity situation, including how they meet the minimum liquidity buffer requirement (LCR) and other liquidity and financing indicators. The institutions' own assessments of liquidity and funding risk is also reviewed in connection with the supervisory assessment of risk and capital needs (SREP) and in connection with on-site inspections.

Implementation of the supervisory review and evaluation process (SREP)

The implementation of SREP is an important part of the supervisory effort. The SREP process includes setting individual Pillar 2 requirements for the institutions. The Pillar 2 requirements cover risks that are not, or are

only partially, covered under Pillar 1. The division of the institutions into groups according to size and risk profile determines how frequently the process should be carried out for the individual financial institutions. The two systemically important institutions, DNB Bank ASA and Kommunalbanken, and institutions dealt with by international colleges, have their Pillar 2 requirements set each year.

In 2018, Finanstilsynet made 26 Pillar 2 decisions. The decisions are published consecutively on Finanstilsynet's website. The Pillar 2 requirements that are set mainly reflect credit risk, including concentration risk, and market risk.

At the end of 2018, Pillar 2 requirements had been set for a total of 88 of the 164 relevant financial institutions. 56 of the 76 institutions for which no decision has been made, have total assets of less than NOK 5 billion and a satisfactory capital adequacy ratio. No institution-specific capital requirements are normally set as long as the capital adequacy level is maintained. Finanstilsynet plans to set Pillar 2 requirements for the remaining institutions by the end of 2019.

On-site inspections

On-site inspections are important in identifying and surveying institutions with weak management and control and high risk levels. The dialogue with management and the board of directors also provides the opportunity to guide and advise the institutions to enable necessary action to be taken at an early stage.

Finanstilsynet conducted a total of 21 on-site inspections at banks, mortgage companies and finance companies in 2018. In addition to the regular inspections, five on-site inspections addressing the institutions' use of ICT and four on-site inspections to follow up permissions to use the IRB approach were carried out in 2018. Finanstilsynet has still focused particular attention on the credit area with a view to early identification of increased risk and shortcomings in terms of loss and impairment assessments and exposure follow-up. However, priority was also given to consumer loans and measures against money laundering in 2018.

Supervisory collaboration

Supervision of major banks operating in two or more countries in Europe is coordinated through supervisory colleges in which the relevant countries' supervisory authorities may be represented. Finanstilsynet is the coordinating authority for the supervisory college for the DNB Group. The work of the college follows guidelines set by the EBA.

Finanstilsynet participates in supervisory colleges for five foreign financial institutions and branches operating in Norway.



Follow-up of systemically important institutions and institutions reviewed by supervisory colleges

The supervisory college for the DNB Group consists of the supervisory authorities in five of the countries where the Group is represented. The college focuses on the Joint Decisions on DNB's risk level and capital, liquidity and recovery plan. The Joint Decisions cover both the Group and its subsidiaries. DNB is also included in the EBA's stress testing programme. In addition to the collaboration in the DNB College, Finanstilsynet maintains direct contact with the supervisory authorities of some of the other countries in which DNB operates. In the course of 2018, six on-site inspections were conducted at DNB Bank ASA. In addition, inspections were carried out at other entities in the DNB Group.

During 2018, Finanstilsynet reviewed Kommunalbanken's internal supervisory review and evaluation process and set a Pillar 2 requirement. There was also ongoing contact with the institution regarding regulations in connection with the review of quarterly risk reports and the discovery of erroneous reporting in the liquidity area.

Finanstilsynet participates in the supervisory colleges for Santander Consumer Bank (SCB) and Société Générale S.A. In this connection, Finanstilsynet took part in the SREP process for SCB at group level and set Pillar 2 requirements for the bank in Norway in 2018. Finanstilsynet also conducted an on-site inspection of the bank in Norway, focusing on consumer finance and measures against money laundering.

Finanstilsynet also participated in the SREP process at group level at Société Générale S.A. and set Pillar 2 requirements for the finance company SG Finans AS. Finanstilsynet carried out one on-site inspection at the institution in 2018.

Follow-up of other large institutions

Every year, Finanstilsynet carries out comprehensive risk assessments of the other major banks in Norway, which number 12 according to Finanstilsynet's categorisation at the end of 2018. The risk assessments provide a basis for reviewing the banks' capital needs and to assign inspection priorities. In 2018, Finanstilsynet conducted seven on-site inspections at these banks. Three of the inspections were special inspections on compliance with anti-money laundering regulations. The other inspections primarily covered credit risk and market and liquidity risk as well as compliance with anti-money laundering regulations. The banks' offshore exposures were followed up through off-site supervision in 2018. See the account on page 28. In addition, Finanstilsynet stress tested rental properties and analysed construction projects in the

largest banks' loan portfolios. The results of the analyses will be followed up by on-site inspections in the banks in 2019.

Follow-up of other entities

The follow-up of other entities is risk-based. Financial key figures and compliance with legal requirements are followed up through regular reporting. An important basis for selecting banks for on-site inspection is Finanstilsynet's annual analysis of credit risk in all the banks' corporate portfolios based on reported portfolio data and public accounting data. In the course of 2018, nine on-site inspections were conducted at small and medium-sized banks. Six of the inspections were carried out at banks with consumer loans as an important area of operation. See the account on page 28. All the other inspections focused on credit risk. All the inspections included compliance with the anti-money laundering legislation and overall governance and control. Many of the supervisory reports concluded that the board of directors' use of target figures and risk limits to manage and control the bank's risk developments and risk reporting, is inadequate. Several supervisory reports pointed to shortcoming in the organisation of the banks' risk control function.

Follow-up of systemically important branches

In February 2018, the EBA published "Guidelines on supervision of significant branches", which emphasise the need to broaden host country supervision of systemically important branches. The supervisory authorities in Sweden, Denmark, Finland and Norway as well as the European Central Bank (ECB) have previously signed a memorandum of understanding (MoU) on the supervision of significant branches. The MoU, which supplements the EU rules, encompasses provisions on the exchange of information, participation in on-site inspections and reciprocity considerations.

Finanstilsynet regards the branches of Nordea Bank, Handelsbanken and Danske Bank as systemically important in Norway. In 2018, Finanstilsynet participated in the supervisory colleges' discussions on the groups' capital, liquidity and recovery plans.

Nordea Bank decided in 2018 to move the institution from Sweden to Finland. The move was completed in October 2018 and entailed that the ECB took over responsibility for group supervision of Nordea.



Follow-up of particular themes

IRB supervision

Ten Norwegian institutions have received permission to use internal models (IRB) to compute capital requirements for credit risk for the bulk of their loan portfolios. When processing applications for IRB approval, Finanstilsynet considers, among others, the models' characteristics, data and use in the banks' risk management process. In 2018, Finanstilsynet decided to change its administrative procedures, whereby new IRB permissions as a rule will not be granted to banks whose corporate portfolio is below NOK 30 billion.

IRB permissions are followed up through ongoing monitoring of parameter values shown in the banks' reports at annual on-site inspections and through other dialogue with the banks. In the period from November 2017 to February 2018, on-site inspections were conducted at all IRB banks apart from one. Finanstilsynet's supervisory comments related mainly to the banks' validation methods and results.

Several banks were notified that they would be instructed to increase the safety margins in the models for loss given default (LGD). In December 2018, Sparebank 1 Østlandet was instructed to include a safety margin of 5 per cent in its LGD estimates. The decision has been appealed. The remaining institutions will be followed up in 2019.

Follow-up of banks' offshore exposure

As in previous years, Finanstilsynet examined banks' exposure to the offshore sector in 2018. The review covered the five banks with the highest offshore exposure, aiming to follow up developments in volume and changes in portfolio quality, including the banks' estimated need for impairment losses. At the end of 2018, the five banks' combined offshore portfolios represented approximately 4.5 per cent of their corporate market portfolios. The banks' total exposures were reduced by close to 15 per cent in 2018, while losses in the portfolios increased by about 45 per cent during the same period.

In spite of increasing oil prices, the offshore industry is not considered to have fully recovered. Due to continued high overcapacity, there is strong competition for assignments and pressure on prices. New restructuring measures have already been initiated. In Finanstilsynet's view, further restructuring will probably lead to additional losses for the banks.

Follow-up of entities offering consumer lending

In 2018, Finanstilsynet conducted on-site inspections at six banks that predominantly offer consumer loans. One of the purposes of the on-site inspections was to survey the banks' compliance with Finanstilsynet's guidelines on prudent consumer lending practices. One of the findings was that many of the banks overestimated their customers' debt servicing capacity. Some banks also informed their customers during the application process about the maximum loan amount allowed by

the bank's internal guidelines, thereby opening the way for customers to increase the loan amount in their applications. The inspections revealed several cases where banks only recently had reduced the repayment period for consumer loans to five years in spite of the fact that guidelines on this subject were introduced in June 2017. The identified aspects were addressed in preliminary supervisory reports to the banks. Final reports will be completed in the first half of 2019.

Finanstilsynet regularly surveys the operations of a selection of banks and finance companies that are engaged in consumer finance. At end-December 2018, the selection comprised 29 entities and covered the bulk of the Norwegian market. Both Norwegian entities and foreign branches in Norway were included in the selection. Consumer lending to Norwegian borrowers came to approximately NOK 112 billion at the end of 2018, which represented just over 3 per cent of total household debt. Growth in consumer lending in recent years has far outstripped the general growth in credit to households. Twelve-month growth in the Norwegian market was 10 per cent at the end of 2018, while growth in households' aggregate debt was 5.5 per cent in the same period. Non-performance for consumer loans is generally higher than for other loans, and rose in 2018.

In November 2017, the Ministry of Finance asked Finanstilsynet to consider whether an interest rate ceiling should be set for consumer loans. In its reply of 28 February 2018, Finanstilsynet pointed out that a number of measures had recently been implemented and recommended postponing the introduction of an interest rate ceiling until existing measures had had time to take effect. Finanstilsynet also stressed that existing measures, if necessary, could be tightened. According to the Financial Market Report 2017–2018, an interest rate ceiling would be a relevant policy instrument, but would not be introduced for the time being. The Ministry has stated that it will revert to the matter in the Financial Market Report for 2019.

Recovery plans

The amendments to the Financial Institutions Act that implement the EU's Bank Recovery and Resolution Directive in Norwegian law, entered into force on 1 January 2019. The regulations include, among others, new requirements for preventive measures to be implemented by financial institutions and measures to restore their financial position in a situation of severe stress. The measures must be described in a recovery plan. Finanstilsynet will consider whether the recovery plans are of adequate quality and realistic.

In 2018, Finanstilsynet reviewed DNB's recovery plan as part of the supervisory college's assessment and participated in the review of such plans undertaken by the supervisory colleges for the Santander Group and Société Générale and the systemically important branches Nordea Bank, Handelsbanken and Danske Bank.



Financial reports meetings

In 2018, Finanstilsynet held semi-annual meetings with the management teams of the largest banking groups at which the banks presented their results along with updates on key risk factors. They also briefed Finanstilsynet on trends in the markets in which the banks operate and on organisational matters and strategic considerations.

International accounting regulations – IFRS 9

As of 1 January 2018, companies issuing securities listed on a stock exchange (listed companies) must use the IFRS 9 accounting standard. It includes a significant change in the rules for impairment of loans. In 2018, Finanstilsynet obtained documentation from a number of banks as a basis for implementing a thematic inspection in 2019.

The Ministry of Finance decided in December 2018 that unlisted banks, mortgage companies and finance companies are required to use IFRS 9 as of 1 January 2020. The change will ensure greater comparability between the financial statements of unlisted and listed entities.

Compliance with the residential mortgage lending regulations

In the new residential mortgage lending regulations which entered into force on 1 July 2018, the main principles of the previous residential mortgage lending regulations have been retained. In 2018, Finanstilsynet obtained quarterly directors' reports on compliance with the regulations from 23 banks and branches. The reports show the share of mortgages granted that do not meet the regulatory requirements on debt-servicing capacity, debt-to-income ratio, loan-to-value ratio or instalment repayments.

In the first quarter of 2018, three banks exceeded the flexibility quota of 8 per cent of the total value of mortgages secured by property in Oslo, of which one bank also exceeded this limit in the third quarter. In the third quarter, the five largest Norwegian banks were also very close to this flexibility quota, of which one bank exceeded the flexibility quota in the fourth quarter. For mortgages granted outside Oslo, there was a significant increase in the average rate of non-compliance in the fourth quarter, and one bank exceeded the 10 per cent flexibility quota. The banks that exceed the flexibility quota are informed that compliance with the provisions of the residential mortgage lending regulations must be followed up by the banks' boards of directors and management.

Residential mortgage lending survey 2018

Finanstilsynet regularly examines the banks' lending practices and compliance with the residential mortgage lending regulations. In the autumn 2018 survey, 30 of the largest Norwegian and foreign banks reported data on close to 8,000 new instalment loans and 4,000 new lines of credit secured by residential property granted after 15 August 2018. The number of loans included in the survey was about 50 per cent higher than the previous year. The selection was changed to provide a more robust basis and to get a better reflection of the banks' market shares. The banks participating in the survey hold a combined market share of about 90 per cent of residential mortgages in Norway.

The survey is designed to capture trends and developments in banks' residential mortgage lending. The survey also includes information that can shed light on households' vulnerability. The 2018 residential mortgage lending survey showed a slight increase in the proportion of new mortgages that exceed the limits set in the residential mortgage lending regulations, although the banks' reports to their boards of directors show that their lending practices in the third quarter of 2018 were consistent with the flexibility permitted under the regulations.

In Finanstilsynet's view, the residential mortgage lending regulations have generally functioned well. The tightening of the regulations as from January 2017 has contributed to tighter lending practices. Borrowers' average debt-to-income ratio has nevertheless increased markedly over the past few years. Although fewer borrowers have total debt exceeding five times gross annual income, a far greater number of borrowers now have a debt-to-income ratio close to this level. Given the high debt level, even a modest interest rate hike will significantly increase the proportion of borrowers who will fall short of the mortgage lending regulations' debt servicing capacity requirement.

Table 6: New instalment loans in breach of the requirements of the residential mortgage lending regulations

Percentage of loans granted	2014	2015	2016	2017	2018
LTV ratio above 85 per cent* (including additional security)	10	7	5	3	4
Insufficient debt servicing capacity (stress test with a 5 percentage point interest rate increase)	4	2	4	1	2
Interest-only above 60 per cent LTV ratio*	12	9	7	4	3
Overall debt exceeds five times gross annual income (debt-to-income ratio)	8	6	9	2	3

**Table 7: New lines of credit in breach of the requirements of the residential mortgage lending regulations**

Percentage of credits granted	2014	2015	2016	2017	2018
LTV ratio above 60 per cent* (including additional security)	8	6	4	5	3
Insufficient debt servicing capacity (stress test with a 5 percentage point interest rate increase)	2	1	1	1	1
Overall debt exceeds five times gross annual income (debt-to-income ratio)	5	4	6	1	2

Licensing

Several of the banks that were granted a licence in 2017, started operations in 2018. An additional five banks received a licence in 2018. The newly established banks target selected market segments, offering consumer loans, loans to small and medium-sized enterprises (SMEs) and residential mortgages.

Finanstilsynet reviewed a number of suitability assessments in 2018. Some matters of principle were submitted to the Ministry of Finance for decision.

Bank establishments

In August 2017, Nordsjø ASA was granted a licence to operate as a bank. The bank intends to cater to the small and medium-sized enterprise segment. The licence terms and conditions for Nordsjø ASA were adjusted in June 2018. The licence will not become valid until Finanstilsynet receives confirmation from the bank that the licence terms and conditions are met.

SSP Prosjekt AS was granted a licence to operate as a bank in September 2018. The bank's operations will target small and medium-sized enterprises, offering financing in connection with the purchase, development and construction of real estate, retail trade, hotels and restaurants as well as other business services. The licence will not become valid until Finanstilsynet receives confirmation from the bank that the licence terms and conditions are met.

Nordic Corporate Bank ASA was granted a licence to operate as a bank and to offer investment services in December 2018. The bank's lending activity will focus on project finance, real estate credits to finance the construction of residential and commercial property, as well as short-term liquidity and investment credits. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

BRA Bank ASA was granted a licence to operate as a bank in May 2018 and permission to commence operations in June 2018. The bank offers consumer finance. In connection with the raising of capital, Braganza became the largest shareholder with a holding of up to 20 per cent.

Aprila Bank ASA (project name Langler) was granted a licence in October 2017 to operate as a bank and

permission to commence operations in March 2018. The bank offers operations finance to small and medium-sized enterprises.

Fundu AS was granted a licence to operate as a bank in December 2018. The company will deliver digital credit services to small and medium-sized enterprises. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

In May 2018, the Ministry of Finance rejected Boligbanken's application for a banking licence in accordance with Finanstilsynet's recommendation. The conclusion was that the potential ownership interests of BORI and NBBO of up to 25 per cent, as specified in the application, will give the entities such influence in the bank that conflicts of interest may arise between the owners' business and that of the bank. The decision has been appealed. The Ministry of Finance revoked the decision in November 2018 and has asked Finanstilsynet to review the matter. It must be assumed that BORI and NBBO each is qualified to hold up to 25 per cent of the shares of the bank.

S-Foretaket was granted a licence to operate as a bank in September 2018. S-Foretaket will be a specialised bank offering residential mortgages to Norwegian private individuals. The licence will not become valid until Finanstilsynet receives confirmation that the licence terms and conditions are met.

Kraft Bank ASA was granted a licence to operate as a bank in December 2017 and permission to commence operations in May 2018. The bank refinances loans carrying high credit risk and defaulted loans granted by other financial institutions. This applies especially to unsecured consumer loans and secured residential mortgages.

DeBank ASA was granted a licence to set up business as a bank in December 2016 and to commence operations in February 2017. In December 2018, Finanstilsynet received an application from SpareBank 1 SMN for approval of the purchase of 100 per cent of the shares in DeBank and the establishment of a group structure. Finanstilsynet approved the acquisition in January 2019.

Finanstilsynet rejected the application for a banking licence from Zlit AS in April 2018. In Finanstilsynet's view, the planned lending activity was not compatible with a banking licence.



Finanstilsynet rejected the application for a banking licence from Loomis Foreign Exchange AS in May 2018. The reason for Finanstilsynet's rejection was that Loomis FX cannot be regarded as a deposit-taking institution and consequently does not qualify as a bank. The decision was appealed, and the appeal is under consideration by the Ministry of Finance.

Finanstilsynet rejected the application for a banking licence from SpareBank 1 Kredittkort AS in June 2018. Finanstilsynet referred to the fact that SpareBank 1 Kredittkort AS has no plans to take deposits and thus cannot be granted a licence to operate as a bank.

Finance companies – licences

In June 2018, NorgesGruppen Finans AS was granted a licence to operate as a finance company and payment institution and permission to commence operations in August 2018. NorgesGruppen offers financing to non-group companies to support NorgesGruppen's core activities. These are mostly retailers, but also property developers targeting properties with prime locations for grocery stores. NorgesGruppen Finans Holding AS received permission to own 100 per cent of the shares in NorgesGruppen Finans AS and to be the parent company in the financial services group.

In August 2018, Interkreditt Finans AS was granted a licence to commence operations as a finance company. The company offers portfolio purchases, invoice purchases and factoring on an ongoing basis.

In December 2018, Axactor Capital AS was granted a licence to start operating as a finance company. The licence covers the purchase of past due and not due accounts receivable. The licence will not become valid until Finanstilsynet receives confirmation from the company that the licence terms and conditions are met.

In December 2018, NMI Fund IV KS was granted a licence to operate as a finance company.

According to the application, the company will mainly invest in and provide loans to microfinance institutions and other undertakings working with financial inclusion for poor people in developing countries. The licence will not become valid until Finanstilsynet receives confirmation from the company that the licence terms and conditions are met.

Mergers in the savings bank sector

Bud, Fræna and Hustad Sparebank and Nettet Sparebank merged in January 2018. The banks' operations have been continued under the name Romsdal Sparebank.

Harstad Sparebank and Lofoten Sparebank were given permission to merge in December 2018. The merger was completed in January 2019. The banks' operations have been continued under the name Sparebank 68 grader Nord.

Vipps

The payment institution Vipps AS got permission in 2018 to incorporate BankID Norge AS and BankAxept AS. The permission was granted by the Ministry of Finance based on a recommendation from Finanstilsynet and implies that all activities related to BankID and BankAxept products undertaken by the two former entities are continued in Vipps AS.

Platforms for loan-based crowdfunding

Loan intermediaries have no licence from Finanstilsynet, but are registered in Finanstilsynet's registry. Prior to the registration, Finanstilsynet is in dialogue with the undertakings to clarify what kind of activities they are undertaking and make sure that these are not licensable. Finanstilsynet's circular 10/2017 specifies the tasks that can be performed by a loan intermediary. Some of the undertakings engage in activities that require a licence as a payment institution. See also the account on page 67.

A Norwegian branch of the Danish undertaking Kameo was registered as a loan intermediary in 2016. In May 2018, Finanstilsynet imposed an order to terminate Kameo's operations in Norway after it had been revealed that the undertaking performed tasks that were inconsistent with its role as an independent intermediary.

Monner AS was registered as a loan intermediary in January 2018 and was given permission to start operating as a payment institution.

Fundingpartner AS was registered as a loan intermediary in September 2018 and was given permission to start operating as a payment institution. The undertaking mediates loans to businesses.

Kredd AS was registered as a loan intermediary in November 2018 and was given permission to start operating as a payment institution.



Regulatory development

Residential mortgage lending regulations

In December 2016, the Ministry of Finance adopted regulations on requirements on new residential mortgages.

The regulations entered into force on 1 January 2017 and applied up to 30 June 2018. In November 2017, Finanstilsynet was asked to consider whether the regulations should be retained, revised or rescinded.

Finanstilsynet forwarded its assessment to the Ministry of Finance in February 2018. The Authority was of the opinion that the reasons for continued regulation of mortgage lending practices still existed and suggested new regulations with a flexibility quota of 8 per cent for all mortgages secured by residential property, irrespective of location. Further, the Authority proposed equal treatment of mortgages for second homes in Oslo and other mortgages with respect to loan-to-value ratio. The Authority suggested no expiration date for the new regulations, but stressed that the regulation of lending practices has a profound impact and that the scope and duration of the regulations should be based on proportionality.

On 19 June 2018, the Ministry of Finance adopted new residential mortgage lending regulations with effect from 1 July 2018.

The Ministry retained the differentiated flexibility quota for Oslo (8 per cent) and the rest of the country (10 per cent) and the lower loan-to-value ratio for mortgages for second homes in Oslo. The regulations will remain in force until 31 December 2019.

Aligning the capital adequacy framework to CRD IV/CRR

Norway's capital adequacy framework is aligned with the EU's Capital Adequacy Directive (CRD IV) and Capital Requirements Regulation (CRR). These legal acts build on the Basel Committee's standards. The directive and the regulation are expected to be incorporated into the EEA Agreement during the first months of 2019. On commission from the Ministry of Finance, Finanstilsynet prepared a consultation document in the spring of 2018 proposing rule changes to prepare for the incorporation of the above legal acts into the EEA Agreement. With the implementation of CRD IV and CRR in Norwegian law, loans to small and medium-sized enterprises will receive lower capital charges ("SME supporting factor"), and the Norwegian floor for risk-weighted assets for institutions with permission to use internal risk models in capital requirements calculations ("Basel I floor") will be dispensed with. Finanstilsynet has also proposed that the Pillar 2 requirement should be regarded as part of the minimum capital requirement when determining the level at which automatic restrictions on dividends etc. should

be triggered. The proposals are under consideration by the Ministry of Finance.

Full implementation of CRR/CRD IV will in isolation permit Norwegian banks to report higher capital adequacy ratios without this reflecting an improvement in actual capital adequacy. When approving and monitoring internal models, Finanstilsynet will attach importance to robust calibration with satisfactory safety margins. When setting Pillar 2 add-ons, Finanstilsynet will also ensure that they cover risk that is not fully covered under Pillar 1.

Prudent consumer lending practices

In August 2018, Finanstilsynet sent a proposal for regulations on prudent consumer lending practices to the Ministry of Finance. The proposal is based on Finanstilsynet's existing guidelines from 2017. The background for this is the risk of debt problems in vulnerable households and shortcomings in the banks' follow-up of the guidelines. On 12 February 2019, the Ministry of Finance established new regulations on requirements for financial institutions' consumer lending practices. In some respects, the regulations are not quite as strict as proposed by Finanstilsynet. Among other things, they allow institutions to diverge from one of more of the provisions of the regulations for up to 5 per cent of total lending.

Systemically important institutions

According to the CRR/CRD IV regulation, the Ministry of Finance is each year required, based on Finanstilsynet's advice, to decide which financial institutions are to be regarded as systemically important in Norway. Systemically important banks are subject to an additional CET1 capital requirement of 2 per cent and an additional leverage ratio requirement of 1 per cent. The regulation defines institutions as systemically important if their total assets exceed 10 per cent of Mainland Norway's GDP or their market share of lending to the private non-financial sector in Norway exceeds 5 per cent. In 2018, DNB Bank ASA and Kommunalbanken AS were defined as systemically important in Norway. In October 2018, Finanstilsynet proposed to the Ministry of Finance to introduce an additional criterion in the regulations whereby institutions with a market share of corporate lending of at least 10 per cent in one or more regions are also defined as systemically important. The proposal has been circulated for comment and is under consideration by the Ministry of Finance.

Dividends based on interim financial statements

In October 2018, Finanstilsynet sent a proposal for amendments to the Financial Institutions Act to the Ministry of Finance, specifying that financial institutions are not entitled to distribute dividends based on interim financial statements. The proposal has been circulated for comment and is under consideration by the Ministry of Finance.



Definition of non-performance

In October 2018, Finanstilsynet sent a proposal to the Ministry of Finance regarding changes to the capital adequacy framework. The changes give a more precise definition of non-performance within the limits set in the EU. Under the current rules, an exposure should be defined as non-performing if the amount is significant and the claim is more than 90 days overdue. Finanstilsynet has, within the framework of EU regulation 2018/171, proposed materiality thresholds for exposures. The proposal has been circulated for comment and is under consideration by the Ministry of Finance.

Crisis management and deposit guarantee

In March 2018, the Storting (parliament) passed the Act on the Norwegian Banks' Guarantee Fund and the Act on amendments to the Financial Institutions Act etc. The Act entered into force on 1 January 2019. The enactments transpose the EU's Bank Recovery and Resolution Directive and the Deposit Guarantee Directive into Norwegian law. The BRRD is incorporated into the EEA Agreement, and incorporation of the Deposit Guarantee Schemes Directive is in process. On commission from the Ministry of Finance, Finanstilsynet drafted regulations to the new law provisions, which were circulated for comment in June. The final draft regulations were sent the Ministry of Finance in November 2018. The Ministry adopted the regulations in December 2018.

The provisions regarding capital inadequacy and government administration of institutions in the banking sector entail new rules and tasks for institutions and public authorities alike. This includes rules on crisis recovery plans and resolution plans, rules on write-down or conversion of own funds and eligible debt to equity and the establishment of a national resolution fund. Finanstilsynet will be the resolution authority in Norway, while decisions of significance for financial stability will be taken by the Ministry of Finance.

A key aspect of the rules governing resolution is the requirement regarding own funds and eligible debt that can be written down or converted to equity (Minimum Requirement for Own Funds and Eligible Liabilities, MREL). Norway already had rules on write-downs of equity and own funds. With the introduction of MREL, some bondholders and depositors will also play a part in covering losses in a resolution process.

The provisions of the Financial Institutions Act on the surrender of information from the National Registry

On commission from the Ministry of Finance, Finanstilsynet prepared a consultation document in March 2018 proposing amendments to the Financial Institutions Act that will provide a legal basis for financial institutions to obtain information about parental responsibility and contact persons for decedents' estates from the National Registry without breaching the duty of confidentiality. The proposal has been circulated for comment and is under consideration by the Ministry of Finance.

Revised Payment Services Directive (PSD2)

The revised Payment Services Directive (PSD2) entered into force in January 2018 across the EU, replacing the first payment services directive (PSD1).

The overarching object of PSD2, along with the Regulation on Interbank Fees and the SEPA (Single Euro Payments Area) Regulation, which set pan-European rules for payments in euro, is to assure up-to-date, efficient and lower-priced payment services, and to protect customers. Approval has been given for new payment services which will initiate payments on behalf of the customer and provide the customer with an overall view of his/her payment accounts with various payment service providers. Both services presuppose that the offeror will be allowed to connect to the customer's payment accounts with other payment service providers. In addition, payment service providers will be allowed to issue payment cards linked to the customer's payment account with another payment service provider. In extension, PSD2 regulates the interaction between the various account servicing and payment service providers, and the relationship between payment service providers and the customers.

In November 2018, the Storting approved legislative amendments that are necessary to implement the public law provisions of PSD2 in Norwegian law. The Ministry of Justice and Preparedness has circulated for comment the draft regulations that will implement the private law provisions of the directive. In February 2018, the Ministry of Finance adopted regulations stating that the public law provisions of PSD2 will enter into force on 1 April 2019.



Supervision of ICT and payment services

Developments

Overall, the availability of payment services was better in 2018 than in 2017. There were few incidents caused by cybercrime, although entities revealed vulnerabilities that could have resulted in serious incidents if they had been exploited. Entities' tools and processes to uncover vulnerabilities have been improved.

Losses due to misuse of payment cards declined further in 2018 and were roughly halved compared with two years ago.

The number of notifications on outsourcing of ICT operations received by Finanstilsynet has increased year by year since the notification obligation was introduced in 2014. There was a significant increase from 2017 to 2018.

Incident reporting

Enterprises under supervision shall immediately report serious ICT incidents to Finanstilsynet. The authority follows up the incidents on an ongoing basis, placing particular emphasis on avoiding negative consequences for the markets, and makes sure that the reporting entities introduce relevant preventive measures. In 2018, 188 incidents were reported to Finanstilsynet, which was roughly on a level with the previous year. Even so, the availability of payment services was better in 2018, as the incidents were not equally serious in terms of the number of customers affected and the duration of the disruptions.

The incident that attracted the most attention took place at one of Nasdaq Oslo ASA's data centres at an IT service provider in Sweden in April 2018 and had a pronounced impact on the market. The trading system went down shortly after normal opening hours due to defects in the

fire alarm system. It took a few hours before operations could be restored at the back-up location. The incident affected a number of trading venues in the Nasdaq Group in the Nordic region and is therefore followed up by the Nordic supervisory authorities, including Finanstilsynet. The incident had a limited impact on Norwegian customers.

As a result of a greater number of users and extended payment functionality in Vipps, incidents that affect Vipps have more serious consequences. Vipps has a complex infrastructure and may be affected by operational problems at various suppliers, which means that an incident often has a bearing on only parts of the payment functionality.

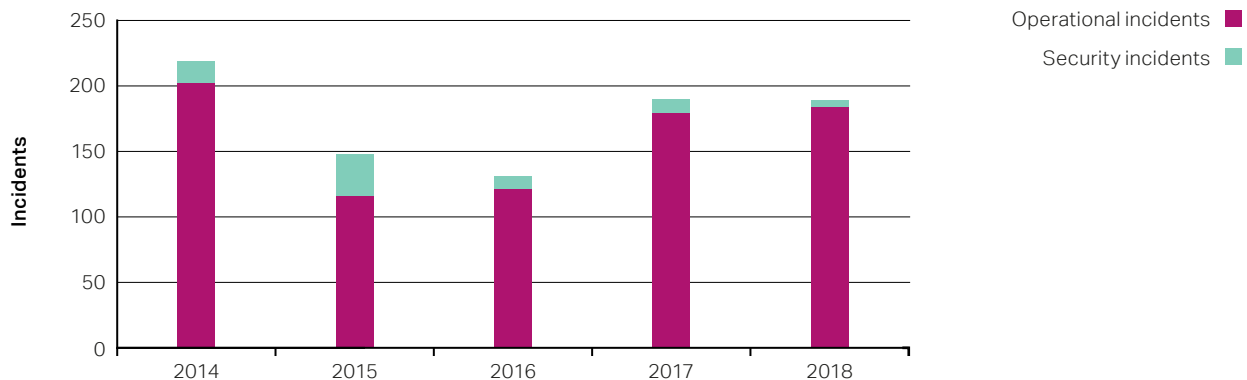
Three incidents involving DDoS attacks against banks were reported in 2018. Even though the attacks were of relative high intensity, the consequences were limited to short periods of reduced access to the banks' self-service solutions.

Several entities reported that they had discovered security holes in 2018 which had not necessarily been exploited. Security holes generally arise in connection with system changes and are often discovered by a customer who gains unauthorised access to other customers' data, or in connection with security tests performed by the entities. There were also cases where entities' transaction monitoring revealed security holes at the time someone tried to exploit the vulnerability.

DDoS attacks: An internet attack whereby a server is overloaded after being overwhelmed with traffic, often through the use of a botnet, which is a network of computers infected by computer viruses. The purpose is to prevent normal access for regular users.

Chart 3: Number of reported incidents

Source: Finanstilsynet



Operational incidents are unintended events caused by technical or human error or an accident. Security incidents are intentional, malicious events related to cybercrime.



Supervision, monitoring and control

Supervision of ICT and payment services

Finanstilsynet conducted 17 ICT inspections in 2018 in the various supervisory areas. Ten were conducted at banks, one at a finance company, two at non-life insurers, two at infrastructure entities, one at an investment firm and one at a fund management company. In addition, ICT was on the agenda at an additional eleven inspections – five at banks, one at a debt collection agency, one at a life insurer, two at authorised accountants and two at auditors. Finanstilsynet also carried out two inspections at payment and electronic money institutions in 2018, covering ICT, payment services and anti-money laundering measures. The on-site inspections encompassed outsourcing of services, access control, emergency preparedness solutions, management and control of cyber security, systems uncovering money laundering and terrorist financing, as well as compliance with requirements for computer systems and reporting to the Norwegian Banks' Guarantee Fund.

Finanstilsynet found shortcomings in the entities' monitoring of suppliers' access control with respect to users with administrative rights to IT systems.

The entities have acquired better tools to collate logs from the IT systems, although use of the logs, for example to analyse traffic patterns to uncover malware (cybercrime), has a potential for improvement.

The quality of electronic transaction monitoring within anti-money laundering has been improved, but there are still challenges related to accuracy, screening frequency and procedures to ensure a complete transaction volume.

ICT outsourcing

Finanstilsynet processed 161 notifications of ICT outsourcing in 2018. ICT outsourcing was also considered in connection with the processing of licence applications. The number of notifications increased significantly compared with 2017, especially within banking, payment services and insurance. There was a clear trend towards greater use of cloud services. In some of the cases, Finanstilsynet discovered that matters had not been considered by the entity's Board of Directors and that there were deficiencies in agreements with sub-suppliers. This concerned, among other things, the entities' and Finanstilsynet's right of insight into and supervision of sub-suppliers. The entities appeared to have implemented satisfactory risk analyses prior to the outsourcing.

System for payment services and payment institutions

Finanstilsynet received twelve notifications from supervised entities of changes in or new payment services in 2018.

Finanstilsynet follows up payment institutions in accordance with the requirements of the ICT regulations, regulations on payment service systems, the anti-money laundering legislation and EBA's internet payment security guidelines. During 2018, Finanstilsynet focused especially on payment services that are not covered by the regulations, but will be regulated through the Payment Services Directive (PSD2).

Risk and vulnerability analysis

The 2017 Risk and Vulnerability Analysis of financial institutions' use of ICT, in which Finanstilsynet assesses the risk situation, was presented in May 2018. In the report, Finanstilsynet also presented findings and observations from its supervisory activities and the entities' own assessments, based on the results of a survey and interviews with the entities.

Emergency preparedness

Finanstilsynet heads, and is secretariat to, the Financial Infrastructure Crisis Preparedness Committee (BFI). The BFI held three meetings and one emergency preparedness exercise in 2018. During the year, Finanstilsynet prepared for the establishment of an agreement with Nordic Financial CERT on a collaborative initiative to follow up security incidents in keeping with requirements for sectoral response teams (SRT) in the framework for the Norwegian National Security Authority (NSM) for handling ICT security incidents.

Collaboration and knowledge sharing

In 2018, Finanstilsynet arranged, in cooperation with the Norwegian Data Protection Authority and NSM, a seminar on outsourcing. At meetings with the NSM, the Data Protection Authority and the Civil Aviation Authority of Norway, Finanstilsynet accounted for the authority's work on outsourcing in supervised entities, relevant regulations and the authority's work on ICT and cyber security.

In May 2018, Finanstilsynet organised, together with Norges Bank, a seminar at which the *Risk and Vulnerability Analysis* and Norges Bank's yearly report *Financial Infrastructure 2018* were presented.



Insurance and pensions

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 insurance market. The supervisory regime aims to foster financially solid, risk-aware institutions with sound governance and control.

Developments

Since life insurers and pension funds invest a large proportion of their managed assets in securities markets, developments in these markets are of great significance to their profits and solvency. Although the share of defined contribution pensions is growing, the bulk of pension providers' liabilities still comprise contracts providing an annual guaranteed rate of return that may be difficult to fulfil in the event of persistent low interest rates.

2018 saw market turbulence and falling equity prices, partly triggered by expectations of earlier and more frequent interest rate increases by the Federal Reserve, weaker growth figures for Europe and the escalation of the trade conflict between the US and China. Several countries raised their key policy rates, and long-term interest rates increased somewhat, but from very low levels. Risk premiums in the bond markets increased in 2018 from historically low levels.

The Norwegian ten-year government bond yield rose during 2018 and stood at 1.79 per cent at year-end. The swap rate, employed as the discount rate under Solvency II, showed a similar development. Equity prices on Oslo Børs declined by approximately 2 per cent, and the value of the Norwegian krone at the end of 2018 was unchanged from a year earlier, measured by the import-weighted exchange rate index.

The Solvency II framework was introduced for Norwegian insurers with effect from 1 January 2016. In a period of historically low interest rates and increasing life expectancy, this entailed significantly higher capital requirements. Norwegian life insurers have handled the transition to the new regulations in a satisfactory manner by applying transitional rules and making internal adjustments. Overall, they have strengthened their financial position after Solvency II became effective.

The non-life insurance industry has enjoyed sound profitability in recent years, although profits were down in 2018 due to weather-related events combined with weaker financial revenues. Several small firms are struggling to generate adequate profits.

The Danish non-life insurer Alpha Insurance A/S was declared bankrupt in June 2018. Alpha Insurance sold workers' compensation insurance through branches and directly from its home country in the form of cross-border activity under the freedom to provide services in the European Economic Area. The bankruptcy demonstrated that the lack of harmonisation of guarantee schemes in the insurance area may have severe negative consequences for individual claimants under cross-border insurance contracts in the event of bankruptcy. In December 2018, another Danish non-life insurer, Qudos Insurance A/S, was declared bankrupt. The firm sold insurance policies on a cross-border basis to Norway.

There is no requirement in European regulations for a guarantee scheme for insurers, which implies that there are significant differences between countries. Foreign companies can sell insurance policies in Norway on a cross-border basis without being members of a guarantee scheme that ensures payments under the insurance if the undertaking goes bankrupt or is placed under public administration. Regulations require insurance intermediaries that sell non-life insurance from foreign insurers to inform policyholders in writing of whether the undertaking is a member of a guarantee scheme and about what is covered under the scheme.

At the end of 2018, 419 insurers reporting that they intend to sell insurance on a cross-border basis to Norway, had been registered. These undertakings are supervised by the supervisory authorities of their home countries. Finanstilsynet does not receive reports from these undertakings.



Supervision, monitoring and control

Monitoring and analyses

Finanstilsynet prepares quarterly reports on the profitability and balance sheet composition of life insurers and non-life insurers, while reports for pension funds are half-yearly. Quarterly press releases summarise these analyses, which are also published in *Report for Financial Institutions* (Norwegian only). Overall assessments of the situation in the financial sector and of various risks faced by Norwegian financial institutions were published in June and December 2018 in the report *Risk Outlook*.

Each quarter, Finanstilsynet prepares an overall report on insurers' solvency situation. A more comprehensive solvency report is drawn up annually. In addition, solvency reports for pension undertakings are prepared. These reports are not public.

Reporting

The reports filed by institutions are an important basis for analyses and on-site inspections. All insurers and pension funds report accounting information to the financial databases 'Forsikringsforetakenes offentlige regnskaps- og tilsynsrapportering' (FORT) and 'Pensjonskassenes offentlige regnskaps- og tilsynsrapportering' (PORT). The reporting is a cooperative effort between Finanstilsynet and Statistics Norway.

All life and non-life insurers and pension funds whose total assets exceed NOK 1 billion report key figures to Finanstilsynet.

Solvency II reporting, which is fully harmonised across the EU, was introduced in Norway in 2016. The reporting requirements are wide-ranging and required substantial resources on the part of institutions and Finanstilsynet alike in 2017 and 2018. In addition to their use by Finanstilsynet for supervision and analysis purposes, data from the Solvency II reporting are passed on to the European Insurance and Occupational Pensions Authority (EIOPA).

All pension funds have reported stress tests to Finanstilsynet since the end of 2012. A simplified solvency capital requirement based on the stress test will be introduced as of 1 January 2019. The majority

of pension funds report semi-annually, while the largest pension funds report each quarter. In addition, the pension funds annually report solvency margin requirements according to the Solvency I framework to Finanstilsynet.

With effect from the third quarter of 2019, new pan-European reporting will be introduced for pension undertakings. The 22 largest pension funds, which cover 75 per cent of the market, must report to Finanstilsynet on a quarterly and annual basis. The reporting will include information on the balance sheet and item-by-item reporting of assets (the latter from 2020). With respect to other pension funds, Finanstilsynet must annually send aggregated information based on information in PORT.

Norwegian insurers' and pension funds' solvency position and profitability

Life insurers' financial position has strengthened since the entry into force of the Solvency II framework. The prolonged low interest rate level has made it challenging for institutions with guaranteed benefits to achieve the guaranteed return on their investments. The transitional measure for technical provisions has been of particular significance to these institutions. At the end of 2018, the transitional measure was applied by and had effect from five life insurers.

Life insurers' profits were on a level with 2017, in spite of lower gains on equities and the bond portfolio. Adjusted profits, i.e. profits before transfers from fluctuation reserves, were considerably lower than in 2017.

Pension funds' financial soundness has improved in recent years. The pension funds have a higher proportion of equities in their balance sheets than life insurers. Over time, this has resulted in wider fluctuations in returns. In recent years the equity market upturn has contributed to higher returns at pension funds than at life insurers. As a result of the stock market decline in 2018 and lower returns on the bond portfolio, adjusted profits were considerably lower than for the previous year.

Non-life insurers recorded poorer results in 2018 than in 2017, due mainly to an increase in the claims ratio and a reduction in financial revenues. Non-life insurers' financial position in aggregate is sound, and the introduction of Solvency II has posed a lesser challenge to non-life insurers than to life insurers.



Facts and figures

At the end of 2018, 12 life insurers, 56 non-life insurers (including 15 fire insurers) and five marine insurance associations were licensed to operate in Norway. A further eight branches of Norwegian insurers were operating abroad (in the EEA area), while 28 branches of foreign insurers were operating in Norway. 123 insurance intermediaries¹ were listed in Finanstilsynet's registry at the end of 2018. Of these, 62 were insurance intermediaries, 39 were insurance agent firms and 22 were entities engaged in accessory insurance agent business. 50 private pension funds and 37 municipal pension funds held a licence at year-end.

On-site inspections

Finanstilsynet conducted on-site inspections at three life insurers in 2018. Two of the inspections were ordinary inspections addressing overall management and control, asset management and insurance operations, including the calculation and validation of technical provisions and capital requirements. The third inspection was a thematic inspection aiming to review intra-group outsourcing, focusing on ICT activities.

In 2018, one on-site inspection was conducted at a pension fund. The inspection reviewed the pension fund's management and control system as well as its risk exposure and capitalisation.

Finanstilsynet carried out on-site inspections at three non-life insurers and one insurance intermediary. Two of the inspections at the non-life insurers were ordinary inspections addressing overall management and control, asset management and insurance operations.

In addition to the above-mentioned inspections, a joint on-site thematic inspection was conducted at a life insurer and a non-life insurer in the same group, focusing on the entities' compliance with the anti-money laundering legislation.

Thematic inspection of life insurers' technical provisions

Finanstilsynet has conducted a thematic inspection of the calculation and validation of technical provisions at the six largest life insurers. The lessons learned from the thematic inspections were summarised in an assembled report published in April 2018.

Information and advice to members of defined-contribution pension schemes

In 2018, Finanstilsynet surveyed the information and advice provided by the undertakings to members of defined-contribution pension schemes and owners of pension capital certificates in accordance with the Act on Defined-Contribution Pensions. The survey encompassed eight life insurers and one defined-contribution pension trust.

The general provisions on the duty to provide information in the Insurance Contracts Act regulate the information to be given to policyholders. However, in collective pension schemes, the employer is the policyholder, not the individual members. The Act on Defined-Contribution Pensions regulates the employer's duty to give its employees information and the insurer's duty, governed by regulations, to give the employer adequate background material to fulfil its duty to provide information to the employees. In the case of pension capital certificates, once issued they are based on a contract between the owner, who is a former member of a defined-contribution pension scheme, and the life insurer. The insurer is obliged to give the owner of the pension capital certificate the necessary information. Finanstilsynet's circular 14/2016 (in Norwegian only) provides guidelines for the kind of information to be given to members of defined-contribution pension schemes and owners of pension capital certificates.

The survey shows that although the undertakings generally comply with the information requirements, the information provided on the undertakings' open websites varies greatly. Some websites provide only general information, whereas others include supplementary information. On the websites of some undertakings, the information is not easily accessible.

The undertaking is not required to give individual members tailored advice about their investment choices in a defined-contribution pension scheme. Here, insurers follow different practices.

If the owner chooses to move his/her pension capital certificates to another life insurer, it entails that a new insurance contract is entered into/written, whereby the undertaking's duty to provide information and advice in connection with the conclusion of a contract applies, as set out in the Insurance Contracts Act. Based on the survey, however, it may appear that only one undertaking provides individual advice on its own initiative in connection with such transfer of pension capital certificates.

¹ The figures for insurance intermediaries do not include agent activities of insurers that keep their own agent registers. This applies to Norwegian insurers and Norwegian branches of foreign insurers.



The owner of the pension capital certificate must cover the asset management and administration costs his/herself. If a person owns several pension capital certificates, such costs will incur for each certificate. According to the Act on Defined-Contribution Pensions, the employee may demand that pension capital linked to several accounts in the same undertaking, be combined. One of the undertakings in the survey reported that if two or more pension capital certificates are owned by the same person, they are automatically combined. As part of the draft legislation on an Own Pension Account, it has been proposed to combine all pension funds in defined-contribution schemes in the scheme of the current employer, unless the employee reserves the right to deny this.

Financial reports 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 and Storebrand ASA.

In 2018, Finanstilsynet participated in supervisory colleges for the following foreign insurance groups operating in Norway:

- Danica Pensjonsforsikring, Tryg A/S
- If and Nordea Life and Pensions and Nordnet Livsforsikring AS (Sweden)
- Help Forsikring (Arag) (Germany)

As a result of the increasing challenges associated with cross-border activities, EIOPA has set up supervisory platforms to reinforce cooperation and communication between the supervisory authorities in situations where undertakings are particularly vulnerable. A supervisory platform is an important instrument to enable stronger and timely cooperation between national supervisory authorities when assessing the consequences of cross-border activities and identifying preventive measures. In 2018, Finanstilsynet participated in three supervisory platforms for Alpha Insurance A/S (Denmark), CBL Insurance Europe (Ireland) and Qudos Insurance A/S (Denmark), respectively.

Licensing

Public administration of Silver ended in 2018

Silver Pensjonsforsikring AS was unable to fulfil the requirements of Solvency II and was placed into public administration in February 2017 – the first ever Norwegian life insurer to suffer this fate. The administration board appointed by Finanstilsynet concluded that policyholders' interests were best served by converting paid-up policies with a guaranteed return into unit-linked paid-up policies and transferring the policyholders to another life insurer. After a bidding process, the administration board decided to enter into an agreement with Storebrand Livsforsikring AS regarding the takeover of Silver's portfolio. This solution was widely supported by Silver's policyholders. Silver's portfolio was transferred to Storebrand Livsforsikring AS in January 2018.

Licence applications

In November 2018, Project Duo AS was granted a licence to establish a non-life insurer. The licence will not become valid until the licence terms and conditions and capital requirements are met.

DNB Forsikring AS and SpareBank 1 Skadeforsikring AS were given permission to merge in December 2018, with SpareBank 1 Skadeforsikring AS as the acquiring company. The merger was completed in January 2019. The activities of the two insurers will be continued under the name Fremtind Forsikring AS.

Internal models

The Solvency II framework permits insurers to use their own models to calculate the solvency capital requirement. This requires permission from the supervisory authorities. In 2016, Finanstilsynet received applications from three insurers wishing to use such models. Two of the insurers were granted permission to use internal models in 2018. The processing of the application from the third insurer has not been brought to completion.

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 referred to the board for decision in 2018.



Secretariat for the Non-Life Insurance Guarantee Scheme

The bankruptcy of the Danish non-life insurer Alpha Insurance A/S, which sold workers' compensation insurance in Norway, occasioned a number of enquiries to the Non-Life Insurance Guarantee Scheme. Finanstilsynet acts as secretariat for the Guarantee Scheme. Three extraordinary board meetings were held in addition to two ordinary meetings. The secretariat received a large number of individual claims and other enquiries from Norwegian claimants that were affected by the bankruptcy. In addition, the secretariat assisted the board chair in negotiations with the Danish Guarantee Fund for Non-Life Insurers and Alpha's bankruptcy administrators, informed about the consequences on the Guarantee Scheme's website and responded to enquiries from the press and the general public.

Regulatory development

New capital requirements for pension funds

On 8 June 2018, the Ministry of Finance adopted new and simplified solvency capital requirements for pension funds, effective as from 1 January 2019. On commission from the Ministry of Finance, Finanstilsynet designed detailed provisions on calculation methods etc., which were set out in regulations of November 2018 providing rules supplementing the simplified solvency capital requirement for pension funds. The new capital requirement has its basis in Finanstilsynet's stress test I, which all pension funds have reported since year-end 2012 and which is a simplified version of the solvency capital requirement under Solvency II.

The revised Institutions for Occupational Retirement Provision Directive (IORP II)

The revised Institutions for Occupational Retirement Provision Directive (Directive (EU) 2016/2341) was implemented in the EU member countries as of 13 January 2019. The directive is EEA-relevant, but has yet to be incorporated in the EEA Agreement.

The purpose of the directive is to promote greater harmonisation of the regulations for occupational pension undertakings in order to strengthen the single market and promote transparency and sound corporate governance. The work to revise the directive was based on the Solvency II directive, which applies to insurers. The harmonisation of the solvency rules for occupational pension undertakings was controversial. IORP II therefore does not include new solvency rules, but is a continuation of current solvency rules.

The most significant changes affect cross-border activity, corporate governance, the disclosure obligation to members, supervision and transparency of operations.

The directive is based on minimum harmonisation. It is possible to give stricter rules when transposing the directive into Norwegian law. Norway has already set more stringent solvency capital requirements for pension funds with effect from 1 January 2019.

On commission from the Ministry of Finance, Finanstilsynet has drafted a consultation document with proposals for the implementation of future EEA obligations corresponding to the directive in Norwegian law. In the consultation document, Finanstilsynet proposes amendments to the Financial Institutions Act and the Act on Insurance Activity and appurtenant regulations and to the regulations on pension undertakings. Finanstilsynet sent the draft consultation document to the Ministry of Finance in January 2019.



Own Pension Account

In December 2018, the Ministry of Finance presented a bill to the Storting proposing amendments to the Defined-Contribution Pension Act entailing that employees enrolled in defined-contribution pension schemes will accumulate their pension capital certificates from previous employers and their individual savings in one and the same pension account in their employer's pension scheme (Own Pension Account). The purpose of such a rule is to contribute to more effective pension fund management in defined-contribution schemes, thus ensuring that a given payment provides the highest possible pension, and that employees get a better overview of their accumulated pension entitlements. It is proposed to keep the existing arrangement, entailing that the employee should pay for the management of previous savings, while the employer should pay for the management of the funds that the employee has earned in his/her current job. According to the proposal, the employer shall pay for the administration of the scheme. It is proposed that the pension capital certificates be gathered in an own pension account in the employer's pension scheme unless the employee reserves the right to deny this. Employees should be able to choose to move both their former and current pension entitlements to another provider than the employer's provider (provider of choice).

It is also proposed to repeal the rule that an employee must have been employed for at least twelve months in order to be entitled to his/her pension capital. The employee will then be entitled to his/her accumulated pension capital upon termination of employment, irrespective of the duration of the employment.

Regulations for guaranteed pension products

In the autumn of 2017, the Ministry of Finance established a working group with participants from the Ministry of Finance, the Ministry of Labour and Social Affairs and Finanstilsynet to review the rules for guaranteed pension products. The working group's mandate was to describe the management of capital related to guaranteed pension benefits, consider whether it is possible to make changes to the business rules that are clearly to the policyholders' benefit and assess whether pension providers should have the opportunity to add funds from equity as a concession for opting out of the guaranteed rate of return. Furthermore, the working group was to consider the consequences of any proposed changes to the regulations for the transfer market, the competitive situation and the pension funds' financial strength.

The working group presented its proposals on 28 September 2018 in the report *Guaranteed pension products*. In the report, the working group maintains that

the introduction of a common buffer fund comprising the fluctuation reserves and supplementary provisions may have positive net effects for policyholders. The buffer fund will be allocated to the policyholders and may be used to cover negative returns. The working group further believed that granting policyholders compensation, within regulatory limits, for relinquishing the guaranteed rate of return under a paid-up policy, will be clearly to the policyholders' benefit. The working group was also favourable to changing the regulations to give policyholders greater freedom to opt for faster disbursement of paid-up policies with low benefits.

In a letter from the Ministry of Finance in January 2019, Finanstilsynet was commissioned to draft the necessary amendments to the Act and regulations as well as a consultation document based on all draft regulations in the working group's report.

Accounting regulations for insurance and pensions

The international accounting standard for recognition and measurement of financial instruments (IAS 39) was superseded by IFRS 9 with effect from 2018. The requirements on disclosures under IFRS 7 have been revised in conjunction with IFRS 9. Special transitional rules are in force for insurers on deferral of the date by which IFRS 9 must be applied. In December 2018, the Ministry of Finance decided to retain IAS 39 for the statutory accounts of life insurers and pension undertakings up to and including the 2020 accounting year. For the statutory accounts of non-life insurers entities will be entitled to choose between IAS 39 and IFRS 9 up to and including the 2020 accounting year. The Ministry of Finance also decided that all insurers and pension undertakings will be required to apply IFRS 9 as from 2021.

Business unrelated to insurance

Insurers and pension undertakings are prohibited from engaging in business other than insurance. Up until now, the undertakings have been able to invest policyholders' funds in holdings of up to 15 per cent in institutions engaged in business unrelated to insurance without being in violation of the prohibition. In November 2018, the Storting approved amendments to the Financial Institutions Act whereby the 15 per cent limit was removed. The amendments entered into force on 1 January 2019. The prohibition against engaging in business other than insurance will still apply, but the distinction between investing in and engaging in business other than insurance will depend on a qualitative and discretionary assessment in each individual case. Finanstilsynet will follow up on this as part of its supervision of the undertakings.



Report from the supervised sectors

The securities area

The overarching aim of regulation and supervision of the securities market is to ensure reliable information provision and secure, orderly and efficient trading in financial instruments, thereby enabling the securities market to function as a source of capital for business and industry and as a basis for saving and investment.

Supervision of the securities area includes marketplaces and settlement systems, investment firms, mutual funds and management companies, alternative investment fund managers (AIFMs), listed issuers' financial reporting and prospectus control. Supervision covers securities institutions' financial position and operations, and their compliance with business rules and general rules of conduct.

Developments

Stock market

At the end of 2018, the Oslo Børs Benchmark Index stood at 799 points, down 1.8 per cent compared with the beginning of the year. The highest increase during the year was 16 per cent. Oslo Børs showed a more favourable development than most other stock

exchanges in 2018. For the year as a whole, the S&P 500 (USA) was down 7.1 per cent, the OMX30 (Sweden) was down 10.6 per cent, and the FTSE 100 (United Kingdom) was down 12.7 per cent.

Chart 4: Oslo Børs Benchmark Index in 2018

Source: Thomson Reuters



There was a pronounced fall in the price of oil towards the end of 2018 following an increase through 2017 and into 2018. At end-December, the oil price was USD 54 per barrel, compared with USD 85 per barrel at the beginning of October. The development in the oil price contributed to price fluctuations on oil service and drilling shares. 2018 was a good year for salmon farming companies,

driven by a low krone exchange rate and high salmon prices. International demand for Norwegian seafood remains high, and seafood exports in 2018 were valued at NOK 99 billion, an increase of NOK 4.6 billion from 2017.



In 2018, equities worth NOK 1,325 billion changed hands on Oslo Børs, up about 20 per cent from 2017. An average of 126,967 trades were carried out daily, some 26,000 more than in 2017 and 16,000 more than in 2015, the previous record high.

Oslo Børs' market share of order book turnover in equities that are also traded on other marketplaces (equities included in the OBX index) was 65 per cent, an increase of 4 percentage points from 2017¹. The increase was mainly due to the introduction of the Markets in Financial Instruments Directive (MiFID II).

In 2018, equity capital worth NOK 46 billion was raised on Oslo Børs and Oslo Axess,² and about 26 per cent of the equity capital was raised in connection with new listings. In all, nine new entities were admitted to Oslo Børs / Oslo Axess in 2018.

Bond market

In 2018, bonds worth a total of NOK 337 billion were issued (excl. government bonds), with banking and finance accounting for NOK 207 billion, corporates for NOK 101 billion and municipal and county authorities for NOK 29 billion. The total outstanding volume in the Norwegian bond market, including government bonds and unquoted bonds, was NOK 1,929 billion at year-end 2018. Of this, NOK 904 billion was issued by banks and other financial institutions, NOK 564 billion by the central government sector (including government bonds and Treasury certificates worth NOK 420 billion) and NOK 462 billion by non-financial firms.³

The bulk of bonds in the Norwegian market are listed on Oslo Børs or Nordic ABM. The outstanding volume of listed bonds at the end of 2018 was NOK 1,357 billion. This broke down to NOK 406 billion in government bonds, NOK 258 billion in corporate bonds and NOK 693 billion in other bonds on Oslo Børs (excl. government bonds). In addition, NOK 48 billion in corporate bonds and NOK 424 billion in other bonds were traded on Nordic ABM. In 2018, bonds worth NOK 4,568 billion were traded on Oslo Børs and NOK 699 billion on Nordic ABM. Trades on the stock exchange are in principle bilateral, and are reported for publication in the exchange's systems.⁴

Bonds listed on Oslo Børs and Nordic ABM are owned mainly by life insurers and private pension funds, banks, foreign companies, mutual funds and the social security administration.

¹ Source: Cboe Global Markets

² Source: Oslo Børs

³ Source: Stamdata

⁴ Source: Oslo Børs



Regulatory development

Amendments to the Securities Trading Act and repeal of the Stock Exchange Act

In June 2018, the Storting adopted amendments to the Securities Trading Act and a repeal of the Stock Exchange Act. The amendments are based on an extensive review of the Norwegian securities and stock exchange regulations on the basis of the Securities Law Committee's Official Norwegian Report (NOU) 2017 on the EU's revised Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR). With the exception of Section 8-1 of the Securities Trading Act, the amendments became effective as of January 2019. There was a summary of MiFID II and MiFIR in Finanstilsynet's annual report for 2017. As a result of the amendments, Finanstilsynet decided in December 2018 to repeal the Norwegian MiFID II Regulations of 4 December 2017. The Norwegian MiFIR Regulations will apply until Section 8-1 of the Securities Trading Act section 8-1 enters into force.

In November 2018, the Ministry of Finance adopted amendments to the Securities Trading Regulations and the Securities Fund Regulations and repealed the Stock Exchange Regulations. The amendments came into effect as of January 2019, with the exception of the provisions that incorporate the Commission Regulations to MiFID II and MiFIR. The amendments further entail that rules corresponding to the Commission Directive implementing MiFID II have now been included in the Securities Trading Regulations. In consequence, in December 2018 Finanstilsynet repealed the rules corresponding to the Commission Directive implementing MiFID II in the temporary regulations of 20 December 2017. The other provisions of these regulations still apply.

Regulations on restrictions on the marketing, distribution and sale of CFDs and binary options

ESMA adopted in March 2018, pursuant to MiFIR, a resolution that temporarily restricts the right to market, distribute and sell CFDs (contracts for differences) and binary options in the EU. The decision concerning binary options entered into force on 2 July 2018, while the decision concerning CFDs entered into force on 1 August 2018. ESMA's resolution is not binding in Norway. On 4 June 2018, Finanstilsynet adopted regulations with the same content and effective dates as ESMA's resolution.

EMIR

The Regulation on OTC derivatives, central counterparties and trade repositories (EMIR) entered into force in Norway on 1 July 2017. Many of the Securities Trading Act's provisions on central counterparties were concurrently rescinded. EMIR is supplemented by a number of Commission Regulations, not all of which had been incorporated in the EEA Agreement or

transposed into Norwegian law by the turn of 2018. With few exceptions, these were incorporated into the EEA Agreement in 2018 and transposed into Norwegian law on 1 July 2018. In Circular 6/2017 on the implementation of EMIR, Finanstilsynet stated that it expects entities under supervision and other relevant entities to abide by the EMIR framework as it applies in the EU at any time.

Securities Financing Transactions Regulation – SFTR

Finanstilsynet was commissioned by the Ministry of Finance to draft provisions of primary and secondary legislation to implement anticipated EEA rules corresponding to EU Regulation 2015/2365 on transparency of securities financing transactions and reuse of collateral (Securities Financing Transaction Regulation, SFTR). The objective of the regulation is to enhance transparency in the market for securities financing transactions. These are agreements on lending of financial instruments and repurchase agreements, that is agreements under which securities are sold subject to a commitment and right to repurchase them on a future date. SFTR had not been incorporated in the EEA Agreement at the end of 2018.

Personal transactions in mutual fund management companies

In 2018, Finanstilsynet prepared a proposal for new rules regarding personal transactions undertaken by employees and others associated with management companies for mutual funds. The proposal was occasioned by changes in the rules on proprietary trading in the Securities Trading Act which came into effect on 1 January 2019. The Ministry of Finance circulated the proposal for comment in the autumn of 2018 and approved new rules on personal transactions in the Securities Fund Regulations that entered into force parallel to the amendments to the Securities Trading Act.

Amendments to the EEA regulations for various funds

In the spring of 2018, Finanstilsynet prepared a consultation document with provisions for the implementation of expected EEA rules on particular types of alternative investment funds. The regulations entail full harmonisation of long-term investment funds (ELTIF), European venture capital funds (EuVECA) and European social entrepreneurship funds (EuSEF) in the ELTIF, EuVECA and EuSEF Regulations. EuVECA and EuSEF have been incorporated in the EEA Agreement, but not yet been implemented in Norwegian law. It has been proposed to implement both regulations in Norwegian law pursuant to the Act on the Management of Alternative Investment Funds. The amendments aim to broaden the scope of the regulations. Parallel to this, supplementary rules (level 2) to the ELTIF Regulation were issued.



Report from the supervised sectors

Infrastructure

The securities market infrastructure comprises trading venues operated by Oslo Børs ASA, which include Oslo Børs, Oslo Axess, Oslo Connect and Merkur Market. Oslo Børs ASA also owns the trading venue Fish Pool ASA and operates an Approved Publication Arrangement (APA). Other trading venues are Nasdaq Oslo ASA and Norexco ASA. Verdipapirsentralen ASA (VPS), which runs a central securities depository and operates the central securities settlement system in Norway (VPO NOK), is another key actor in Norway's infrastructure. The foreign central counterparties SIX x-clear AG, Nasdaq Clearing AB, European Commodity Clearing AG, LCH Ltd. and European Central Counterparty N.V. are also important components of the securities market infrastructure although they do not hold a Norwegian licence. Central counterparties are entitled to operate in Norway under their home country licence granted pursuant to EMIR. The same applies to third-country central counterparties that are recognised as such in the EU.

Supervision, monitoring and control

The supervision of infrastructure entities comprises, inter alia, approval of entities' internal rules and assessment of risk factors and capital. Regular meetings are held with the entities. In collaboration with Norges Bank, Finanstilsynet evaluates VPS' register and settlement functions in light of the CPSS-IOSCO principles for financial market infrastructures. This evaluation receives further mention in Norges Bank's yearly report on financial infrastructure. At regular contact meetings Finanstilsynet informs Norges Bank of matters of significant importance to the entities and the securities settlement systems supervised by Finanstilsynet.

Inspection of Nasdaq Oslo ASA

Finanstilsynet's comments from the inspection of Nasdaq Oslo ASA in the autumn of 2018 were published in January 2019. The inspection revealed weaknesses, inter alia in the company's internal control and follow-up of members, which have to be addressed by the company. The inspection of Nasdaq Oslo was conducted on the basis of Einar Aas' default related to the clearing of derivative contracts at Nasdaq Clearing AB. The derivative contracts had been entered into at Nasdaq Oslo. Nasdaq Clearing is a Swedish central counterparty supervised by Finansinspektionen (the Swedish Financial Supervisory Authority). Finansinspektionen is responsible for investigating the actual event of default, including margin models and concentration risk.

Inspection of cybersecurity

In the autumn of 2018, Finanstilsynet conducted ICT inspections at VPS and Nasdaq Oslo ASA addressing cybersecurity. Final reports will be ready in 2019.

Circuit breakers – automated trading halts or constraints

Regulated markets must have automated trading halts that temporarily halt or restrict trading in the event of significant fluctuations in the price of a financial instrument. The parameters of the system must be appropriate and be set to avoid significant trading disruptions. Trading venues with a Norwegian licence are required to submit an annual report on their chosen solutions and on how often they have been used. Finanstilsynet forwards the reports to ESMA. The first reporting took place in June 2018.

Position limits and position reporting

MiFID II introduced a new regime for commodity derivatives which includes the setting of limits on the size of positions that can be held in commodity derivatives, as well as reporting of positions in commodity derivatives. The purpose of the position limits is to reduce the risk of serious disruptions to the underlying physical market. Finanstilsynet has developed an IT system (CPRS) that from 2018 receives daily reports on positions in commodity derivatives, emission allowances and derivatives with emission allowances as the underlying financial instrument. On three occasions, Finanstilsynet amended the regulations on position limits in accordance with prevailing regulations, reflecting changing market conditions.

Access to EMIR data from trade repositories

In 2018, Finanstilsynet was given access to EMIR data from trade repositories. Agreements were entered into with all trade repositories in the EU, and an IT system was developed to extract and store the data on a daily basis. Finanstilsynet participated in ESMA's annual quality test of EMIR data. Along with other European supervisory authorities, Finanstilsynet will work to raise the quality of the data in order to further exploit the analysis potential. Finanstilsynet also participated in the ESMA survey about the enforcement of the EMIR Regulation with respect to the clearing obligation, reporting to trade repositories and risk-mitigating techniques.



Work on data quality under MiFID II and MiFIR

ESMA makes calculations and publishes important information in compliance with MiFID II and MiFIR. This includes the information needed to apply the rules on the publication of orders and transactions, double volume caps and systematic internalisers. The published information is based on data reported by trading venues and approved publication systems in the EEA. As data quality has presented challenges, Finanstilsynet and other national supervisory authorities have assisted ESMA in the work to ensure that ESMA receives correct and complete data from the obliged entities.

Licensing

Verdipapirsentralen ASA (VPS)

VPS transferred parts of its business concerning mutual funds to its Swedish subsidiary Centevo AB on 1 March 2018. The conditions for the sale of the mutual fund operations were that services subject to licensing and authorisation requirements could not be transferred and that VPS must still offer registration of mutual fund units. Finanstilsynet has considered changes to VPS' insourcing activities relative to the requirement in Section 5-1 of the Securities Register Act, stating that a securities register may only carry out other activity that has a natural connection with securities registration and that does not impair confidence in the securities register's integrity and independence.

VPO NOK regulations

VPS changed the rules for the central securities settlement system in Norwegian kroner (VPO NOK) in June 2018. The changes related primarily to procedures to handle the insolvency of a participant following the Ministry of Finance's adoption of regulations on securities settlement in September 2016. VPS has notified Finanstilsynet of additional changes to the VPO NOK rules, including the introduction of a new functionality called Hold/Release and other necessary changes as a result of the new pan-European regulation on securities depositories (CSDR).

Double Volume Cap

One of the purposes of MiFIR is to make markets more transparent, partly by requiring that trading venues normally publish bid and offer prices and order depth. Waivers may be granted. Such waivers form part of the basis for 'dark pools', where important information about trades is disclosed to the market only after the trade has been completed. MiFIR introduces restrictions on trades in dark pools (Double Volume Cap mechanism). This means that when trading exceeds certain thresholds, the opportunity to use the waivers will be suspended for six months. Based on data from ESMA, Finanstilsynet makes decisions to suspend the use of waivers for the trading venues Oslo Børs, Oslo Axess and Merkur Market. For a certain period, 19 of the 25 most liquid equity instruments on Oslo Børs were affected by the mechanism.

Licence to operate an approved publication arrangement

In 2018, Oslo Børs ASA's licence to operate as an approved publication arrangement (APA) for OTC transactions (trades outside the stock exchange) under MiFID II was extended to include financial instruments registered at Nordic ABM and/or the NOTC AS trading support system (NOTC list), and admitted for trading or traded on a trading venue in the EEA. Oslo Børs accordingly is licensed to offer APA services for financial instruments traded on one of Oslo Børs' trading venues or registered on Nordic ABM or the NOTC list.

Exemption from the obligation to publish information on orders and transactions in financial instruments traded on a trading venue

Finanstilsynet is empowered in specific cases to entitle trading venues to refrain from publishing order information. Finanstilsynet can only make such a decision after informing ESMA and national supervisory authorities in the EEA about the planned exemption. ESMA shall thereafter issue a non-binding statement to Finanstilsynet giving its assessment of whether the exemption is compatible with the requirements of MiFIR. In 2018, Finanstilsynet considered three applications from Oslo Børs ASA for exemption from the obligation to publish order information.

Finanstilsynet may also, in special cases, empower trading venues and investment firms to defer publication of information on executed transactions. Finanstilsynet gave Oslo Børs ASA such permission in 2018. The Authority has informed the market that it will normally approve investment firms' applications for the right to defer the publication of transactions in bonds, structured financial products, emission allowances and derivatives until 7:00 pm on the second business day after the day of the transaction (T + 2). The same applies to investment firms' applications for the right to publish aggregate transactions in sovereign debt instruments for an indefinite period of time. Finanstilsynet made two such decisions in 2018.

Order to delist a company's shares from Oslo Børs

In the autumn of 2018, Finanstilsynet ordered Oslo Børs ASA to delist the shares of a company from Oslo Børs due to the issuer's serious and prolonged breach of the reporting rules set out in the Securities Trading Act. The company appealed the decision, and Finanstilsynet has resolved that the decision will not be implemented until the appeal has been determined.



New central counterparty at Oslo Børs

In the autumn of 2017, Finanstilsynet received an application from European Central Counterparty N.V. (EuroCCP) for access to Oslo Børs as a central counterparty. According to MiFIR, Finanstilsynet must give access provided that this will have no negative effect on the market. Finanstilsynet approved such access in February 2018. After obtaining the necessary approvals from the Dutch supervisory authorities, EuroCCP started to act as a central counterparty for equity instruments traded on Oslo Børs. At Oslo Børs, members can now choose among three central counterparties when trading in equity instruments in line with the structure at the other Nordic stock exchanges.

Exemption for intra-group derivative contracts under EMIR

EMIR introduced a requirement to clear specific OTC derivatives. This includes certain interest rate derivatives in the currencies Norwegian krone, euro, British pounds, Japanese yen, US dollars, Swedish krona and Polish zloty as well as certain credit default derivatives. In 2018, Finanstilsynet processed notifications from three financial counterparties intending to avail themselves of the exemption from the clearing obligation in respect of intra-group transactions.

With respect to OTC derivatives that are not covered by the clearing obligation, the counterparties must instead establish risk-mitigating techniques. Exemptions from the requirement that the counterparties exchange adequate collateral may, however, be applied for intra-group contracts subject to certain conditions if both counterparties are domestic, or based on an application or notification in cases where one of the counterparties is foreign. In 2018, Finanstilsynet processed five cases on exemptions from the requirement to exchange adequate collateral, of which two concerned financial counterparties and three concerned non-financial counterparties.



Market conduct

Supervision, monitoring and control

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

The rules on unlawful insider trading, market manipulation and due care in handling inside information are central. Finanstilsynet also oversees compliance with the rules on the preparation of insider lists, the duty to investigate, the prohibition of unreasonable business methods, the notification requirement for primary insiders and rules requiring the disclosure of large shareholdings. Finanstilsynet works closely with the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) and Oslo Børs in this field.

The majority of cases investigated by Finanstilsynet in 2018 were reported by investment firms and investors. Many cases were referred by Oslo Børs or initiated by Finanstilsynet itself in response to market events. Finanstilsynet's own surveillance system, SKADI, has triggered many alarms that have led to further investigation.

Many cases of insider trading and market manipulation are time-consuming, above all where the investigation requires identification of foreign investors who have traded ahead of particular market events. This entails extensive contact with foreign fund managers and supervisory authorities.

The following were investigated in 2018:

- 111 cases of unlawful insider trading and/or breaches of confidentiality or breaches of the obligation to maintain insider lists
- 54 cases of market manipulation / unreasonable business methods
- 836 alarms triggered by Finanstilsynet's surveillance system, SKADI
- 25 cases on disclosure of large shareholdings
- 809 alarms triggered by the surveillance system on changes in holdings
- 46 cases on the notification requirement for primary insiders
- 25 cases of delayed reporting of short positions

Finanstilsynet received a total of 77 reports from investment firms under obligation to report transactions giving rise to suspicion of insider trading or market manipulation.

Administrative fines

In the course of 2018, administrative fines were imposed for six violations of the disclosure requirement for large shareholdings and eight violations of the notification requirement for primary insiders. Fines imposed for breaches of the disclosure requirement for large shareholdings are published on Finanstilsynet's website. Finanstilsynet attaches importance to the deterrent effect of such fines.

Notifications to the prosecuting authority

Finanstilsynet reported two cases of suspected unlawful insider trading and/or breach of confidentiality to the prosecuting authority in 2018. One case of market manipulation was reported.

Follow-up of reported cases

Finanstilsynet cooperated well with both ØKOKRIM and local police authorities in 2018. Finanstilsynet's staff also testified in court in several cases.

In 2018, Finanstilsynet provided assistance to foreign supervisory authorities in a number of cases relating to market conduct, and received such assistance in some instances. This is in accordance with obligations under international agreements.

Short selling register

The Short Selling Regulation was implemented in Norway as from 1 January 2017. The reporting obligation applies to all investors holding net short positions in shares or government debt that exceed set thresholds. Short positions are reported and published via the portal ssr.finanstilsynet.no. In 2018, approximately 1,500 positions were published from 80 investors who had reported net short positions corresponding to or exceeding 0.5 per cent. Finanstilsynet also receives positions that are not published via the portal. These are positions below 0.5 per cent and positions in government debt. There were approximately 1,100 enquiries and responses through the portal in the course of the year. The system was further developed during the period to meet the need for control and follow-up. After this, reports of delays were generated, and 24 supervision cases have been initiated. A separate alarm system for reporting via the portal was also developed. Short positions in shares and government debt are regularly sent to ESMA. In 2018, Finanstilsynet approved one report on exemption for market makers, and one report on exemption for primary dealers was withdrawn.



New transaction reporting

As a result of the MiFIR Regulation, Finanstilsynet started using a new system for the reporting of transactions as from January 2018. The transaction reporting system (TRS) is a fully electronic system designed to receive reports from investment firms and trading venues of executed transactions in financial instruments. The purpose is to give national authorities a complete overview of the securities transactions carried out in the market.

In 2018, the TRS system received approximately 145 million transactions. Of this, about 30 million were from investment firms in Norway and about NOK 115 million from foreign investment firms, with the United Kingdom as the clearly largest contributor. The figures are expected to be even higher in 2019, reflecting better and more accurate reporting.

Court rulings

The following court rulings were delivered in 2018 in cases which Finanstilsynet investigated and reported to the prosecuting authority:

On 10 January 2018, the Oslo District Court delivered an acquittal in a case on insider trading in NEXT Biometrics Group ASA (Next). A Swedish citizen was indicted for having purchased shares in the company at a time when he, according to the indictment, participated in negotiations with the company about a private placement at a premium. According to the court, the accused could not be convicted as the court found that "the information that [was] specified in the indictment" did not "constitute insider information for" the defendant. The judgment was appealed by the prosecuting authority and will be considered by the Borgarting Court of Appeal in the spring of 2019.

On 27 June 2018, the Borgarting Court of Appeal delivered a conviction in a case of insider trading and incitement to insider trading in the Norwegian oil company Norwegian Energy Company ASA (Noreco). The accused was the general manager of an investment company that owned approximately 18 per cent of the shares of the oil company. According to the Court of Appeal, the accused sold his own shares and incited others to sell shares in Noreco at a time when he had insider information about a process which ended up with him placing a sales order, on behalf of the investment firm, for all of the investment firm's shares in Noreco. The Court of Appeal sentenced the accused to five months' unconditional imprisonment. In addition, approximately NOK 830,000 was confiscated from his private company. The accused appealed the judgment to the Supreme Court. The appeal was dismissed by the Supreme Court's appeals committee by a judicial decision on 15 November 2018. The judgment passed by the Court of Appeal is therefore final and enforceable.

On 20 December 2018, the Oslo District Court delivered an acquittal in a case of market manipulation and insider trading in the bond market. A fund manager in a foreign mutual fund and a broker in a Norwegian investment firm were charged with, among other things, having manipulated the price of a bond and thereafter buying a large holding of the same bond at a lower price than would otherwise have been possible to achieve in the market at the time. Both were acquitted. The judgment has been appealed by the prosecuting authority.



Investment firms

Supervision, monitoring and control

Finanstilsynet supervises investment firms' compliance with the requirements of the Securities Trading Act and associated regulations. The requirements regarding the handling of conflicts of interest and maintaining good business practices are of key importance in the supervision of investment firms with a view to ensuring a high level of investor protection and promoting market integrity. The supervision of investment firms also aims to encourage the firms to maintain sufficient internal controls and to promote an informed attitude to risk.

Based on Finanstilsynet's risk-based approach, 13 on-site inspections were conducted in 2018 at Norwegian investment firms and branches of foreign investment firms in Norway. There were eight on-site inspections at investment firms, two on-site inspections at branches and three off-site inspections at investment firms. Finanstilsynet also participated in a thematic on-site inspection in a Nordic group. The inspection, which was headed by the Swedish Finansinspektionen, focused on the market surveillance function. In addition, one on-site inspections specifically targeting investment firms' ICT solutions was conducted.

Eight of the inspections in 2018 were restricted to specific, current themes. At five inspections, customer documentation and measures against money laundering were examined, and at three inspections, information handling and order documentation were reviewed.

Key themes at the other inspections were:

- firms' client testing – whether the recommended financial instruments were suitable or appropriate for the clients
- firms' information to their clients – whether they had provided balanced, correct and understandable information on risks and costs
- whether the firms have a clear stance with respect to identifying and handling conflicts of interest
- whether the firms' customer due diligence and anti-money laundering efforts were adequate
- whether the firms' internal control function was adequately resourced, structured and formalised

Two of the inspections about information handling took place in banking groups, where information sharing between securities and credit units was also investigated. One of the inspections on measures against money laundering was completed with no significant comments, while the other four have not yet been completed.

Facts

At the end of 2018, 96 investment firms were operating in Norway, of which 21 also held a banking licence. In addition, 22 foreign investment firms operated branches in Norway.

Finanstilsynet also conducted two off-site inspections in 2018. The first targeted all Norwegian investment firms and branches and covered compliance in three selected areas within MiFID II: product governance, investment advice and knowledge and competence requirements for staff. The second inspection was aimed at the ten largest firms/local branches and covered the MiFID II suitability assessment requirement. The inspections provide Finanstilsynet with a basis for further follow-up of the firms in 2019.

An on-site inspection initiated in 2017 led to the decision to withdraw the firm's licence in 2018 after serious violation of good business practices was revealed. The firm's main business was to arrange and place equity issues in unlisted early-stage companies, i.e. companies at the research and development stage, prior to commercialisation of the product or service. The firm's products therefore entailed high risk. Finanstilsynet found that the firm had failed to identify or handle the obvious conflict of interest between the firm and the firm's issuing clients on the one hand and the firm's investor clients on the other hand. The firm had focused solely on placing issues on behalf of its issuer clients and was aggressively marketing its services to its investor clients. The firm had also provided investment advice to its investor clients without considering whether the product was suitable for the clients.



Investment firms' pension advisory services are a prioritised area. In 2018, Finanstilsynet presented final comments after reviewing the pension advice provided by three investment firms in 2017. The firms had made no real assessment of whether the conversion from pension insurance to pension savings was in the customers' best interest. Finanstilsynet further pointed out that information about existing pension rights and any accumulated pensions entitlements from previous employers represents material information that must be obtained and assessed before individual advice on private pension savings can be provided.

Finanstilsynet also conducted an inspection at an investment firm in 2018 relating to pension advice, but the final comments from this inspection are not ready

Monitoring of firms' financial development

Finanstilsynet revealed a total of twelve investment firms that breached the capital requirements in 2018. These firms were followed up, and some received warnings of a possible withdrawal of their licence to provide investment services. Finanstilsynet withdrew the licence of two of the firms. The other firms ensured compliance with the capital requirements through either cash contributions from shareholders or a confirmation by their auditor that the firm had interim profits that could be included in capital adequacy calculations. At the end of 2018, three firms were required to report their capital adequacy position each month due to low capital, a negative profit trend and/or poor quality reporting.

Finanstilsynet also followed up the firms' reporting of and compliance with the rules on large exposures. Several violations were recorded, but were generally short-term, less severe breaches of the limit for deposits with Norwegian banks of 100 per cent of own funds.

Finanstilsynet publishes an annual press release based on investment firms' half-yearly reports showing developments in the firms' profitability. In 2018, the operating revenues of investment firms not integrated into banks were 23 per cent higher than the previous year. Operating profits were 24 per cent higher. Corporate finance activities generally represent investment firms' largest source of revenue, which was also the case in 2018. Their next largest revenue source was investment advice, followed by secondary market trading of shares and bonds.

Licensing

Three new investment firms, Alchemy Fund Management AS, Njord Kapitalforvaltning Øst AS and NT Services AS, were granted a licence to provide investment services in 2018. In addition, the foreign investment firms Icap Energy Ltd, Norron AB, Nordea Bank ABP, Privanet Securities Ltd. and Los Energy Trading AB established branches in Norway. Three other investment firms, Finansco AS, Lyberg & Partnere Formuesforvaltning AS and Fronteer Solutions AS, were granted an expanded

licence enabling them to provide additional investment and ancillary services.

Finanstilsynet receives a large number of notifications of cross-border activity by investment firms with their head office in other EEA states that provide services directly from their home state without being established in Norway. The authority has also received some notifications of provision of services through the establishment of a tied agent in Norway. The agents provide investment services under the investment firm's licence, and the investment firm is responsible for the agent's activity. Finanstilsynet deregistered a tied agent for an investment firm in another EEA state as the agent was no longer considered to meet the fit and proper requirements. The background for this was that the agent's licence for insurance operations was revoked after systematic violations of key provisions of the Act on Insurance Mediation.

Finanstilsynet reviewed the operations of Folkeinvest AS. The review showed that the firm's matching of companies seeking capital and investors entails that it provides investment services. Folkeinvest AS is not licensed to offer such services, and Finanstilsynet therefore decided to order the company to discontinue operations. The decision has been appealed.

Investigation of property companies possibly involved in illegal activity

In 2018, Finanstilsynet investigated several companies that were operating without a licence and were marketing real estate investment opportunities to non-professional investors. In some cases, the authority revealed that the companies provided investment services on an illegal basis. A number of associated property companies and some stand-alone companies were also investigated. Four companies were ordered to halt unlawful provision of investment services, and five companies were reported to the police for violations of the Securities Trading Act.

Market warnings

Five warnings were published against Norwegian entities and five warnings against foreign entities that provided investment services in Norway in 2018 without the requisite licence. Finanstilsynet also published 682 warnings issued by foreign supervisory authorities against entities providing investment services in the EU/EEA without the requisite licence. Finanstilsynet's website also provides information on investment fraud and advice to investors on how to protect themselves against fraud. Finanstilsynet's market warnings are also available at [Finansportalen.no](https://finansportalen.no).



Mutual funds and collective investment schemes

Supervision, monitoring and control

Mutual fund management companies

A mutual fund is a regulated savings product offering a high degree of investor protection through legislation. Supervision in this area is largely geared to ensuring that consumer interests are protected, so that mutual funds can be suitable savings products for retail investors.

Net subscription in Norwegian management companies' mutual funds declined from NOK 59.7 billion in 2017 to NOK 31.8 billion in 2018, of which fixed-income funds accounted for NOK 23.2 billion and equity funds for NOK 9 billion. Of the overall net subscription in mutual funds, Norwegian private individuals accounted, directly or indirectly through defined-contribution pension plans, for NOK 10.9 billion in 2018, compared with NOK 46.2 billion in 2017. Overall net subscription, combined with a net rise in value over the year, brought aggregate managed assets in mutual funds to NOK 1,129 billion at the end of 2018.¹

Overall, management companies retain good profitability. One instance of non-compliance with the capital requirements was revealed in 2018, entailing excessive dividend payments.

Management companies are required to report breaches of the investment limits to Finanstilsynet. For their part, depositaries are required to inform Finanstilsynet on a quarterly basis of identified breaches. The number of reported breaches in 2018 was generally on a par with previous years.

Finanstilsynet conducted one on-site inspection of a management company in 2018. The inspection was completed in 2019. In addition, an off-site thematic inspection was conducted of the use of Oslo Børs' government bond indices as reference indices for Norwegian fixed-income and balanced funds. The survey showed that many fixed-income funds use one of Oslo Børs' government bond indices as a benchmark for fund returns, even in cases where a large share of the fund's portfolio is placed in fixed-income instruments carrying higher risk. Finanstilsynet sent identical letters to the management companies, explaining its assessment of the management companies' use of reference indices. The authority will follow up the companies by conducting a new survey in 2019. In addition, Finanstilsynet holds regular contact meetings with the management companies.

Facts

At the end of 2018, 29 fund management companies were operating in Norway along with one branch of a Finnish management company, Nordea Funds, Norwegian Branch. Of these, 19 were also licensed to provide the investment service "management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis". One management company relinquished its licence to manage mutual funds. At the end of 2018, the companies managed 423 mutual funds under licence from Finanstilsynet. UCITS funds make up the largest group of Norwegian mutual funds.

Managers of alternative investment funds (AIFMs)

At year-end 2018, 39 Norwegian AIF managers were subject to ordinary supervision. In addition, 110 AIF managers featured in Finanstilsynet's registry, against 87 a year earlier. Funds managed by registered AIF managers cannot be marketed to retail investors.

In the spring of 2018, one AIF manager was subject to inspection by Finanstilsynet. In the autumn of 2018, an off-site thematic inspection was conducted to check whether AIF managers comply with the suitability testing rules when marketing alternative investment fund to retail investors. The inspection was completed in 2019. There is still limited supervisory activity in the AIF area, although this effort supports the authority's focus on consumer protection. Four contact meetings were held with AIF managers.

Reports received from the managers are an important contribution to off-site supervision in the AIF area. In 2018, one breach of the capital requirements was revealed. Own funds were quickly brought into compliance with the requirements.

¹ Source: Norwegian Fund and Asset Management Association



Licensing

Mutual fund management companies

Finanstilsynet granted one new licence to engage in mutual fund management in 2018.

In 2018, licences were granted for the establishment of 21 new mutual funds, while 15 mutual funds were liquidated and eight funds were closed as a result of mergers. Over the course of the year the authority gave a number of approvals to change mutual fund rules. Several mutual funds have introduced net unit classes designed for investors subscribing through distributors who do not receive soft commissions from management companies. Finanstilsynet assumes that these unit classes will grow in significance in the period ahead due to new and tighter requirements for investment firms' access to receiving soft commissions. Furthermore, four management companies were given permission to change depositary for their mutual funds in connection with the opening of J.P. Morgan's new branch in Norway for depositary activities.

A number of UCITS funds that are established in other EEA States have been passported for marketing in Norway, in particular UCITS funds from Luxembourg, Ireland, the United Kingdom and the Nordic countries. Some Norwegian managers have passported mutual funds for marketing in other EEA member states. Finanstilsynet's overview of foreign UCITS funds marketed in Norway is available in Finanstilsynet's registry.

Managers of alternative investment funds (AIFs)

In 2018, Finanstilsynet granted three new licences to managers of alternative investment funds. Two more applications were received in the autumn of 2018 and will be processed in 2019. In addition, the authority received an application from a manager for an expanded licence to provide ancillary services.

The number of applications to market AIFs to retail investors was on a par with the previous year. Nine such licences were granted in 2018. Many AIFs catering to the mass market are structured as feeder funds to a single master fund which is effectively closed to retail investors due to a high minimum subscription amount. Fund structures are often difficult to follow, and fee models are challenging to explain fully. Finanstilsynet does not approve the fund per se, but reviews its marketing material and fund documentation, placing particular emphasis on its cost structure

Finanstilsynet rejected an application in 2018 to market a feeder fund to a master fund in Sweden managed by a registered AIF manager, to professional investors in Norway. The decision was appealed, and the appeal is under consideration by the Ministry of Finance.

In 2018, Finanstilsynet granted 63 licences to market AIFs to professional investors in Norway, where either the manager, the fund or both are established outside the EEA.

A number of AIFs established in other EEA member states have been passported for marketing to professional investors in Norway. This is true above all of funds established in Ireland, the United Kingdom or Luxembourg.

Regulatory development

In 2018, Finanstilsynet prepared a consultation document proposing new rules regarding personal transactions undertaken by employees and others associated with management companies for mutual funds. The need for new rules arose as a consequence of changes in the rules on proprietary trading in the Securities Trading Act. The new rules on personal transactions in the Securities Trading Regulations entered into force on 1 January 2019.



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 million 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.

Vetting of prospectuses in 2018

There was a slight decline in the number of share prospectuses approved in 2018 compared with the previous year. A total of ten prospectuses were issued in connection with initial public offerings (IPOs) on Oslo Børs or Oslo Axess, a reduction from 15 in 2017.

2018 was a good year for raising equity capital, especially the first nine months of the year. The market became somewhat more challenging towards the end of the year. There was a high level of IPO activity for companies such as Elkem, Shelf Drilling, Star Bulk Carriers and Fjordkraft Holding. As a result of more demanding market conditions in the fourth quarter, Ice Group chose to interrupt

its admission to listing process after the prospectus had been approved by Finanstilsynet.

The number of bond prospectuses in 2018 was lower than in 2017. This was also a consequence of a somewhat more challenging capital market situation towards the end of 2018, with higher credit risk premiums. The level of activity was very high in historical terms during the first three quarters of the year, especially within real estate, power, shipping and oil and gas.

An overview of prospectuses vetted by Finanstilsynet in the period 2014 to 2018 is given in table 8.

Table 8: Vetted documents

	2014	2015	2016	2017	2018
Shares (quoted shares in parentheses)	53 (47)	58 (53)	52 (46)	66 (59)	55 (45)
Bonds	194	99	118	145	135
Total	247	157	170	211	190

Finanstilsynet cut short nine vetting processes after capital raising and/or admission to listing were discontinued. Further, a large number of documents related to passported prospectuses were notified to competent authorities in the EU/EEA area and vice versa.

Finanstilsynet started vetting of 17 prospectuses related to new share issues. Of these prospectuses, nine were for IPOs on Oslo Børs or Oslo Axess. A total of 45 prospectuses for listed limited companies were vetted. Ten prospectuses for share issues by unlisted companies were also vetted.

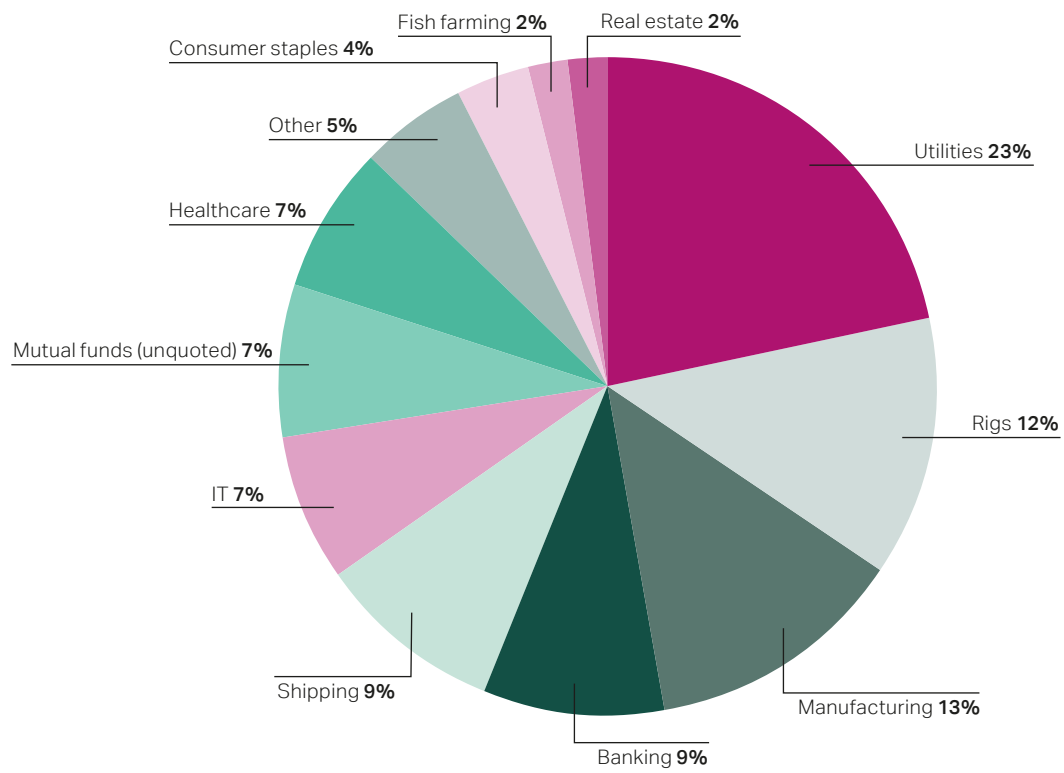
New prospectus rules

The EU adopted in June 2017 a new Prospectus Regulation as a part of its work on a capital markets union. Key objectives of the Regulation are to ensure investor protection and promote more efficient markets, reduce listed companies' administrative burden and fine-tune the rules applying to small and medium-sized businesses. Recommended rules to implement the Prospectus Regulations and recommended rules for national prospectuses have been circulated for comment. The new rules are expected to come into force in July 2019.



Chart 5: Share prospectuses approved by Finanstilsynet in 2018 – by sector

Source: Finanstilsynet





Report from the supervised sectors

Financial reporting enforcement – listed companies

Finanstilsynet oversees financial reporting by Norwegian-registered entities that are listed on a regulated market in Norway or elsewhere in the EEA, as well as certain foreign entities that are listed on a regulated market in Norway.

At the end of 2018, some 260 companies were subject to supervision of financial reporting. Of these, 35 were foreign. 177 were issuers of shares and equity certificates. Several issuers of shares and equity certificates have also issued bonds that are quoted on Oslo Børs. Over the course of the year, 16 new companies were admitted to Oslo Børs and one to Oslo Axess. Six of the admissions to Oslo Børs had transferred from Oslo Axess. A total of 15 companies were delisted, nine on Oslo Børs and six on Oslo Axess.

Enforcement of financial reporting

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.

In 2018, Finanstilsynet reviewed all or parts of the financial reporting of 30 entities. Particular attention was focused on issuers of shares and equity certificates, but also on some bond issuers. Finanstilsynet also reviewed the audit reports of all listed companies. Eight cases were given closer scrutiny, seven of which have yet to be finalised.

Finanstilsynet received no reports from auditors indicating that the financial reporting of the issuers concerned failed to provide a true and fair view. Finanstilsynet received one report that the auditor chose to resign from an assignment before a new auditor had been selected. This company is subject to follow-up.

An account of the most important cases brought to completion in 2018 follows below.

Insr Insurance Group ASA

In one of Insr's interim financial statements, a change had been made to estimated commissions received. The estimate change had a profound positive effect on profits. Without the estimate change, the entity would have recorded a loss, whereas it reported a profit. The improved performance was commented on several places in the interim report, in the stock exchange statement and in the presentation of the financial statements, whereas there was no information about the change in the accounting estimate. No disclosures were provided on this, although Insr had given a brief comment to the estimate change under the review of the financial statements in the interim report. The information appeared to be difficult to access for the users of the financial statements. Finanstilsynet's conclusion was that the change in the accounting estimate was not adequately explained in the interim financial statements.

When preparing its next financial statements, the company discovered that the above-mentioned estimate was incorrect and adjusted the amount for commissions received with retrospective effect. Finanstilsynet took note of the adjustment, but expressed concern over the insufficient quality of the company's financial reporting.

Norwegian Air Shuttle ASA

The supervision related to the accounting treatment of the investment in Norwegian Finans Holding ASA (NOFI) after the company sold 2.5 per cent of its shareholding in June 2017, which was thus reduced from 20 to 17.5 per cent. In consequence of the disinvestment, the investment in NOFI, which was previously accounted for using the equity method, was reclassified and carried at fair value. This resulted in an accounting gain in the interim financial statements as at 30 June 2017 of NOK 2,047 million.

The way Finanstilsynet sees it, the company still had significant influence over NOFI after the disinvestment, and the investment should therefore not have been reclassified and carried at fair value. The company came into line with Finanstilsynet's assessment and reintroduced



the equity method to account for the investment in the annual accounts for 2017.

SpareBank 1 SMN and SpareBank 1 Nord-Norge

The supervision mainly encompassed the accounting treatment of perpetual subordinated loan capital securities. SpareBank 1 SMN issued two perpetual subordinated loan capital securities in 2013 of NOK 500 million and NOK 450 million, respectively. SpareBank 1 Nord-Norge had issued similar subordinated loan capital securities in December 2012 of NOK 500 million. The instruments were issued to strengthen the banks' capital adequacy and increase Tier 1 capital. In order to qualify as Tier 1 capital according to CRD IV / CRR, one of the terms of the agreement must be that the issuer has an unconditional right to stop interest payments.

The three above-mentioned instruments were initially classified as liabilities in the banks' balance sheets. In Finanstilsynet's opinion, the subordinated loan capital securities should have been classified as equity, as there was no condition in the loan agreements to make interest payments. SpareBank 1 SMN classified the two perpetual subordinated loan capital securities as equity and restated figures for previous accounting periods. SpareBank 1 Nord-Norge decided to avail itself of its right to redeem the instruments in December 2017, and the perpetual subordinated loan capital securities were thus no longer recorded in the balance sheet at year-end 2017.

Oceanteam ASA

Oceanteam's auditor resigned in November 2017. On the basis of the company's fourth quarter report for 2017, Finanstilsynet initiated supervisory proceedings inasmuch as the report did not seem to give a true and fair view of the company's financial situation. It was concluded that the fourth quarter report in fact did not give a true and fair view and had to be adjusted. The reason for this was that the company had changed the method used to estimate the value of ships and that it presented a too positive picture of its financial situation and underestimated the negative effects.

Control of listed companies' compliance with the guidelines for alternative performance measures

In 2018, Finanstilsynet reviewed 25 listed companies' compliance with the guidelines in their financial reporting. Finanstilsynet noted that several of the companies still do not provide adequate information about their use of alternative performance measures, and the authority will follow up on this in the period ahead.

The control included information provided by the companies concerning the key alternative performance measures used in their financial reporting. The control focused on compliance with the disclosure requirements in the guidelines, consistent use of alternative performance measures over time and an assessment of whether the companies have given a balanced presentation of alternative performance measures and accounting figures.

Observations from the control were summarised in a report published on Finanstilsynet's website.

Timely publication of periodic financial reports

Finanstilsynet's enforcement of periodic reporting includes checking that reports are published within the deadline. Failure to observe the deadline normally attracts an administrative fine.

No administrative fines were imposed on issuers in 2018 for late publication of their annual reports. The review also entails checking whether the formal documents to be included in the annual and half-year reports have actually been included. Ten companies lacked a declaration of responsibility from their management regarding the half-year financial statements and half-year report. Finanstilsynet pointed this out, and the companies made the required corrections.

Expert Panel on Accountancy

The Expert Panel met twice in 2018. Matters are taken up with a view to discussion or to the issue of a statement. The panel's statements are sent with an accompanying letter to the companies concerned, and the letters are thereafter published on Finanstilsynet's website.

The Expert Panel in the period 1 January – 31 December 2018

Stig Enevoldsen

chair

Signe Moen

deputy chair

Frøystein Gjesdal

medlem

Gry Kjersti Berget

member

Kjell Magne Baksaas

member

Nina Rafen

member

Geir Moen

member

Karin Råd

alternate

Roar Inge Hoff

alternate

Reidar Jensen

alternate



Auditing

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

Market participants' confidence in financial reporting by the business sector 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 other listed companies. High audit quality contributes to increased confidence. In order to properly perform his/her role as a representative of the general public, the auditor must be independent and perform the audit in conformity with the requirements of the Auditors Act.

Developments

There is a growing distinction between audit firms that audit public interest entities and other audit firms. This is due to stricter requirements for auditors that audit public interest entities. At the end of 2018, 13 audit firms audited public interest entities.

The largest audit firms have a predominant market position in terms of statutory audit fees. There are nevertheless a number of small audit firms, although the number of firms with just one statutory auditor has fallen in recent years. Technological developments and their bearing on the auditing work are a key issue, especially in the major international audit networks.

Supervision, monitoring and control

Auditors and audit firms that audit public interest entities are subject to periodic on-site supervision at least every three years. These quality assurance supervisions are conducted by Finanstilsynet. Other auditors and audit firms are to be reviewed at least every six years. These reviews are conducted by the Norwegian Institute of Public Accountants (DnR) for members and by Finanstilsynet for non-members. In cases where the DnR identifies circumstances that may prompt revocation of an auditor's licence, the matter is referred to Finanstilsynet for further action. The DnR's report on quality assurance reviews for 2018 is presented on page 61.

Supervision other than periodic supervision is carried out on the basis of Finanstilsynet's risk assessments, where reports of possible audit deficiencies are a factor in determining the type of supervision to be implemented. This applies to both the audit firms that audit public interest entities and others. 16 ad-hoc on-site inspections were conducted by Finanstilsynet in 2018.

Periodic supervision

In 2018, Finanstilsynet conducted periodic on-site supervision of five auditors and completed the inspections that were carried out in 2017. Three of the audit firms that audit public interest entities were supervised in 2018 (SLM Revision AS, KPMG AS and Deloitte AS). KPMG and Deloitte have taken on audit engagements for entities which entail that the audit firms are also subject to periodic supervision by the Public



Company Accounting Oversight Board (PCAOB) in the United States. One inspection was conducted jointly with the PCAOB and was headed by Finanstilsynet. These matters have not been brought to completion.

Other supervisory matters

In 2018, Finanstilsynet registered some 80 reports on possible audit deficiencies from the DnR, the tax authorities, bankruptcy administrators, the police and others. Media entries or matters identified by Finanstilsynet in other supervisory areas may also indicate audit deficiencies. All reports are reviewed and assessed for further follow-up by Finanstilsynet. Matters that are not followed up by on-site inspections or some other form of closer control, are likely to conclude with the auditor being asked to conduct a self-evaluation, identify any deficiencies and correct these in future audits. Finanstilsynet informs the auditor that the evaluation made and possible measures must be documented, and that the authority will review these cases as part of future inspections.

Nine of the reports were followed up by asking the auditor to explain how a particular audit engagement was conducted and present audit documentation showing that the auditing was in compliance with good audit practices.

Eleven of the reports prompted ad-hoc on-site inspections in 2018. An additional three inspections were announced, but the relevant auditors chose to discontinue their audit business. Some of the inspections have yet to be finalised, but audit non-conformances were revealed in all the cases. One of the inspections prompted revocation of the auditor's licence, and six auditors received warnings of a possible revocation. Some of those who received a warning of a possible revocation chose to relinquish their licence. A particularly noticeable deficiency was that the auditor had failed to acquire sufficient knowledge of the audited entity. This is particularly serious when the audited entity is subject to special legislation aimed at safeguarding important public interests.

Table 9: Revocation of auditors' licences

	2014	2015	2016	2017	2018
State-authorized auditors, licences revoked	0	2	1	0	0
Registered auditors, licences revoked	2	0	1	2	2
Audit firms, licences revoked	0	0	3	0	0

Thematic inspections

Finanstilsynet conducted no thematic inspections in 2018, but prepared and published report summaries after the two thematic inspections conducted in 2017.

In the thematic inspection on quality control review of audit firms, Finanstilsynet considered the firms' compliance with the obligation that an auditor other than the statutory auditor should verify that the audit is conducted in accordance with good audit practices. Finanstilsynet found a distinct difference between the five major audit firms and the other audit firms. Compared with Finanstilsynet's previous findings, there has been a major improvement in the quality control reviews performed by the five large audit firms. In other audit firms, deficiencies and weaknesses were uncovered in both policies and procedures, scope, the level of accuracy, timeliness and expertise. In addition, documentation was inadequate.

In the thematic inspection on the audit of state-sponsored private schools, Finanstilsynet identified major deficiencies in the performance of the audit of many of the assignments that were reviewed. Even though there are big differences, the main impression is that the level of quality is higher in audit firms with a larger number of statutory auditors and auditing staff. Poor audit performance is mainly due to the fact that the auditor was not aware of or acquired sufficient knowledge of the special legislation applying to the state-sponsored private schools and thus did not take this into consideration when performing the audit. In more than

half of the assignments, Finanstilsynet uncovered major deficiencies in the documentation of what the auditor had reviewed and checked.

Off-site supervision

An off-site supervision was conducted in the autumn of 2017. The supervision covered all audit firms and auditors that are statutory auditors. The supervision provides, among other things, a basis for checking information in the Register of Auditors, an overview of where statutory auditors are working, an impression of how audit firms are run in selected areas, an overview of how the auditing sector is organised, and a basis for following up legal requirements and for conducting on-site inspections. A report collating the responses was drawn up in 2018. Based on the feedback from the on-site inspections, a selection of auditors were subject to special follow-up.

Matters referred to the Board of Appeal for Audit and Accounting Matters

One audit matter was referred to the Board of Appeal for Audit and Accounting Matters in 2018. The appeal concerned Finanstilsynet's refusal to grant an auditor's licence.

In 2018, the Board of Appeal settled four auditor appeals. Two appeals were filed against withdrawal of a state authorised and a registered auditor's licence, respectively, and two were filed against refusals to grant an auditor's licence. The Board of Appeal's rulings are in the public domain and available at Lovdata, Norway's law database.



Licensing

Table 10: Number of approved auditors and audit firms as at 31 Dec. 2018

	2014	2015	2016	2017	2018	Licensed in 2018
State-authorised auditors	3,729	3,888	4,044	4,233	4,326	126
Registered auditors	3,462	3,492	3,526	3,574	3,607	76
Of which statutory auditors	1,625	1,584	1,560	1,532	1,519	79
Audit firms	533	516	494	447	447	37

Finanstilsynet authorises auditors as either registered or state authorised auditors. In 2018, 218 candidates enrolled for, and 194 passed, the practical test. No candidates failed the test, but 24 candidates chose either not to go through with the test or withdrew during the process. When processing applications for an auditor register number (which is needed in order to become a statutory auditor) Finanstilsynet checks that the auditor meets the statutory continuing education requirements and has the required indemnity insurance.



Finanstilsynet
P.O. Box 1187 Sentrum
N-0107 Oslo

Oslo, 25 January 2019
Our ref.: MIL/KMH

Quality Assurance Review of Auditors – Annual Report 2018

According to the *Guidelines for periodic quality assurance reviews of auditors and audit firms*, the Norwegian Institute of Public Accountants (DnR) is appointed by Finanstilsynet to conduct the periodic quality assurance review of auditors who perform statutory audits of the annual financial statements of entities other than public interest entities. The Board of DnR hereby presents a summary of the quality assurance reviews conducted in 2018.

Organisation of the quality assurance review

The quality assurance review is described in *Details of the quality control programme for statutory auditors 2018* as posted at www.revisorforeningen.no. It is designed to test compliance with the audit legislation and with good auditing practices, including International Standards on Auditing, in addition to compliance with the provisions of the Act on Auditing and Auditors concerning the auditors' capabilities to fulfil their obligations related to financial status, independence, indemnity insurance and continuing professional education. In addition, last year's review included a separate check of compliance with the anti-money laundering legislation.

The reviews were conducted by a review team comprising 30 state authorised and registered auditors, all with a broad professional background.

Selection of auditors for quality assurance review

In 2018, the quality assurance programme covered 816 statutory auditors. 183 of these were selected for ordinary quality assurance review. Upon being notified that they had been selected for review, 18 statutory auditors announced that they would discontinue their business or retire as statutory auditors in the course of 2018. One review has been postponed due to sick leave. Thus, 164 statutory auditors were subject to ordinary quality assurance reviews in 2018. In addition to the ordinary reviews, ten statutory auditors were subject to follow-up reviews, resulting in a total of 174 conducted reviews in 2018.

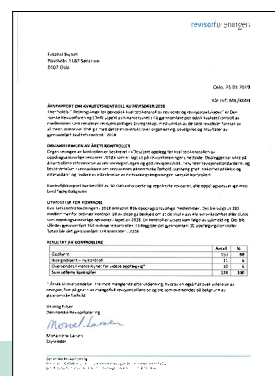
Results of the quality assurance reviews

	Number	%
Approved	153	88
Not approved – new review	11	6
Referred to Finanstilsynet for further action*	10	6
Total number of reviews conducted	174	100

*Reason for referrals: Continuing education deficiencies (three – of whom one also had audit deficiencies), audit deficiencies (four) and financial aspects (three).

Yours sincerely

Mona Irene Larsen (sign.)
Chair
The Norwegian Institute of Public Accountants





Measures against money laundering

General

The object of money laundering is to conceal the origin of proceeds of crime. Money laundering integrates such proceeds into the lawful economy to make them appear legitimate. Terrorist financing denotes participation in terrorist activities or the provision of monetary support to a terrorist organisation or individual terrorists. Many reporting entities under the anti-money-laundering (AML) legislation are supervised by Finanstilsynet.

Supervised entities are required to combat and bring to light circumstances connected to the proceeds of crime or terrorist financing. Finanstilsynet supervises compliance with the AML legislation as part of a number of on-site and off-site inspections in all supervisory areas.

Finanstilsynet's follow-up on institutions

Banks

During 2018, Finanstilsynet reviewed banks' compliance with the AML legislation as part of all standard on-site inspections and thematic inspections of banks offering consumer loans. In addition, special inspections focusing solely on money laundering and terrorist financing were carried out in SpareBank 1 Nord-Norge, SpareBank 1 SR-Bank and SpareBank 1 SMN. There was also a special follow-up inspection at DNB Bank ASA. The special inspections included a review of the banks' correspondent relationships and transaction monitoring systems. In addition, Finanstilsynet examined how the Norwegian branch of Handelsbanken complied with the AML legislation, communicating by letter and having meetings with the branch's management and in the supervisory college.

Here are some of the factors discussed in several of the inspection reports:

- Risk assessments were inadequate and not adapted to the entity's operations.
- Customer due diligence was inadequate, especially with regard to beneficial owners and authorised users, the origin of the funds and ongoing monitoring.
- The system for electronic surveillance of suspicious activity did not function as expected and did not take non-customer specific information into account.
- There were no risk assessments and guidelines for correspondent and respondent bank relationships.
- There was inadequate reporting on compliance with the legislation to the board of directors

The weaknesses that were identified during inspections were described in Finanstilsynet's preliminary reports and in the final comments from the inspections.

Insurers

In 2018, one insurer was subject to a special on-site inspection addressing money laundering. This inspection covered SpareBank 1 Forsikring AS and SpareBank 1 Skadeforsikring AS, which are included in Fremtind Forsikring AS. The reports from the thematic inspection will be completed in 2019. In addition, money laundering was one of several themes at five ordinary on-site inspections conducted at insurers. Finanstilsynet's general impression is that a number of insurers have inadequate risk assessments, procedures and training programmes.

Investment firms

Finanstilsynet carried out a thematic inspection of customer documentation and measures against money laundering and terrorist financing at five investment firms in 2018. The final comments will become available in 2019.

Measures against money laundering and terrorist financing were also on the agenda at all three on-site inspections carried out at investment firms in 2018. Finanstilsynet reviewed documentation for a selection of customers of the investment firms to check their control functions and how they organise their AML efforts, and to examine customer due diligence measures and actual compliance with the AML legislation.

Finanstilsynet observes that investment firms now place more emphasis on, and have a greater awareness of, anti-money laundering efforts. Nevertheless, the



authority still uncovers deficiencies and weaknesses in risk assessments, the identification of beneficial owners, enhanced customer due diligence, and the degree to which entities focus on identifying and reporting suspicious circumstances.

Payment institutions

Two on-site inspections were conducted at the payment institutions Vipps and Strex in 2018, at which compliance with the AML legislation was one of several issues. Both the supervisory reports point to areas with an improvement potential.

Estate agency

In 2018, 13 on-site inspections were carried out at estate agency firms and lawyers engaged in real estate broking, addressing compliance with the AML legislation. In addition, eight AML inspections were conducted at commercial real estate brokers. In some cases, the inspections revealed serious compliance deficiencies. A number of supervised entities had not considered the risk of being exploited for money laundering purposes, had no or inadequate procedures for preventing and uncovering money laundering attempts, or did not have good procedures for checking compliance with the AML legislation.

In 2018, lack of compliance with the AML legislation was reported in ten "final remarks" to the entities, and one of them was ordered to implement corrective measures. Lack of compliance with the AML legislation was also a factor in eight decisions to revoke licences or prohibit estate agency activities. The reports and comments from the thematic inspection and two ordinary inspections will be finalised in 2019.

Auditing and external accountants

Ordinary on-site inspections of audit and accounting firms reveal inadequate assessments of the risk that their clients may be involved in money laundering. On-site inspections have regularly disclosed weaknesses in the way the firms perform their duties under the AML legislation. The weaknesses relate to both formal requirements and the actual performance of their duties.

In 2018, Finanstilsynet finalised a report based on a thematic inspection of appointed external accountants' compliance with the obligation to assess risk and check the identity of clients under the AML legislation.

Trust and company service providers

Subject to application, Finanstilsynet grants licences to trust and company service providers and supervises their compliance with the AML legislation. Finanstilsynet has considered one application for a licence to operate as a trust and company service provider and, at request, provided guidance in this field.

New AML legislation and guidance to the institutions

In May 2018, the Storting adopted a new Anti-Money Laundering Act. The Act implements large parts of the EU's Fourth Anti-Money Laundering Directive in Norwegian law. The adoption of the Act entails that a number of the 40 recommendations from the Financial Action Task Force (FATF) on measures to counter money laundering and terrorist financing are implemented in Norway. The Act is based on previous Norwegian legislation on measures against money laundering and terrorist financing, although its scope has been extended to encompass new groups of businesses, such as providers of gambling services. In addition, requirements have been tightened in some areas, such as customer due diligence, examinations and reporting. Undertakings defined as obliged entities and subject to the Act are required to perform risk assessments and to have a risk-based approach in order to comply with the obligations under the Act. The Act also provides a new legal basis for imposing administrative sanctions on obliged entities for non-compliance with the Act. On commission from the Ministry of Finance, Finanstilsynet drafted regulations in June 2018 which included proposals to establish more specific rules for foreign payment institutions and to subject providers of exchange and storage services for virtual currencies to a reporting obligation, but not to supervision. The Ministry of Finance adopted the regulations in October 2018. Through the regulations, the scope of the AML legislation was extended to include providers of exchange and storage services for virtual currencies, which will be supervised by Finanstilsynet pursuant to the Anti-Money Laundering Act.

Finanstilsynet has adapted its supervisory practices to the new legislation and is preparing a new guidance to the current legislation. The document "Financial sanctions: Guidance on asset freeze provisions" was updated in April 2018. It provides information to financial institutions and other obliged entities on financial restrictions in Norwegian legislation based in sanctions introduced by the UN Security Council and restrictive measures adopted by the EU.



Consumer protection

Consumer protection is an important factor in the development of rules for the financial market and in the supervision of financial services providers. Regulatory development and supervision aim to safeguard the interests of consumers who purchase financial services.

Changes in the regulatory framework and in the supervision of institutions whose object is to improve the position of consumers and customers when purchasing financial services, have become an increasingly important aspect of Finanstilsynet's remit.

Consumer protection is at centre stage in the statutory regulation of the financial market and in the supervision of financial services providers in the banking, insurance and securities markets. Solid, well-capitalised financial institutions and well-functioning financial markets are fundamental consumer interests, both for the community and for the individual. At the same time it is important for consumers to be well protected when purchasing and selling financial products and property, and to be able to base their decisions on good information and neutral advice.

Finanstilsynet collaborates with the Consumer Authority, the Consumer Council and the Norwegian Competition Authority to achieve better consumer protection in the financial sector.

Consumer protection is also an important task of the financial supervisory authorities in other countries and in international activities, and Finanstilsynet cooperates closely with the European supervisory authorities when new consumer-related regulations are to be framed.

Topical consumer matters

Compliance with the residential mortgage lending regulations

In 2018, Finanstilsynet obtained the quarterly board reports on compliance with the residential mortgage lending regulations from 23 banks and branches. The reports shows the proportion of mortgages granted that fall short of the requirements of the regulations in terms of servicing capacity, debt-to-income ratio, loan-to-value ratio or instalment repayments. See account on page 29.

Residential mortgage lending survey 2018

Every year, Finanstilsynet examines the banks' lending practices and compliance with the residential mortgage lending regulations. The residential mortgage lending survey 2018 showed a slight increase in the proportion of new residential mortgages that exceeded the limits set in the residential mortgage lending regulations. See account on page 29.

Loan-based crowdfunding – proposed regulation

In December 2018, Finanstilsynet presented a proposal to the Ministry of Finance for the regulation of crowdfunding platforms. The proposal will safeguard the interests of lenders and borrowers when using this type of financing. Finanstilsynet proposes strict regulation of consumers' access to invest through platforms and will ban the provision of consumer loans through such platforms. See account on page 31 and 67.

Liquidation of Silver Pensjonsforsikring AS

The administration board of Silver Pensjonsforsikring AS, appointed by Finanstilsynet in 2017, found that the policyholders' interests were best safeguarded by converting paid-up policies with a guaranteed return into paid-up policies offering a choice of investment options and transferring policyholders to another life insurer. Storebrand Livsforsikring AS was chosen. See account on page 39.

Payment Services Directive

The revised Payment Services Directive (PSD2) entered into force in the EU in January 2018. The overarching object of the directive is to ensure up-to-date, efficient and cheaper payment services and to protect customers. The public law aspects of PSD2 will enter into force in April 2019. See account on page 33.

Supervision of investment advice

Finanstilsynet conducted a number of inspections of investment firms, focusing on customer testing, information provided to customers and customer due diligence. See account on page 50.

Finanstilsynet revoked the licence of one investment firm following serious and systematic violations of the requirements for good business practice, testing of customer suitability and the handling of conflicts of interest.

Unlawful investment service activities – termination order

Finanstilsynet ordered four entities to halt unlawful investment service activities in the form of the sale of shares in property companies to consumers. The authority reported five entities to the police. See account on page 51.

Crowdfunding – termination order

Finanstilsynet surveyed the operations of an entity offering crowdfunding and ordered the entity to terminate this activity. The entity offered consumers investment services in connection with investments in start-up companies and was not licensed to conduct such business. See account on page 67.



Publication of market warnings

Finanstilsynet publishes market warnings against entities offering investment services without the requisite licence. See account on page 51.

Use of reference indices for fixed-income and balanced funds

During 2018, Finanstilsynet conducted an off-site thematic inspection at a management company regarding the use of reference indices for Norwegian fixed-income and balanced funds. A number of funds still use one of Oslo Børs' government bond indices as a benchmark for fund returns, even though a larger share of the fund's portfolio is placed in fixed-income instruments carrying higher risk. In identical letters to the management companies, Finanstilsynet emphasised the importance of using a relevant reference index and explained that the fund risks and returns nevertheless have to be clearly communicated.

Marketing of alternative investment funds (AIFMs) to consumers

In 2018, Finanstilsynet conducted a thematic inspection of compliance with the requirements for good business practice in the marketing of alternative investment funds to consumers. The inspection included three AIFM managers and the marketing of a number of alternative investment funds.

Restrictions on the sale of CFDs and binary options to consumers

In June 2018, Finanstilsynet adopted regulations on restrictions on the marketing, distribution and sale of CFDs and binary options to consumers. See account on page 44.

Estate agency

Finanstilsynet conducted 21 on-site inspections at estate agency firms and lawyers in 2018 to review how they manage and control customer funds.

Debt collection

The supervision of debt collection agencies has a strong element of consumer protection. On-site inspections are part of Finanstilsynet's ongoing monitoring of the debt collection industry. In 2018, Finanstilsynet carried out four on-site inspections of debt collection agencies to review their internal control and risk management.

Information and advice to members of defined-contribution pension schemes

Finanstilsynet has surveyed the information and advice provided to members of defined-contribution pension schemes and owners of pension capital certificates in accordance with the Act on Defined-Contribution Pensions. See account on page 38.



Supervision of consumer loans in 2018

Loans to Norwegian households are largely residential mortgages, but the percentage share of consumer credits has risen. Consumer loans are offered in the form of various products, and include both credit card loans and other unsecured loans. The effective interest rate varies widely depending on the amount borrowed and the repayment period, but is consistently high. Unsecured consumer loans represented just over 3 per cent of total household lending at the end of 2018. Nonetheless, interest expenses on consumer loans account for a significantly higher proportion of households' overall interest expenses than consumer loans' proportion of overall debt.

Finanstilsynet has adopted guidelines for prudent consumer lending practices (see circular 5/2017 - in Norwegian only). The guidelines set requirements with regard to debt-servicing capacity, maximum overall debt-to-income ratio and instalment repayments. The guidelines aim to promote consumer protection by reducing the risk of borrowers taking on debt obligations they are unable to service, and to promote well-capitalised financial institutions and public confidence in the financial industry. The guidelines apply to Norwegian financial institutions and branches of foreign financial institutions and cover unsecured credit, including credit offered via credit cards and debit cards.

During 2018, Finanstilsynet surveyed financial institutions' compliance with the guidelines. The survey showed that banks and financial institutions were not fully compliant with the guidelines. In August 2018, Finanstilsynet therefore proposed establishing the guidelines as regulations. In February 2019, the Ministry of Finance adopted regulations based on Finanstilsynet's proposal. The regulations offer the institutions a limited opportunity to deviate from the lending practices requirement. Regulation of lending practices will help to improve consumer protection by reducing the risk that people will take up loans that they may subsequently be unable to service. Reduced risk of loan losses will

also promote well-capitalised financial institutions. The regulations will apply to all undertakings offering consumer loans in the Norwegian market, including undertakings that engage in cross-border activity in Norway.

One of the requirements of the regulations is that borrowers shall be assessed on the basis of supplementary information about income and all relevant expenses. If the customer does not have adequate funds to cover normal subsistence expenses after an interest rate increase of 5 percentage points on the total debt, or if the total debt exceeds five times gross annual income, the undertaking shall not grant the customer the loan. The loan agreement must include requirements on instalment payments over a term of maximum five years.

Supervision of undertakings that primarily offer consumer loans

In 2018, Finanstilsynet conducted on-site inspections at banks that primarily offer consumer loans. The inspections showed that the banks to a greater or lesser degree overestimate their customers' debt servicing capacity. Finanstilsynet also regularly reviews the activity of a number of banks and finance companies engaged in consumer finance. In 2018, the authority obtained figures from 29 undertakings covering the bulk of the Norwegian market. See account on page 28.

Licences for debt information undertakings

During 2018, the Ministry of Children and Equality gave three undertakings a licence to operate as debt information undertakings: Gjeldsregisteret AS, Norsk Gjeldsinformasjon AS and Experian Gjeldsregister AS. This will give customers, banks and other financial institutions a better overview of customers' consumer debt, and the institutions will have a better basis for safeguarding customer interests and preventing individual customers from taking up larger loans than they are able to service. Finanstilsynet will supervise these undertakings.



Current topics

Fintech

The financial services industry is in constant change, and a number of new players are establishing themselves and offering services in the financial sector. The industry has long been at the leading edge within ICT and has taken new, advanced solutions and new technologies into use.

Fintech is a term used to describe technological developments resulting in new products and services in the financial services industry. It is also part of the general digitalisation of society, and current developments may change our traditional view on financial services. New technology may lead to new business models where new players either challenge or cooperate with established institutions. Technological developments can provide better access to financial services, more services to choose among and lower-priced and more efficient services. It can also help to increase the competition for advisory services and the offering of payment systems. A key challenge related to fintech is that new products, distribution methods and business models entail new types of risk. Some business models and products may be beyond the scope of or challenge existing concession requirements.

Technological developments affect all industries supervised by Finanstilsynet to a greater or lesser degree. Finanstilsynet is keeping a close watch on developments and monitors how institutions and new actors comply with laws and regulations.

Finanstilsynet expects the institutions to make risk assessments that identify relevant risks when taking new technology into use or using existing technology in new ways. Relevant risks in this connection include the risk of misuse and erroneous reporting and the risk that the institutions are not aware of the responsibility entailed when introducing new technological solutions. It is important to pay due heed to financial stability, secure services and good customer protection, and equal risks should be treated equally, regardless of business model.

In the rest of Europe, there is extensive fintech activity. In March 2018, the European Commission published a fintech action plan, and the European supervisory authorities EBA, ESMA and EIOPA have established working groups that assess risks, existing regulations and the organisation of so-called sandboxes. In line with the European Commission's "FinTech Action Plan" from 2018, EBA, ESMA and EIOPA published the report "FinTech: Regulatory sandboxes and innovation hubs" in January 2019. The report inter alia describes the innovation measures established in the EEA, and also makes recommendations regarding best practices.

Finanstilsynet has established an information page for fintech firms on its website, which has resulted in 19 enquiries from fintech firms. Several of the enquiries have resulted in a meeting with Finanstilsynet where the firms have been given guidance and advice on prevailing regulations and what is needed to be granted a concession.

In November 2018, the Ministry of Finance commissioned Finanstilsynet to set up a fintech sandbox that will be open to applications no later than 31 December 2019.

Crowdfunding

In 2018, there was a lot of talk about the mediation of loans to consumers or small businesses via digital platforms from lenders that are not financial institutions. In its assessment of crowdfunding, Finanstilsynet has stressed that equal risks must be regulated equally. Loan-based crowdfunding platforms may be encompassed by either the current regulation of banks and finance companies or by the rules on loan intermediation, depending on the platform's role. Finanstilsynet will consider equity crowdfunding in relation to the provisions of the Securities Trading Act.

In the category "loan-based crowdfunding" three firms were registered as loan intermediaries in 2018, two of which were licensed to operate as payment institutions. See account on page 38. Prior to the registration, Finanstilsynet gave the firms extensive guidance on how to organise their operations in order to be registered as loan intermediaries. See also circular 10/2017.

In the spring of 2018, Finanstilsynet ordered a registered loan intermediary to halt operations as Finanstilsynet found that it did not operate in accordance with the rules for registered loan intermediaries. The firm appealed against the decision and asked to be allowed to resume operations based on measures taken. The matter is under consideration.

At the end of 2018, two firms were licenced to engage in equity crowdfunding in accordance with the Securities Trading Act: an agent for a Norwegian investment firm and a branch of a Finnish investment firm. In addition, another firm applied for a concession in late 2018.

In the autumn of 2018, Finanstilsynet ordered a firm to halt operations, which were considered to be licensable investment services, as the firm was placing issues. The firm appealed against the decision, and the matter is under consideration. See also page 50.



In many respects, operations carried out via loan-based crowdfunding platforms do not deviate materially from operations that can only be undertaken by firms with the necessary licence. In Finanstilsynet's opinion, current developments and the need to protect the interests of both borrowers and lenders necessitate the introduction of specific requirements for crowdfunding platforms. It is important to avoid the emergence of a large, opaque market that is not subject to the same customer protection requirements as other financial market participants. See also page 31.

In December 2018, Finanstilsynet sent a consultation document to the Ministry of Finance, proposing rules governing loan-based crowdfunding. Finanstilsynet proposes the introduction of specific requirements for entities operating loan-based crowdfunding platforms plus a requirement to be licensed by Finanstilsynet. In addition, Finanstilsynet proposes a prohibition against the intermediation of loans to consumers by such entities. The Ministry of Finance will determine the further processing of the proposal.

In the autumn of 2018, the Ministry of Finance circulated for comment a proposal to exempt the mediation of business loans via loan-based crowdfunding platforms from the licensing requirement, on condition that they do not exceed NOK 1 million per year. Finanstilsynet presented its views to the ministry during the consultation round.

Sustainable finance – climate risk

Climate change and measures to limit global warming affect the financial markets in a number of ways, both directly and indirectly.

During 2018, Finanstilsynet carried out activities related to climate risk as part of its ongoing supervision. The authority checked that insurers and banks assess climate risk, and this topic was discussed at on-site inspections and in meetings with the institutions. Relevant and good information about "green" investment options is a key element of consumer protection which was followed up by Finanstilsynet through various supervisory activities.

Finanstilsynet is building knowledge and expertise on climate risk, inter alia by participating in the European supervisory cooperation.

Brexit

Throughout 2018, uncertainty attended the United Kingdom's exit from the EU. Finanstilsynet's preparations for Brexit have largely been made in consultation with other national financial supervisory authorities and the European Supervisory Authorities. These include risk assessments, statements to the industry and advice to the European Commission. The national supervisory authorities are also working together to draw up collaboration agreements with the UK authorities to help create a good climate of cooperation even after Brexit.

Finanstilsynet considers it important that Norwegian financial institutions assess risks and measures related to Brexit. The authority had direct contact with several of the institutions that will be affected, created a theme page on its website and published a number of relevant articles about Brexit.

During 2018, financial market participants were particularly concerned that without UK central counterparties, the EU will not have the required capacity to clear derivative contracts. In December 2018, the European Commission calmed the markets by deciding that the British regulatory and supervisory regime will be treated as equivalent to the EU regime for a period of up to twelve months. This decision was necessary to enable British central counterparties to apply to ESMA for permission to continue to offer their services in the EU, also in the event of a no-deal Brexit. Also in December, the European Commission adopted preliminary rules on the novation of certain types of OTC derivative contracts where the contracts are transferred from a British to an EU 27 counterparty, i.e. from any other member state than the United Kingdom. The decisions by the European Commission also have implications for the EEA. The Ministry of Finance therefore confirmed in a press release in December that it will take measures to ensure that a corresponding decision will be applicable in Norway.

Finanstilsynet was involved in preparing a preliminary regulation in Norway that will give undertakings headquartered outside the EEA the opportunity to continue to provide such investment services to professional clients and qualified counterparties in Norway. It is a prerequisite that the entities were authorised on 29 March 2019 to engage in investment activity in Norway based on a licence from their home country and home country supervision in accordance with the EEA Agreement.



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MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS



MANAGEMENT AND CONTROL OF FINANSTILSYNET'S OPERATIONS

Management structure and reporting

Finanstilsynet's Board of Directors, which is appointed by the Ministry of Finance for a four-year term, has the overarching responsibility for Finanstilsynet's activities. The Director General, who is appointed by the King in Council for a term of six years (with a possible extension of a further six years), is in charge of the day-to-day management. The Director General confers with his management team, which in addition to the Director General comprises the Directors of the three supervisory departments and the Administration Department, the General Counsel and the Communications Director.

Finanstilsynet is divided into three supervisory departments and one administration department, each headed by a department director (Deputy Director General). Each department is divided into sections, each headed by a head of section. The legal quality assurance and international coordination functions are assigned to the Director General's staff. A communications unit reporting directly to the Director General is responsible for external and internal communication.

Finanstilsynet's activity is regulated by the Financial Supervision Act. This Act is supplemented by special laws governing the respective supervisory areas. Every fourth year Finanstilsynet draws up a strategy document which together with the Ministry of Finance's letter of allocation is the basis for annual business plans. The strategy for 2019-2022 was adopted by the Board of Directors in December 2018. The business plans are the basis for the daily management and for reporting to both the Board of Directors and the Ministry of Finance.

The Board of Directors meets each month to deal with important supervisory matters, such as draft regulations and licensing matters, budget and business plans. The Board receives regular reports on Finanstilsynet's activities. Finanstilsynet meets with the Ministry of Finance on a quarterly basis. The agency also reports annually to the Ministry by way of its annual report and a summary report.

Finanstilsynet bases its supervisory activity in all areas on risk assessments and each year draws up risk analyses for its own operations. These analyses are endorsed by the Board of Directors through the latter's adoption of the business plan and are communicated to the Ministry of Finance, which follows up on the assessments in its management dialogue with Finanstilsynet.

Where risk assessments providing a basis for the supervisory activity are concerned, the *Risk Outlook* report represents a key analysis. Since 1994, Finanstilsynet has systematically analysed and assessed potential stability

problems in the Norwegian financial market based on developments in the Norwegian and international real economies and markets. 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 economy and the markets. As from 2003, Finanstilsynet has given its view of the state of the financial market in special reports which also cover financial institutions' earnings, financial strength and liquidity position. The reports assess potential sources of future stability problems in the Norwegian financial system. Risk Outlook is published in June and November/December. A further basis for risk assessments is the annual analysis of risks related to the use of ICT in the financial sector (Risk and Vulnerability Analysis).

Finanstilsynet is subject to audit by the Office of the Auditor General. See chapter VI, Annual accounts, page 76.

Operational efficiency and organisational development

Streamlining and digitalisation

Over the past few years, Finanstilsynet's digitalisation efforts have been influenced by the introduction of extensive reporting obligations to the EU under CRD IV, Solvency II and TRS/MiFIR under the auspices of the European supervisory authorities EBA, EIOPA and ESMA. The reporting systems are designed to enable processes that are as automated as possible in order to assure the quality of data, register error messages and feedback to the institutions and efficiently forward data for internal use and to the European supervisory authorities. The automated systems have been essential in enabling Finanstilsynet to meet the extensive reporting requirements from the EU.

In 2018, Finanstilsynet initiated a long-term project to modernise its IT platform and the systems for reporting from entities under supervision. The purpose of the project is to increase the flexibility of the IT portfolio, reduce the underlying growth in operating and management costs and facilitate new and better solutions. A related project was initiated to test and use more modern tools to make data more accessible for analysis and supervisory purposes.

A new internal registration system (Sentralfag) was completed in 2018. The register contains continually updated and harmonised information about institutions under supervision, cross-border activities, reporting requirements, suitability assessments etc. and has good functionality for users. Finanstilsynet has planned a number of projects in 2019 to streamline case processing and improve the quality of the information in the register.



Finanstilsynet is constantly working to streamline and digitise its case processing procedures and the reporting from supervised entities, which includes extensive use of the Altinn internet portal. At the end of 2018, 97 of Finanstilsynet's forms were available for reporting via Altinn.

An increasing share of the correspondence with Finanstilsynet takes place electronically. More than 80 per cent of all outgoing mail is sent electronically, which has made case processing more efficient.

A project was started in 2018 to prepare for receiving and handling whistleblowing reports to Finanstilsynet in accordance with Chapter 2 A of the Norwegian Working Environment Act and requirements in several EU directives for the financial sector. Finanstilsynet has decided to make use of an electronic whistleblowing platform which will be launched in 2019.

Study of technological opportunities

In autumn 2018, Finanstilsynet initiated a study to identify technological opportunities in the organisation. Based on feedback from employees, needs and opportunities for streamlining supervisory activities and internal work processes through digitalisation were identified. The initiative received broad support in the organisation, and more than 150 suggestions were submitted. The process showed that the authority has a potential for streamlining and improving its case processing and supervisory processes.

The report from the study will give Finanstilsynet a better basis for prioritising IT investments that increase supervisory efficiency. Some suggestions for streamlining measures can be implemented quickly and with few resources. The suggestions also comprise more extensive, longer-term digitalisation projects involving robotification and artificial intelligence (AI). More modern analysis tools will give a better basis for making decisions and ensure more efficient processing of large amounts of data.

Digitalisation as a basis for the reorganisation in 2018

Finanstilsynet's ability to streamline its activities through increased use of digital solutions is dependent on a sound organisational structure, good management, highly competent specialists and good cooperation between users and suppliers of IT services within the organisation.

The need to simplify and streamline activities through digitalisation and coordination of the work on IT development, reporting and analyses across the organisation was the main reason why Finanstilsynet changed its organisational structure in 2018 and established a department for digitalisation and analysis. The responsibilities of the department include reporting from institutions under supervision, analysis, macroeconomic surveillance, supervision of ICT and payment services and internal IT development and operations. See a further account on page 10 and the organisation chart on page 15.

Finanstilsynet's community of analysts has been strengthened, and the new department is expected to help to ensure better coordination and cooperation between key users and the IT unit, improved management of procurement and strategic and coordinated management of Finanstilsynet's IT development projects.

Internal control

Internal control at Finanstilsynet is a line management responsibility, and is thus a part of the agency's internal management. Internal guidelines and procedures, such as budget allocation procedures, clarify responsibilities and authority and contribute to effective control.

The management team regularly follows up on the business plans of all departments and sections. It does so to ensure that resource input, goal achievement and results are in keeping with priorities and expectations, and that any divergences are identified, explained and addressed by implementing measures. Such follow-up also ensures a coordinated approach and a holistic perspective across the organisation.

Finanstilsynet continued its work on information security in 2018. Efforts to improve information security involved exercises and attitude-shaping initiatives. Finanstilsynet responded to various surveys about information security in the authority and about management systems for information security.

The process to adapt Finanstilsynet's operations to the requirements of the new Personal Data Act and the General Data Protection Regulation continued in 2018. The authority appointed an in-house data protection officer in 2017. These responsibilities are assigned to the controller, who makes sure that the employees comply with the code of ethics and reports to the Board of Directors annually.

Finanstilsynet's fraud risk profile was reviewed and updated in 2018. No significant weaknesses, faults or deficiencies were brought to light through internal controls in 2018. The internal control system provides a sound basis for ensuring purposeful, efficient operations, reliable reporting and compliance with relevant rules and internal policies and procedures. The agency is characterised by a high degree of stability, and faults or significant failure of procedures are rare.

There are no new risk factors or changes calling for the establishment of an internal audit function. The issue will be reappraised at a later date.



Security and preparedness

Finanstilsynet attaches much importance to security and to maintaining preparedness for possible crises in individual institutions, financial infrastructure and markets. The authority also maintains preparedness for possible incidents in its own organisation. Exercises

simulating crises in institutions and markets and in Finanstilsynet's own organisation are conducted. Finanstilsynet uses the CIM support system in its work on preparedness. The authority simplified and upgraded the system in 2018 and has introduced a user-friendly mobile solution. Fire and evacuation drills are conducted twice yearly in cooperation with Norges Bank.



ASSESSMENT OF FUTURE PROSPECTS



ASSESSMENT OF FUTURE PROSPECTS

Growth in household indebtedness remained high in 2018. High property prices and a heavy household debt burden render the Norwegian economy vulnerable in the event of a turnaround. It is important that the banks are financially sound and have adequate liquidity buffers to face an economic setback and new financial turmoil. Adaptation to the EU/EEA regulations that are expected to be introduced in 2019 could entail less stringent capital adequacy requirements than under current Norwegian regulations. When following up requirements for IRB models and setting Pillar 2 requirements, Finanstilsynet will emphasise the importance of avoiding a weakening of actual financial strength. Finanstilsynet focuses on the banks' leverage ratio when assessing their financial soundness. The authority will play its part in ensuring that the banks' financial strength does not deteriorate in the period ahead on this measure.

The EU's recovery and resolution legislation was implemented in Norwegian law as of 1 January 2019. The legislation sets stricter requirements for institutions' emergency preparedness and introduced new rules for handling crises in credit institutions. The legislation permits write-down of debt in order to prevent banks and other institutions in distress from inflicting losses on the government. Finanstilsynet has been designated as the Norwegian resolution authority, while decisions of significance for financial stability will be made by the Ministry of Finance. The follow-up of the institutions' recovery and resolution plans, the setting of minimum requirements for own funds and eligible debt as well as resolution planning according to the new regulations will be challenging and require extensive resources over the coming years.

In the pensions area recent years have seen a gradual transition from defined-benefit pensions to defined-contribution unit-linked pensions. The new products require professional and balanced advice. In both the insurance area and the securities area Finanstilsynet must see to it that institutions comply with sound business practices in their sales and advisory activities. For their part, institutions are responsible for ensuring that marketing material contains balanced information to policyholders on risk and costs. While new pension agreements are mainly contribution-based, pension undertakings will in the coming years continue to face a substantial residual risk as regards existing defined-benefit policies, including paid-up policies offering a guaranteed return.

The revised directive on occupational pension schemes (IORP II) sets stricter corporate governance requirements for occupational pension undertakings. Among other things, the pension undertakings must have independent control functions in place in the form of internal audit, risk management and actuarial functions. This requires follow-up on the part of Finanstilsynet.

Personal pension saving is on the increase, including saving in mutual funds. The introduction of the share savings account (ASK) and individual pension saving (IPS) is designed to promote such saving. Finanstilsynet will need to ensure that entities offering such products safeguard their customers' interests.

The statutory basis for Finanstilsynet's activity is set out in the Financial Supervision Act and in provisions of special legislation in the various supervisory areas. The financial legislation is primarily based on EEA legislation and has become very detailed and wide-ranging in recent years. Finanstilsynet's scope of action is limited by legislation and participation in the European supervisory cooperation, as well as by the Ministry of Finance's management of operations through annual letters of allocation and individual assignments. This scope of action is further restricted as new legal acts are incorporated in the EEA Agreement.

Given the continued high pace of introduction of new European regulations and supervisory convergence in the coming years, Finanstilsynet is expected to continue to devote substantial resources to the drafting of regulations. This will mainly comprise assignments from the Ministry of Finance related to the implementation of directives and regulations pursuant to Norway's EEA obligations. Finanstilsynet's participation in supervisory cooperation and regulatory work under the auspices of the European supervisory authorities – EBA, ESMA and EIOPA – requires substantial resources and will continue to make heavy demands on Finanstilsynet's resource management.

Another aspect of the regulatory changes requiring further system development and processing capacity is the increasing volume of reporting called for by EBA, ESMA and EIOPA. Relatively large volumes of data reported by Norwegian financial institutions are needed as input for the overall monitoring of Europe's financial sector.

The financial industry has a long history of incorporating new technology, which has enabled streamlining of operations and the introduction of new services. Digital platforms are increasingly used to keep in contact with customers. New players challenge established institutions, and technological developments affect all industries supervised by Finanstilsynet. Artificial intelligence technology puts institutions in a position to consider the opportunities offered by advanced forms of data processing and the systems' self-learning. Robotification helps to automate tasks that are currently undertaken by customer advisers and case officers. There is increased focus on the development of technological solutions that ensure regulatory compliance. So-called RegTech solutions are used to, inter alia, uncover money laundering and terrorist financing.



Finanstilsynet is keeping a close watch on developments and monitors how supervised institutions and new actors comply with laws and regulations. Through its supervisory activity, Finanstilsynet assesses how the institutions manage and control the use of technology. Some countries have established so-called regulatory FinTech sandboxes. Finanstilsynet will establish a regulatory sandbox in Norway which will be open to applications for participation by providers and undertakings by the end of 2019.

Blockchain technology could lead to changes in the financial industry in the years ahead, although few solutions have yet been established based on this technology. Virtual currencies are not regulated, and trading takes place on unregulated markets with no price transparency.

Climate change and measures to limit global warming affect the financial markets in a number of ways, both directly and indirectly, and entail new responsibilities for Finanstilsynet.

In order to make optimal use of the organisation's resources, it is necessary to further refine work processes and supervisory methods. Operations must be further streamlined by taking new digital solutions into use. Better ICT systems will also help to ensure ample access to and use of the large volumes of data reported to Finanstilsynet, and facilitate the collection, processing and sharing of data from other sources. This will ensure a sound basis for analyses and hence also for risk analyses of both individual institutions and industries.

Finanstilsynet supervises many entities subject to reporting requirements pursuant to the anti-money laundering legislation and oversees the entities' compliance with the legislation. Internationally, extensive money laundering activities have been uncovered in a number of banks, resulting in a significant loss of reputation and high fines. The operational risk is high. Illegal activity contributes to weakening confidence in the financial markets and represents unfair competition for firms operating in compliance with the regulations. Individuals' personal finances may be seriously affected. Finanstilsynet monitors illegal activity in a number of areas, and a wide variety of illegal acts are responded to.

In several areas, the new EU legal acts set more comprehensive and detailed requirements for how member states should react in the form of administrative sanctions and other administrative measures imposed against both firms and natural persons. The imposition of non-compliance fees is an administrative sanction that can be used in connection with a variety of regulatory violations in different areas, and the legal acts often stipulate high maximum amounts. As a consequence of new EU regulations, Finanstilsynet is assigned competence to decide on product intervention and temporary disqualification of senior executives. The power to impose administrative sanctions gives Finanstilsynet a broader range of measures.

A large number of tasks increasingly require involvement by Finanstilsynet's various units and experts. Examples of this are consumer protection in connection with advisory services and the sale of savings and investment products from various industries, ICT risk, outsourcing risk and money laundering risk. Consistent use of administrative fines and other sanctions across industries will also gain importance when the number of available sanctions increases in several supervisory areas.

Finanstilsynet is a knowledge-based organisation whose activities are dependent on the professional expertise of its employees. Finanstilsynet aspires to be an attractive employer capable of attracting competent staff from both the private and public sector. It is necessary to have a large proportion of staff members with experience from institutions subject to supervision. A strong professional environment is characterised by a high level of competence, commitment and knowledge sharing. Human resource development is important to be able to understand and assess key development trends and to retain competent staff.

On 18 December 2018, Finanstilsynet adopted a new strategy for the period 2019-2022. Financial stability and well-functioning markets remain the main goal of Finanstilsynet's activities. A new operational goal has been included – fight against crime. See the other operational goals on page 8. Finanstilsynet will give special priority to the following activities during the strategy period:

- macroprudential supervision
- prudential supervision of financial institutions
- supervision of the distribution of loans, pension and mutual fund products and other financial instruments
- supervision of actors in the payment, trading and settlement systems and other financial infrastructure
- supervision of compliance with anti-money laundering legislation

The financial markets may change significantly during the strategy period, which may necessitate a review of priorities. However, goal attainment depends on several factors other than financial supervision. These include both the exercise of authority in other policy areas and other factors of significance to the Norwegian economy.

Targeted prioritising and effective use of available resources are important in enabling Finanstilsynet to meet its goals. An important consideration for Finanstilsynet over the coming years is to ensure adequate resources for its core activity, which is to supervise licensable activities. Supervision must be risk-based, and the resources used on regulatory development and management must as far as possible be adapted to the significance of the regulations for overall goal achievement.



ANNUAL ACCOUNTS



ANNUAL ACCOUNTS

Comments from the Director General

The annual accounts are prepared and presented in accordance with the Regulations on Financial Management in Central Government and are in keeping with basic principles for budgeting and accounting enshrined in rules on financial management and in circulars from the Ministry of Finance. The presented accounts with notes provide a true and fair view of Finanstilsynet's disposable appropriations, revenues and expenses, assets and liabilities in 2018.

The Storting determines Finanstilsynet's expenditure budget and revenue budget as part of the government budget. The 2018 operating expenditure budget (item 01) originally totalled NOK 360.5 million. The budget was increased by NOK 6.0 million as compensation for the public sector wage settlement. Including NOK 13.9 million carried forward from 2017, the aggregate disposable operating budget came to NOK 380.4 million. Compared with the balanced budget for 2017, the operating budget was increased by NOK 24 million in 2018.

Parts of Finanstilsynet's budget are allotted over item 45 *Major procurements and maintenance (IT)*. This appropriation is earmarked for IT development projects, and unused funds can be transferred to subsequent budget years independently of operating expenditure. In the budget for 2018, there was an appropriation NOK 25.4 million, an increase of NOK 6 million compared with the previous year. Together with NOK 8.7 million carried forward from 2017, this brought disposable funds to NOK 34.1 million. New requirements on supervision and supervisory methodology entail a wide-ranging need for adjustments to systems that support the supervisory effort. The work to develop and adapt IT systems to meet European reporting requirements and to carry out necessary analysis of available information has been ongoing for several years and will continue over the coming years. The funds are also used to modernise the authority's registers and case processing tools and will contribute to more efficient supervision in the period ahead.

The appropriation report shows that aggregate expenditure in 2018 came to NOK 402.2 million, an increase of 8.8 per cent from 2017. The expenditure underrun for item 01 *Operating expenditure* was NOK 14.8 million, which Finanstilsynet has applied to carry forward to 2019. The expenditure underrun for item 45 was NOK 13.7 million, which Finanstilsynet has also applied to carry forward to 2019. The calculation of underruns is shown in Note B.

Overall salary expenditure came to NOK 274.7 million – 7.0 per cent more than in 2017. Salaries account for 72 per cent of the total amount expensed in 2018. Annual salary growth in the public sector is put at 2.8 per cent. The growth in Finanstilsynet's salary expenditure can partly be explained by the refund in 2017 of an excess

payment of pension premium to the Norwegian Public Service Pension Fund from previous years. Excluding the pension premium, there was a 4.4 per cent increase in salary expenditure. The budget increase in 2018 was partly used to hire more employees. The number of FTEs at the end of 2018 was 282, eleven FTEs higher than at the end of 2017. The expenditure underrun for item 01 *Operating expenditure* compared with the budget is partly due to the fact that it took longer than expected to recruit employees to the new positions.

Disbursements for investment and other disbursements to operations (see reporting by natural classification) show an increase of 12.0 per cent from 2017. The increase is due to the need to adapt the premises to more workstations and to the purchase of equipment and development of IT systems. A higher budget limit has made it possible to give greater priority to digitalisation processes compared with 2017. Planned IT systems to meet requirements from the EU have been postponed until 2019, either because a further specification of requirements is pending or because there has been limited internal capacity. Parallel to this, an ongoing project to determine the main architecture for Finanstilsynet's IT projects has resulted in the suspension of a number of scheduled projects until 2019. Consequently, there was an expenditure underrun for item 45 of NOK 13.7 million in 2018.

Finanstilsynet charges fees for prospectus control under the Securities Trading Act, for processing applications for a licence to operate as a payment institution and for applications for a licence to engage in debt collection. Total fees paid in 2018 were NOK 12 million, compared with NOK 11.9 million in 2017. Compared with the budget, there was a revenue overrun of NOK 0.9 million inasmuch as more resource-demanding prospectuses were vetted than expected when preparing the budget, which in turn generated higher fees. Fee for the vetting of prospectuses came to NOK 11.4 million in 2018, compared with NOK 11.2 million in 2017.

Pursuant to section 9 of the Financial Supervision Act, Finanstilsynet's expenses are covered by the institutions under its supervision in the financial year. Under the Act, the expenses shall be distributed among the various groups of institutions according to the extent of the supervision. The Storting has resolved that as from 2018, the apportionment of the overall levy among the various institutional groups is to be based on budgeted expenditure for the year. The supervisory levy is apportioned on the individual institution under detailed rules set out in regulations on the levying of expenses for supervision. After prior consultation with the trade organisations concerned, Finanstilsynet's supervisory levy for 2018 was communicated to the institutions for payment in May 2018. The overall claim came to NOK 389.2 million. Levies



were charged to a total of 14,769 entities under supervision, including 89 foreign branches. The largest category of supervised entities is external accountants, numbering 11,347 at the start of 2018.

Relinquishment of gain and violation penalties are entered under Finanstilsynet's revenue chapter. These revenues are not part of the basis for calculating the supervisory levy. In 2018, Finanstilsynet repaid a previously imposed day penalty of NOK 1.1 million. In consequence of this, item 86 *Relinquishment of gain* and violation penalties etc. shows a revenue underrun of close to NOK 0.7 million compared with the budget.

The Norwegian National Collection Agency annually collects supervision fees and other levies on behalf of Finanstilsynet. This work also includes accounting for and reporting of payments to the central government accounts. In order to provide a complete picture of Finanstilsynet's annual accounts, these figures have been assigned to a separate column in table 14: Appropriation report for 2018, itemised.

The Office of the Auditor General audits the activity of Finanstilsynet. The audit report for 2018 is due to be available by 1 May 2019 and will be published on Finanstilsynet's website.

Oslo, 21 February 2019

Morten Baltzersen
Director General

Accounting policies

Finanstilsynet's accounts are kept on a cash basis. Revenues and expenses are recognised as and when paid. The accounts follow the calendar year and contain all reported expenditures and revenues for the accounting year. Expenditures and revenues are entered in the accounts on a gross basis.

Finanstilsynet pays pension premiums to the Norwegian Public Service Pension Fund, but does not follow the provisions laid down in the Ministry of Finance's circular R-118 "Budgeting and accounting for pension premiums for public enterprises as from 2017". Pensions are recognised in the accounts based on the premium calculated for the accounting year. For 2018, a pension premium of 15.55 per cent is computed on fixed salaries up to 12G, compared with 10.4 per cent in 2017 and 17.5 per cent in 2016. Of this, 2 per cent is withheld from the employee. Pension premiums are paid in arrears in six instalments per year. The calendar year's final instalment falls due the following year. Hence there is a period displacement for the final instalment each year. Employer's contributions are computed and entered in the accounts to show the total salary expenditure.

Finanstilsynet is linked to the central government's consolidated accounts scheme at Norges Bank and has drawing rights equivalent to the Storting's appropriation. At year-end the balance on each settlement account is reset to zero.

Appropriation reporting

Appropriation reports with notes show the appropriations at Finanstilsynet's disposal, collated with accounting data reported to the central government accounts.

The Norwegian National Collection Agency is granted a debit authorisation in chapter 4602, items 03 and 86, and in chapter 5580, item 70. The Norwegian Government Agency for Financial Management has given Finanstilsynet special authorisation to diverge from the standard appropriation reports as laid down in "Provisions on financial management in the central administration", para. 3.4.3.2, by adding further columns. Hence the report from the National Collection Agency is shown in the column "Entered by others in accordance with authorisations". The actual difference between the appropriation and the accounts is shown in the column "Deviation from allocation". The authorisation to diverge from the standard report initially applies up to and including the 2020 accounting year.

Reporting by natural classification

The reporting by natural classification with notes shows Finanstilsynet's reports to the central government accounts in 2018 based on the standard chart of accounts in the accounting year with comparatives for 2017.

Note 8 shows the difference between the final account and the preliminary account with the Treasury. The final account with the Treasury shows the sum of booked amounts of assets and liabilities in Finanstilsynet's account specification, while the preliminary account with the Treasury shows assets and liabilities reported to the central government accounts.



Table 14: Appropriation report for the accounting year 2018, itemised

Expenditure chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2018	Expense overrun (-) or underrun	Entered by others in accordance with authorisations	Deviation from allocation
1602	Finanstilsynet	01	Operating expenses	A, B	380,445,000	365,601,104	14,843,896		
1602	Finanstilsynet	45	Major procurements and maintenance (IT)	A, B	34,069,000	20,327,544	13,741,456		
1633	Govt. VAT netting arrangement	01	Operating expenses		0	16,232,880			
Total expensed					414,514,000	402,161,528			

Revenue chapter	Chapter name	Item	Item text	Note	Total appropriation	Accounts 2018	Revenue overrun or underrun (-)	Entered by others in accordance with authorisations	Deviation from allocation
4602	Finanstilsynet	03	Administrative processing fees	A	11,079,000	11,746,400	667,400	255,214	922,614
4602	Finanstilsynet	86	Relinquishment of gain, violation penalties etc	A	500,000			-174,308	-674,308
5580	Sectoral levies set by Ministry of Finance	70	Contributions from supervised entities	A	389,200,000	67,141	-389,132,859	388,670,088	-462,771
5700	Contributions to the National Insurance Scheme	72	Employer's contribution		0	34,162,617			
Total taken to revenue					400,779,000	45,976,158			

Net amount reported to the appropriation account **356,185,370**

Capital accounts

60050601	Norges Bank CA / receipts	24,469,010
60050602	Norges Bank CA / payments	-378,367,464
716106	Change in outstanding account with the Treasury	-2,286,916
Total reported		0

Holdings reported to the capital account (31 Dec.)

		31 Dec. 2018	31 Dec. 2017	Change
716106	Outstanding account with the Treasury	-13,509,054	-11,222,138	-2,286,916

Note A Explanation of overall allocation

Chapter and item	Brought forward from last year	Current year's allocations	Overall allocation
1602 01 Operating expenses	13,931,000	366,514,000	380,445,000
1602 45 Major procurements and maintenance (IT)	8,669,000	25,400,000	34,069,000
4602 03 Administrative processing fees		11,079,000	11,079,000
4602 86 Relinquishment of gain, violation penalties etc		500,000	500,000
5580 70 Contributions from supervised entities		389,200,000	389,200,000

**Note B Explanation of utilised authorisations and calculation of amount possibly to be brought forward to next year**

Chapter and item	Headword	Expense overrun (-) / underrun	Expensed by others in accordance with debt authorisations (-)	Expense overrun (-) / underrun under debt authorisations	Revenue overrun / underrun (-) in accordance with revenue overrun authorisations	Overall basis for amount brought forward	Max. amount to be brought forward*	Possible amount to be brought forward calculated by Finanstilsynet
1602 01		14,843,896		14,843,896	14,843,896	14,843,896	18,325,700	14,843,896
1602 45	"May be brought forward"	13,741,456		13,741,456	13,741,456	13,741,456	44,400,000	13,741,456

* The maximum amount that may be brought forward is 5 per cent of the year's appropriation on operating items 01–29, with the exception of item 24, or the sum of the last two years' appropriations under the headword "may be brought forward". See circular R-2/2018 for further details on transfer of unutilised appropriations.



Explanation of use of budget authorisations

Debit authorisations received

By letter of 7 April 2016 the Ministry of Finance authorised Finanstilsynet to post salaries to project managers for IT development programmes on chapter 1602, item 45. Finanstilsynet did not make use of this authorisation in 2018.

Headword "may be brought forward"

Finanstilsynet's appropriation in item 45 is allocated under the headword "may be brought forward". The appropriation on this item covers IT systems development programmes.

Debit authorisations granted (entered by others)

Finanstilsynet has granted the Norwegian National Collection Agency a debit authorisation on chapter 4602, items 03 and 86, and chapter 5580, item 70.

Authorisation to overstep operating appropriations against corresponding revenue overruns

Finanstilsynet received no revenue overrun authorisation in 2018.

Possible amount to be brought forward

The expenditure underrun in item 01 is calculated at NOK 14,844,000. This figure is below the limit for transfer of 5 per cent of the year's appropriation in item 01, and the entire amount is deemed possible to bring forward to 2018. The entire unutilised appropriation of NOK 13,741,000 in item 45 may be brought forward upon application.



Table 15: Statement of reporting by natural classification, 31 Dec. 2018

	Note	2018	2017
Operating revenues reported to the appropriation account			
Receipts of fees	1	11,746,400	11,470,400
Receipts of grants and transfers	1	0	0
Receipts of sale proceeds and rents	1	0	0
Other receipts	1	0	0
Total receipts from operations		11,746,400	11,470,400
Operating expenses reported to the appropriation account			
Disbursements to salaries	2	274,728,416	256,811,620
Other disbursements to operations	3	106 851 822	95,493,611
Total disbursements to operations		381,580,238	352,305,231
Net reported operating expenses		369,833,838	340,834,831
Investment and financial revenues reported to the appropriation account			
Receipts of financial revenues	4	0	0
Total investment and financial revenues		0	0
Investment and financial expenses reported to the appropriation account			
Disbursement to investments	5	4,348,411	3,772,335
Disbursement to purchase of equities	5, 8B	0	0
Disbursement to financial expenses	4	0	0
Total investment and financial expenses		4,348,411	3,772,335
Net reported investment and financial expenses		4,348,411	3,772,335
Collection activities and other transfers to central govt.			
Receipts of taxes, charges, fees etc.	6	67,141	1,826,852
Total collection activities and other transfers to central govt.		67,141	1,826,852
Grant management and other transfers from central govt.			
Disbursements of grants and benefits	7	0	0
Total grant management and other transfers from central govt.		0	0
Revenues and expenses reported on central govt. chapter			
Group life insurance account 1985 (ref. chap. 5309, revenues)		0	0
Employer's contribution account 1986 (ref. chap. 5700, revenues)		34,162,617	31,397,645
VAT netting arrangement account 1987 (ref. chap. 1633, expenses)		16,232,880	13,580,621
Net expenses reported on central govt. chapter		-17,929,737	-17,817,024
Net reported to the appropriation account		356,185,370	324,963,290
Overview of outstanding accounts with the Treasury			
Asset and liabilities		2018	2017
Receivables		13,500	46,000
Cash		0	0
Bank accounts with central govt. funds outside Norges Bank		0	0
Tax withholdings owed		-13,403,276	-11,439,035
Public charges owed		-119,278	-316,825
Other liabilities		0	487,723
Total outstanding account with the Treasury	8	-13,509,054	-11,222,138



Note 1 Receipts from operations	31 Dec. 2018	31 Dec. 2017
<i>Receipts from fees and charges</i>		
Prospectus control fees	11,356,400	11,080,400
Fees from payment and e-money institutions	390,000	390,000
Total receipts from fees and charges	11,746,400	11,470,400
<i>Receipts from grants and transfers</i>		
Total receipts from grants and transfers	0	0
<i>Receipts of sale proceeds and rents</i>		
Total receipts of sale proceeds and rents	0	0
<i>Other receipts</i>		
Total other receipts	0	0
Total receipts from operations	11,746,400	11,470,400

Note 2 Disbursements to salaries	31 Dec. 2018	31 Dec. 2017
Salaries	217,075,458	208,260,427
Employer's contribution	34,162,617	31,397,645
Pension expenses	25,696,782	18,231,149
Sickness benefit and other refunds (-)	-8,148,858	-6,556,065
Other benefits	5,942,417	5,478,464
Total disbursements to salaries	274,728,416	256,811,620
FTEs	282	271

"FTEs" is the number of staff at year-end, adjusted for FTE percentage.

The Norwegian Government Agency for Financial Management recommends using another method for calculating FTEs in the above statement, termed "standard effective full-time equivalent". It shows 245 FTEs for 2018, compared with 244 in 2017. This number is considerably lower than that reported by Finanstilsynet since it excludes sickness absence, compassionate leave and temporarily vacant positions through the year.

Note 3 Other disbursements to operations	31 Dec. 2018	31 Dec. 2017
Rent	18,188,372	17,975,248
Maintenance of own buildings and facilities	0	0
Maintenance and conversion of rented premises	4,372,041	158,353
Other expenses on operation of property and premises	6,162,145	6,414,523
Repairs and maintenance of machinery, equipment etc.	1,264,745	1,216,924
Minor equipment procurements	537,646	373,527
Lease of machinery, furniture etc.	9,758,918	9,072,480
Purchases of external services	39,291,126	34,905,418
Travel and per diem	6,438,578	6,232,070
Other operating expenses	20,838,251	19,145,067
Total other disbursements to operations	106,851,822	95,493,611



Note 4 Financial revenues and financial expenses	31 Dec. 2018	31 Dec. 2017
<i>Receipts of financial revenues</i>		
Interest revenues	0	0
Foreign exchange gain	0	0
Other financial revenues	0	0
Total receipts of financial revenues	0	0
<i>Disbursement of financial expenses</i>		
Interest expenses	0	0
Foreign exchange loss	0	0
Other financial expenses	0	0
Total disbursement of financial expenses	0	0
Note 5 Disbursed to investments and purchase of equities		
	31 Dec. 2018	31 Dec. 2017
<i>Disbursed to investments</i>		
Intangible assets etc.	763,045	461,337
Sites, buildings and other real property	0	0
Emergency preparedness acquisitions	0	0
Infrastructure assets	0	0
Machinery and vehicles	0	0
Operating movable property, furniture, tools etc.	3,585,366	3,310,998
Total disbursed to investments	4,348,411	3,772,335
<i>Disbursed to purchase of equities</i>		
Capital contributions	0	0
Bonds	0	0
Investments in equities and participations	0	0
Total disbursed to purchase of equities	0	0
Note 6 Collection activity and other transfers to central govt.		
	31 Dec. 2018	31 Dec. 2017
Contributions from supervised entities	67,141	1,499,352
	0	327,500
Total collection activity and other transfers to central govt.	67,141	1,826,852
Note 7 Grant management and other transfers from central govt.		
	31 Dec. 2018	31 Dec. 2017
Total grant management and other transfers from central govt.	0	0



Note 8 Final and preliminary account with the Treasury

Part A Difference between booked and reported account with the Treasury

		31 Dec. 2018 Specification of booked account with Treasury	31 Dec. 2018 Specification of reported account with Treasury	Difference
Financial fixed assets	Investments in equities and participations*	0	0	0
	Bonds	0	0	0
	<i>Total</i>	0	0	0
Current assets	Accounts receivable	0	0	0
	Other receivables	13,500	13,500	0
	Bank deposits, cash etc.	0	0	0
	<i>Total</i>	13,500	13,500	0
Long-term liabilities	Other long-term liabilities	0	0	0
	<i>Total</i>	0	0	0
Short-term liabilities	Accounts payable	-6,458,965	0	-6,458,965
	Tax deductions owed	-12,724,755	-13,403,276	678,521
	Public charges owed	-218,659	-119,278	-99,381
	Other short-term liabilities	4,596,982	0	4,596,982
	<i>Total</i>	-14,805,397	-13,522,554	-1,282,843
Total		-14,791,897	-13,509,054	-1,282,843

* Entities which own financial assets in the form of investments in equities and participations also complete Note 8B. Finanstilsynet does not own equities or participations, and Note 8B is therefore not drawn up.



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