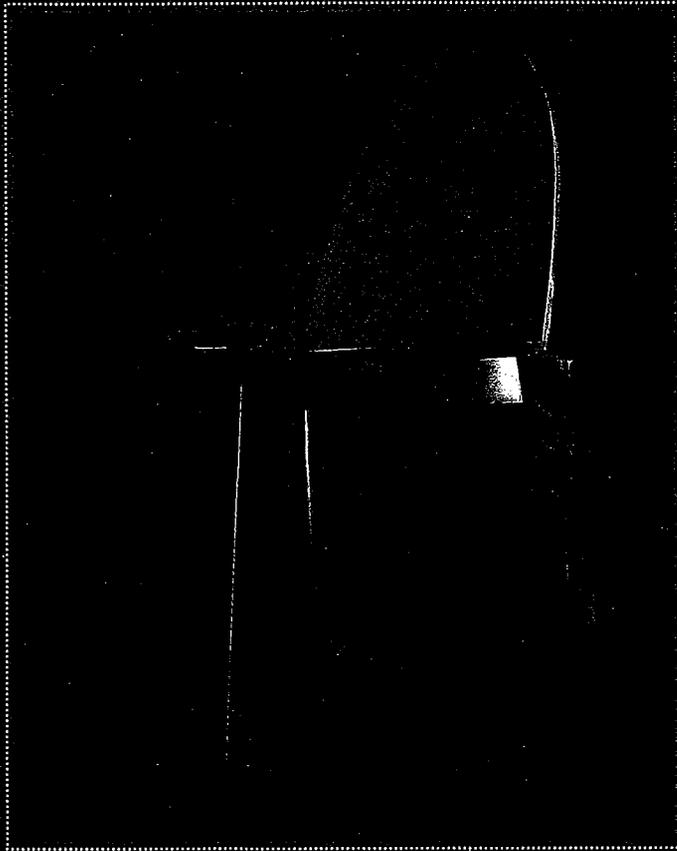




ANNUAL REPORT 2019



KREDITILSYNET
The Banking, Insurance and Securities Commission of Norway

Contents

Trends and challenges	5
Sound earnings will improve capital strength in the financial industry	5
Overview of structural changes	6
Competitive interfaces between the Norwegian and international financial industry	8
Less financial vulnerability among households and enterprises	9
Supervision of market risk	10
Framework conditions for life insurance companies	11
Kredittilsynet's operations in figures	14
Banking, finance and insurance	17
Summary of operations and major cases	17
Further details on banking and finance	19
Further details on insurance and pension funds	21
Accounts and auditing	26
Accounts	26
Auditing	26
Internal control and other areas	27
Securities trading	29
Summary of important cases	29
Experience gained and consequences for supervisory activity and legislation etc. . .	30
Enforcement of rules, regulations etc., and a new body of rules	31
Estate agency and debt collection	34
Estate agency	34
Debt collection	34
Overview of international activity	37
Experiences of the Investigating Committee	40
Kredittilsynet's organisational set-up	43
The Board	43
Reorganisation	43
Administration and staff	43
Competence	44
Public relations	44
Information technology	44
Finances	44

Design is an important part of product development in the commercial and industrial sector. A good design often determines the products' competitiveness in the market, and hence the companies' profitability. The financial sector depends on a competitive and profitable commercial and industrial sector. The illustrations in this annual report are examples of Norwegian products which have become successful due to good industrial design. Designers and products have been selected by Audio Grafisk AS.

Preface



■ *The Norwegian economy continues on a marked upward trend. This contributed to a good result for 1995 for all groups of financial institutions. The results recorded by the large commercial banks in 1995 are however related to reversals of earlier loss provisions, which are a typical one-off phenomenon. Life insurance companies' profits are essentially due to substantial gains on securities trading in 1995.*

Financial markets feature increased competition, domestically and from abroad, which has resulted in a clear reduction in the banks' net interest income. The differential between ordinary rates of return and costs also seems to be narrowing in the case of insurance companies. Concurrently considerable technological change is taking place with the result that financial services are distributed to a far greater degree than previously by computer and telecommunications networks. Ongoing developments in financial markets and in technology may cause fundamental profitability problems for institutions that fail to adapt their activity- and cost-levels to the new situation.

Most financial institutions face the prospect of less favourable results in 1996 than in 1995. Hence institutions should spend a significant portion of last year's earnings on materially improving their equity capital and financial strength. Life insurance companies should bolster their supplementary provisions, not least to exploit the greater freedom this provides in terms of investment management, for example to expand share investments.

In many countries' experience the basis for crises in the financial industry is apt to be laid in periods of strong economic expansion. Norway's experience bears this out. Emphasis should now be placed on sober credit rating, building a stronger financial position and generating robust profits with a view to putting institutions in the best possible position to tackle an unfavourable economic trend.

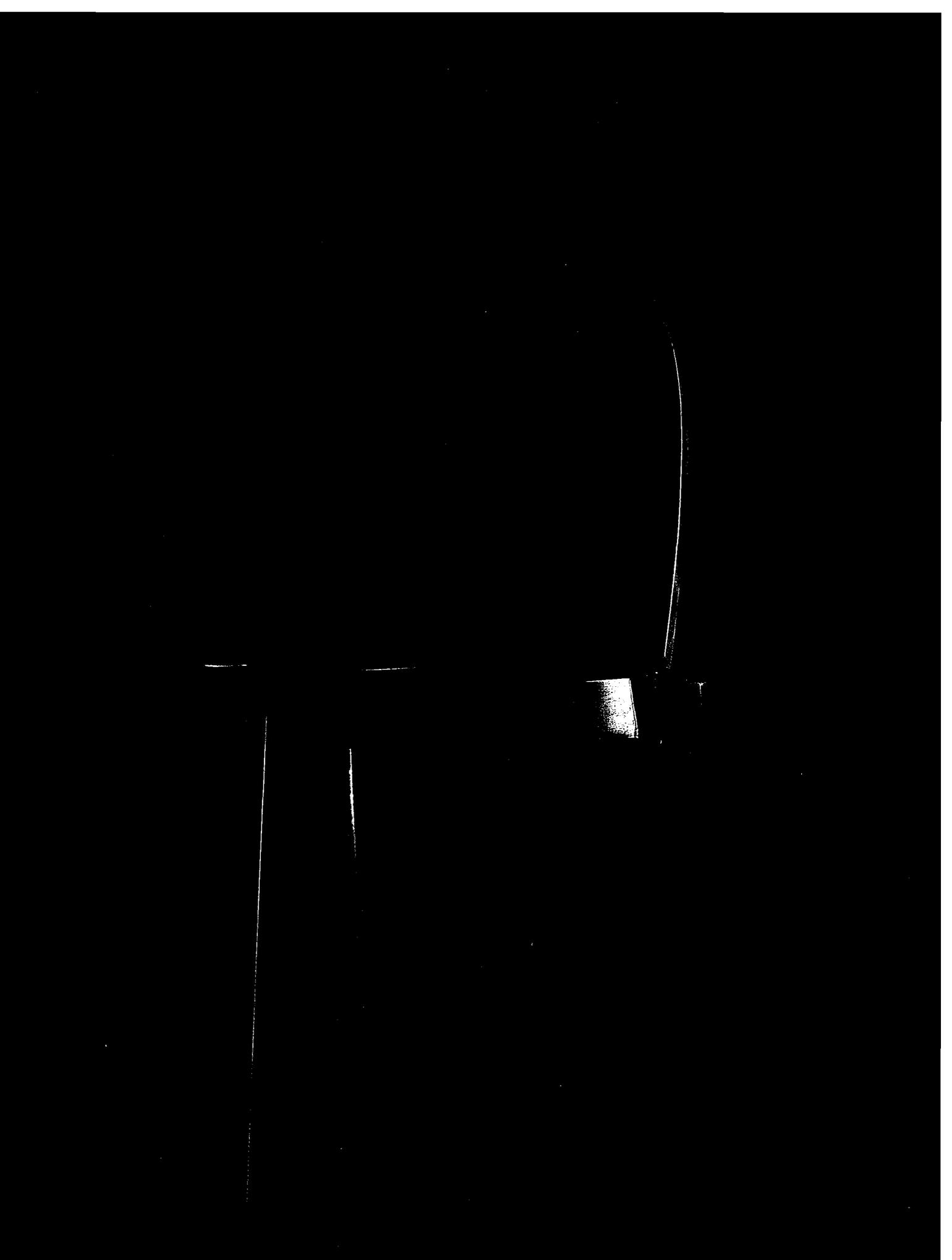
For Kredittilsynet 1995 was an eventful year. On-site inspections are a central element in communicating with and monitoring the various types of institutions. More on-site inspections were carried out in 1995 in all areas. In line with Kredittilsynet's strategic plan, the preventive effort was strengthened through surveillance of macroeconomic conditions, extension of internal-control requirements to the insurance industry, advice on sound lending practices and other measures.

As previously, Kredittilsynet will in 1996 continue its focus on preventive supervisory activity, including supervision of financial conglomerates. A special project will address the impact of technological development on the financial industry. Ensuring credit institutions' and securities undertakings' compliance with the common European rules governing market risk will be an important task. Routines for reporting securities holdings, and requirements as to capital adequacy in respect of such holdings, will strengthen the institutions' ability to tackle volatile securities markets.

Oslo, 18 January 1996


Erling Selvig
Board Chairman


Bjørn Skogstad Aamo
Director General, Kredittilsynet



Good industrial design - *Espen Arnesen: Less chair*

Trends and challenges

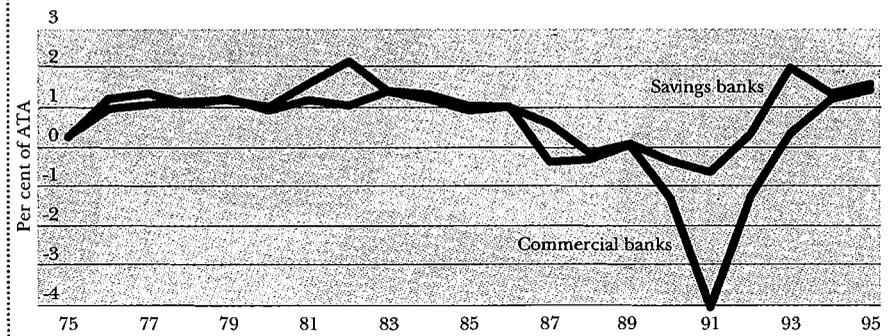
■ Sound earnings will improve capital strength in the financial industry

The year 1995 saw satisfactory results for all groups of financial institutions. The results are a clear improvement on the previous year apart from in the case of finance companies, which however recorded unprecedented results in 1994.

Chart 1 shows that the commercial banks' performance in 1995 was the best for more than ten years while that of savings banks was second only to the record posted in 1993. The good results in 1995 are partly related to falling interest rates through the year and a positive trend in the securities market. Insurance companies also achieved excellent results in 1995, essentially a result of higher financial income.

For banks, and particularly for the commercial banks, the results are heavily affected by one-off effects related to the loss trend, influenced by the business cycle. The improvement in household and enterprise finances led to a drop in defaults, at the same time as higher property prices improved the value of collateral security. This permitted a substantial reduction of loss provisions in 1995. Reversal of earlier loss provisions contributed to reducing banks' registered losses to an abnormally low level. This was particu-

Chart 1: Post-loss operating profit for commercial and savings banks (in % of average total assets) 1975-1994 and estimate for 1995



Source: Kredittilsynet

larly true of commercial banks which in the first three quarters of 1995 reversed loss provisions worth NOK 2.2 billion. Total reversals in the period 1992 up to and including the third quarter of 1995 came to NOK 6.3 billion. This corresponds to one-sixth of overall losses of NOK 37 billion registered from 1990 up to and including the third quarter of 1995. Reversals by the 30 largest savings banks came to just under NOK 0.6 billion in the first three quarters of 1995. As from 1992 overall reversals amounted to just over NOK 1.9 billion, i.e. a little more than one-tenth of savings banks' total registered losses from 1990 up to and including the third quarter of 1995. Hence it must be said that the heavy loss provisions in the crisis period up to and

Good results for all financial institutions in 1995

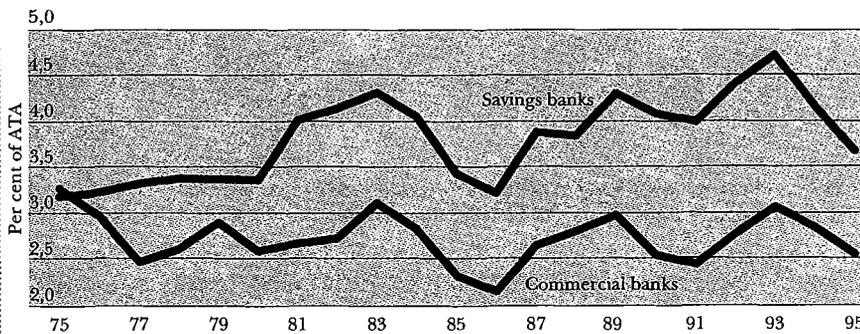
Bank results heavily affected by one-off effects of reversals of loss provisions

Table 1: Bank's registered losses in the period 1992 to the 3rd quarter of 1995 inclusive (commercial banks + 30 largest savings banks)

FIGURES IN BILLIONS	1992	1993	1994	1ST-3RD QTR 1995
Confirmed losses not covered by earlier loss provisions	2,2	1,9	1,6	0,3
+ Increased provisions on loans subject to previous specified provisions	3,1	3	1,4	0,7
+ Provisions on loans not subject to previous loss provisions	7,9	6,1	2,2	1,1
- Reversal of previous provisions	0,9	1,3	3,2	2,7
- Incomings on previously confirmed losses	0,5	0,6	0,9	0,5
= Registered losses	11,7	9,1	1,1	-1,1

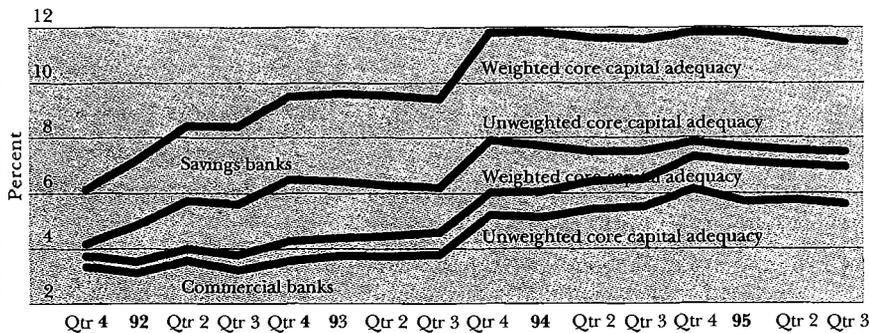
Source: Kredittilsynet

Chart 2: Net interest income for savings and commercial banks 1975-1994 and estimate for 1995



Source: Kredittilsynet

Chart 3: Core capital adequacy, commercial and savings banks, 4th qtr. 1991 - 3rd qtr. 1995



Source: Kredittilsynet

Note: The measurement base includes risk-weighting of asset items and off-balance sheet items, where the risk-weighting is determined by the credit risk that the individual item is assumed to represent. A larger portion of savings banks' assets is invested in instruments carrying a low risk-weighting such that savings banks show a wider spread between their capital adequacy curves.

Continued decline in net interest income raises concern about banks' finances

Kredittilsynet believes a large portion of bank profits in 1995 should be used to improve financial strength

including 1993 were necessary.

The intense competition in the market for loans squeezed institutions' margins and reduced net interest income in 1995. While this trend should be viewed in the light of the relatively high level of net interest income in the years 1992-1994, net interest income in 1995 was nevertheless lower than the norm in earlier years, especially for commercial banks. A continuing decline gives grounds for concern about banks' finances.

In 1995 expenses in terms of current kroner appear to have increased slightly, except among mortgage companies and life insurance companies. Measured in per cent of average total assets (ATA), only finance companies show a substantial decline. This is due to vigorous volume growth.

In Kredittilsynet's view a substantial portion of banking industry profits in 1995 should be used to strengthen financial positions. It remains important to strengthen banks' core capital and ensure sufficient loss provisions. Although the current outlook appears reasonably bright, no-one can predict the timing of the next recession.

In Kredittilsynet's view commercial banks' core capital adequacy should within a reasonable period be raised to a level of about 10 per cent of the measurement base, corresponding to the level among major commercial banks elsewhere in Scandinavia. To achieve this, priority must be given to cutting costs, financial strength should weigh heavily when fixing dividend and banks should as a rule adopt a cautious attitude to expansion and acquisitions.

Overview of structural changes

Mergers and takeovers have been a feature of financial markets for several decades, in Norway as abroad. Institutions have grown in size, largely as an adjustment to the trend towards larger entities elsewhere in the corporate sector. In Norway, after a number of years in which this process has essentially been part and parcel of crisis management, we are now back to a normalised situation. Mergers and acquisitions are now formed on the basis of institutions' own desires and needs. Table 2 compares the trend in market share for the three largest banks in the two years in question in each of the Scandinavian countries.

The three largest banks in Finland and Iceland have held a large share of the market over a long period. In Finland the level of

Table 2: Trend in the market share of the three largest banks in the years stated in Scandinavia

% OF TOTAL NET LENDING	1986	1994
Denmark	29.1	68.6
Norway*	41.6	53.5
Sweden	38.5	61.8

Source: Nordens banker og Europa (journal published by the Nordic Investment Bank) *Not incl. Postbanken

concentration increased further after the merger of the two largest commercial banks on 1 January 1996.

The fact that the capital adequacy ratio has not improved by a bigger margin since 1993 is related both to the gradual phasing out of the right to include general loss provisions in equity capital, and to increased lending, especially by savings banks.

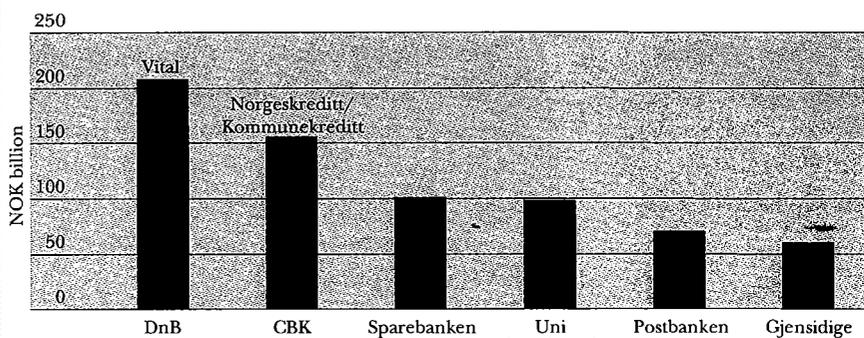
The two largest Norwegian commercial banks wished to expand by taking over Vital Forsikring and Norgeskreditt respectively. The Dutch insurance company Aegon also wanted to take over Vital. At the end of September 1995 Kredittilsynet recommended that both Den norske Bank and Aegon be authorised to take over Vital, and that Christiania Bank be authorised to acquire Norgeskreditt.

The intense competition has resulted in pressure on margins, necessitating cutbacks in distribution networks and staffing. Another distinct tendency is the reduced significance of mortgage companies. After liberalisation these companies recorded enormous growth for a few years. However, a rise in long-term rates relative to short-term rates caused demand for fixed-interest loans, and thereby mortgage companies' lending volume, to contract. Concurrently many such companies have acquired bank status or been taken over by banks.

There is a marked tendency in the Norwegian financial market, in line with the international trend, for institutions to join financial conglomerates offering the entire range of financial and insurance services. Present indications are that the number of such conglomerates in the Norwegian financial market may be limited. The six largest are currently: Den norske Bank, Christiania Bank (CBK), Sparebanken NOR, UNI Storebrand, Postbanken and Gjensidige.

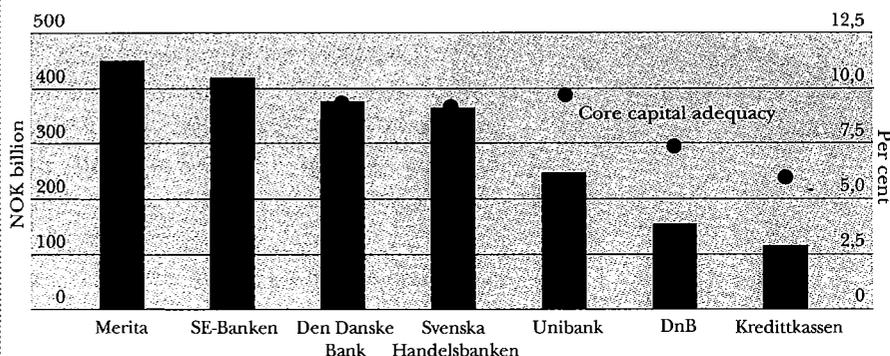
In terms of size the above groups are modest not only in European terms but also in the Nordic context. The fact that the largest Norwegian financial institutions are substantially smaller than their Nordic

Chart 4: Total assets in the largest financial conglomerates at end-September 1995



Source: Kredittilsynet, key accounts figures and quarterly reports

Chart 5: Nordic banking conglomerates*, total assets and core capital adequacy as at 31 December 1994



Source: Kredittilsynet

*Merita is an amalgamation of the two large Finnish banks Unitas and Kansallis-Osake-Pannki dating from 1 January 1996.

counterparts may prove disadvantageous in the competitive situation ahead. This is especially true in the market for major corporate customers.

Moreover, the major Norwegian banks are weaker than other large Nordic banks in terms of financial strength, i.e. core capital adequacy. In other words, the largest Norwegian banks will be competing with foreign banks that are in a far stronger financial position.

There is no certainty as to what direction financial markets and the institutions will develop in during the years immediately ahead. Further takeover bids and merger initiatives must however be expected. The authorities can influence developments to

Commercial banks' core capital adequacy should be raised to about 10 per cent of the measurement base

Clear-cut tendency for formation of financial groups offering a full range of financial and insurance services

It is important that the authorities retain the holding model to prevent problems spreading from finance to insurance and vice versa

Kredittilsynet attaches great weight to supervision of financial conglomerates

Strong growth in IT-based banking services

some extent, but demand and technological evolution will also play a substantial role. The ordinary model for financial conglomerates requires the presence of an ultimate holding company to prevent any problems from spreading from finance to insurance and vice versa. It is important that the authorities retain the holding model wherever appropriate.

The clear trend towards financial conglomerates requires a continuing effort to improve the supervision of such groups. Collaboration with foreign supervisory authorities will remain imperative in this context. The establishment of conglomerates involving large banks and insurance companies will bring new demands, both as to the institution's own management and control systems and to public supervision. It is essential that institutions operate satisfactory systems and routines to handle their relationship with other intra-group companies, in particular to ensure that life insurance customers receive their fair share

had little impact in Norway, and the scale of Norwegian establishments abroad is also limited. This may change, requiring collaboration with other countries' supervisory authorities and an ability to keep abreast of activities abroad. Another challenge in the supervisory sphere lies in the danger of inviable business start-ups. Experience gained both in the banking and insurance sectors shows that a substantial portion of start-ups in the 1980s were short-lived.

IT-based banking services are growing apace, and new services are entering the market. Kredittilsynet intends to keep abreast of developments, both in regard to structural and cost changes and to safe routines and control. A special project is planned in this area in 1996.

Competitive interfaces between the Norwegian and international financial industry

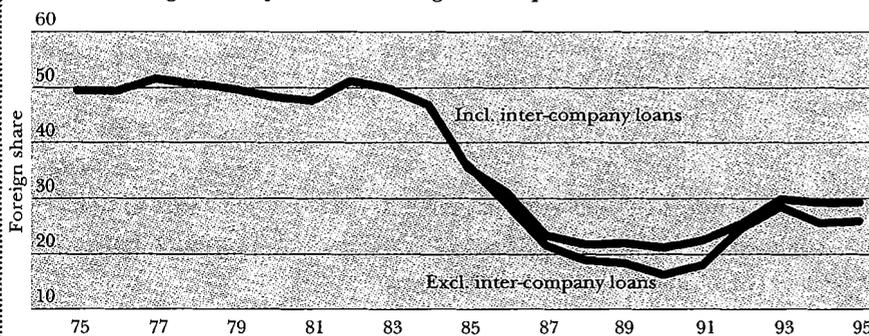
In 1995 Kredittilsynet and Norges Bank carried out an analysis of competitive interfaces between the Norwegian and international financial industry. The analysis formed part of the long-term monitoring of financial trends.

Chart 6 shows foreign financial institutions' share of financial institutions' total lending to Norwegian business enterprises. It shows that after a steep fall in their market share in the mid-1980s, foreign financial institutions have now regained some of the ground lost. At the end of the first half of 1995 the foreign share was an estimated 26 per cent.

Foreign financial institutions' share of deposits from Norwegian corporate customers has, after a steep fall early in the 1980s, remained at a stable, relatively low level as from 1984. At the end of the first half of 1995 their share was about 8 per cent.

Interviews with representatives of large Norwegian undertakings indicate that foreign financial institutions also hold a considerable market share in other banking products such as foreign-exchange and money-market services. Large Norwegian

Chart 6: Foreign share of loans to Norwegian enterprises



Foreign financial institutions in process of regaining lending market shares

of profits but also to promote general financial strength as well as risk diversification and limitation. Challenges to supervision lie in ensuring that problems arising in one institution do not feed through to other companies within the group. Norway is well placed in terms of rules governing transactions, lending and dividend distribution among enterprises in financial groups.

So far cross-border establishments have

businesses tend to turn to foreign financial institutions owing to the latter's capacity, competence and prices. The interviews also indicate that the internationalisation of markets frequented by large Norwegian undertakings brings them into contact with, and prompts them to select, international financial institutions.

The interviews show that foreign financial institutions' market share in Norway is more likely to increase than decrease in the two years ahead. Norwegian banks face particularly heavy competition in the corporate customer segment. Opening of branches by foreign banks could lead to increased competition for small and medium-size undertakings too. Loan products and foreign-exchange and money-market products appear to be those most at risk. Deposit products in Norwegian kroner and domestic money transfer services appear to be less competitively exposed.

The available statistical material is inadequate to analyse the trend in foreign insurance companies' total activity in the Norwegian market. Interviews indicate that major Norwegian firms already make substantial use of foreign non-life insurance companies to meet their group needs for non-life insurance. The main reasons appear to be foreign companies' capacity, prices and competence. Some interviewees asserted that foreign companies' contracts are simpler and point out more clearly conditions that are not covered by the contract in question. The interview survey showed that foreign non-life insurance companies' market share in Norway is more likely to increase than decrease in the two years ahead.

Foreign competition in pension insurance and life insurance continues to be marginal, mainly owing to problems in obtaining tax relief for premiums paid in another country.

Less financial vulnerability among households and enterprises

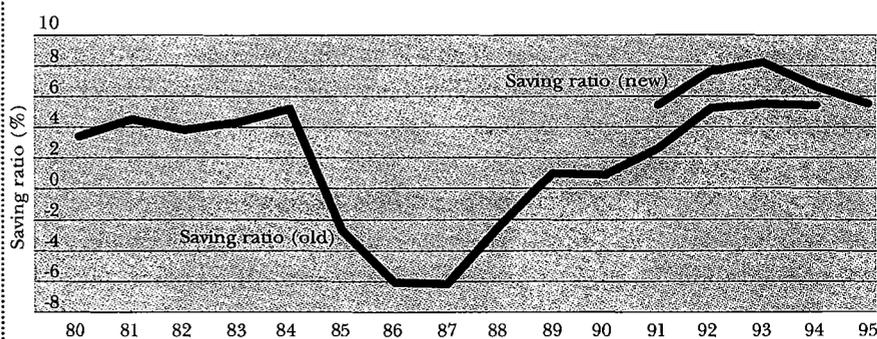
So far in the course of the current recovery growth in the overall credit supply has been moderate. Shifts have occurred among the various types of credit institutions. For the time being it seems that neither households nor enterprises have increased their financial vulnerability to any significant degree. Although growth in consumption has outstripped income growth and led to decline in the household saving ratio, household saving remains positive. Business fixed investments appear to be covered by current earnings and retained profits, and only to a limited degree by way of the credit market. Moreover, equity capital has strengthened.

Both households' and enterprises' debt-servicing ability has improved substantially

Norwegian banks face heavy competition for corporate customers

Foreign non-life insurance companies much used by large Norwegian enterprises

Chart 7: Saving ratio among households; old national accounts figures 1980-94 and new national accounts figures 1991-94 with estimate for 1995



Source: Statistics Norway. Estimate for 1995 from Ministry of Finance

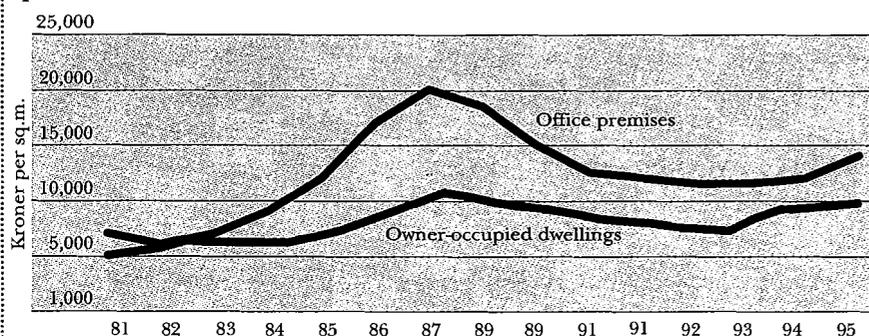
Table 3: Profit and financial ratios: Mining and manufacturing 1985-1993, estimate for 1994

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994*
Operating profit in % of operating income	4,9	3,8	3,8	5,0	6,1	4,5	3,9	4,2	5,2	5,7
Equity capital ratio	21,7	21,8	22,7	24,2	24,1	24,2	24,9	27,8	28,7	31,8

Source: Statistics Norway's accounting statistics 1993, Weekly statistics no. 48 1995.

* Preliminary figures

Chart 8: Trend in value of owner-occupier dwellings and centrally located office premises in Oslo*



Source: OPAK AS

*Relatively efficient premises in average good condition and rented at market rates.

Households' and enterprises' debt-servicing ability substantially improved in recent years

Common international standards for control and supervision of market risk

CAD-regulation to be adopted in spring 1996

in recent years, although enterprises in certain sectors, especially smaller enterprises, remain vulnerable to marked interest rate rises and falling demand. The rise in property prices as from 1993 also contributes to reducing financial institutions' risk of loan losses by raising the value of collateral security. A moderate interest rate rise or a marginal fall in property prices will not dramatically affect losses.

Chart 8 illustrates the trend in the housing and commercial property markets. Average real housing prices nationwide are currently between 25 and 30 per cent lower than in the peak year 1987.

Supervision of market risk

Whereas credit risk has traditionally played a significant role in supervision, there has been an increased focus on market risk both internationally and on the part of Kredittilsynet in recent years. Market risk signifies risk of loss on positions as a result of price volatility in markets where the institution in question is exposed. The most common types of market risk are share-price risk, interest-rate risk and foreign-exchange risk. The various markets' liquidity may impact heavily on the market risk inherent in an investment portfolio.

Changes in market conditions have on a number of occasions led to serious problems for some institutions. Such

changes in combination with weak internal control have contributed to the heavy losses recently witnessed in securities markets. Bærum municipal pension fund was a case in point in Norway. Internationally, the winding-up of the UK Barings Bank and the problems in the Japanese financial group, Daiwa, are pertinent examples.

International efforts to devise common rules for control and supervision of market risk have proceeded both within the framework of the Basle Committee for Banking Supervision and the International Organisation of Securities Commissions (IOSCO). Council directive 93/6 (the Capital Adequacy Directive - CAD) lays down binding capital standards for securities undertakings and credit institutions in the European Union. The objective is to achieve uniform treatment of these types of institutions which are in direct competition with each other in a common financial market. Through supplements to the Agreement on the European Economic Area Norway undertakes to implement the directive in Norwegian law. This will be done via an enabling clause to be included in the Securities Trading Act, cf. Odelstingsproposisjon no. 15 (1995-96), and via a separate regulation. Kredittilsynet has drawn up and circulated for comment a draft CAD regulation (market risk etc.). The regulation will probably be formally endorsed by the Ministry of Finance in the spring of 1996. In addition the existing regulation on minimum capital standards for financial institutions (credit risk) will also become applicable to securities undertakings.

According to the regulation on minimum standards and capital adequacy, institutions will be required to submit extensive reports on their capital and on positions exposed to credit and market risk. Kredittilsynet has in conjunction with institutional sector representatives drawn up routines for reporting which will be implemented after the Ministry of Finance has established the CAD regulation. Securities undertakings will be required to report monthly, and credit

institutions quarterly, to Kredittilsynet. Institutions will in addition be required to furnish information on a consolidated or partially consolidated basis twice yearly.

The Nordic supervisory authorities have maintained close and regular contact while drawing up regulations on market risk. As a result the respective Nordic rules show a high degree of consistency in terms of the central choices envisioned by the directive. Framework conditions for life insurance companies

The improvement in profits reported by life and non-life insurance companies is related to higher financial earnings resulting from favourable interest rates and a buoyant share market. Far greater volatility than previously can be expected in these markets. Hence it is important that higher profits be employed to bolster financial strength. Kredittilsynet considers that life insurance companies in particular should apply the high income earned in 1995 to increase supplementary provisions.

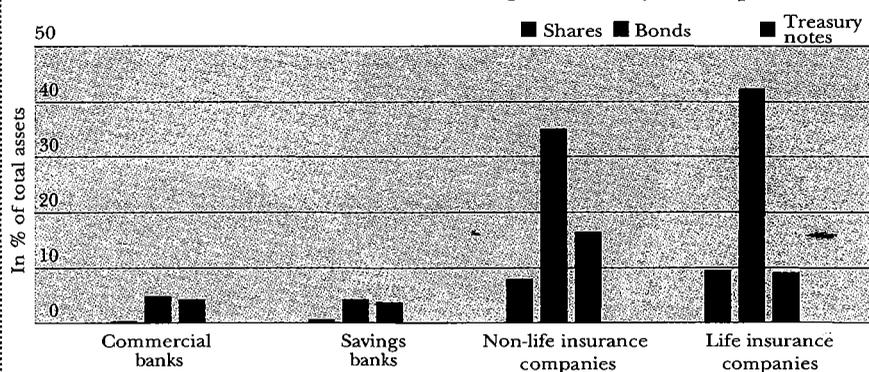
The companies have entered contracts with their policyholders guaranteeing an annual interest, ordinarily of about 4 per cent. In the autumn of 1993 the authorities lowered the ceiling for such guarantees from 4 to 3 per cent for all new contracts.

Given the high level of interest rates in the 1980s it was not difficult for companies to honour this type of guarantee. With the advent of lower rates and increasingly volatile securities markets it was necessary to accumulate buffer capital, prompting the introduction of supplementary provisions in 1993. Concurrently it was made easier for companies to retain unrealised securities trading gains.

Kredittilsynet has analysed the significance of supplementary provisions for life insurance companies' ability to carry risk. A full analysis is presented in Kredittilsynet's letter of 30 November 1995 to the Ministry of Finance.

The impact of a substantial fall in Norwegian securities values is illustrated in the analysis by an interest rate rise of 2 per

Chart 9: Financial institutions'* securities holdings at the end of the 3rd quarter 1995



Source: Kredittilsynet

*The four largest commercial banks, ten largest savings banks, four largest non-life insurance companies and all life insurance companies

The chart shows the institutions' holding of interest-rate and equity-capital instruments in relation to total assets at the end of the third quarter of 1995. Insurance companies' relatively large bond holdings leave them more exposed than banks in the event of interest rate changes. At end-September 1995 the interest-rate sensitiveness of bond holdings, measured by the reduction in their market value in the event of a general interest rate rise of 1 per cent, was estimated at 2.2 per cent for commercial banks, 2.3 per cent for savings banks, 3.1 per cent for non-life insurance companies and 3.1 per cent for life insurance companies. Use of hedging instruments to reduce sensitivity to interest-rate changes is most widespread among commercial and savings banks whereas insurance companies make little use of such hedging.

centage points (resulting in a fall in bond values) and a concurrent 25 per cent drop in share prices. A fall of this magnitude must be expected to occur on a couple of occasions in the space of a decade.

The analysis presents three different variables for aggregate supplementary provisions: zero supplementary provisions, as was the case prior to the measures taken in 1993; NOK 6 billion, i.e. the situation prior to end-1995; and NOK 12 billion, which can be achieved in 1995 and 1996 provided it is given high priority by life insurance companies.

Where shares as a ratio of total assets is concerned, the following alternatives are examined: 9 per cent as at 30 June 1995, 15 per cent and 20 per cent. The last-mentioned is the statutory maximum.

Table 4 shows Norwegian life insurance companies' combined profits plus previous years' supplementary provisions after debiting of revaluation reserves and supplementary provisions in a scenario as mentioned above.

The table shows that prior to the establishment of the supplementary-provisions scheme, moves to increase share

The insurance companies should apply the high income earned in 1995 to increase supplementary provisions

Kredittilsynet has analysed the significance of supplementary provisions for life insurance companies' ability to carry risks

Table 4: Aggregate operating profit for Norwegian life insurance companies given an interest rate rise of 2% and a concurrent 25% drop in the share market (billions of kroner)

		Supplementary provisions prior to drop in securities values		
		0 mrd	6 mrd	12 mrd
Shares in total assets	9 %	-3 mrd	3 mrd	9 mrd
	15 %	-6 mrd	0 mrd	6 mrd
	20 %	-9 mrd	-3 mrd	3 mrd

Source: Kredittilsynet

Technical assumptions: Life insurance companies' imputed risk and administrative costs equal actual costs; an interest rate result of 2% of total assets, equivalent to a financial return of 5.8%, given the current interest guarantee averaging 3.8%; interest-rate sensitivity for bonds equals 3%, i.e. a 2 percentage point rise in interest rates will trigger a 2% fall in bond values; shareholdings follow the all-share index; increases in shareholdings are by reduction of items other than bonds; revaluation reserves equal 1% of total assets, i.e. somewhat less than at 30 September 1995.

A basis exists for increasing life insurance companies' share investments if better use is made of the supplementary provisions scheme

investments could entail risk. With NOK 6 billion in supplementary provisions, life insurance companies can withstand a "substantial" slump in securities markets while retaining up to 15 per cent of their total assets in shares without depleting equity capital. By increasing supplementary provisions to NOK 12 billion in the course of 1995 and 1996, the companies will be in a position to retain shares equivalent to 20

per cent of total assets with no loss of equity capital. Given the possibilities created by the introduction in the autumn of 1993 of measures aimed at bolstering financial strength, it is now mainly up to the life insurance companies themselves to create a situation in which they can build up the buffer capital required to undertake large-scale investments.



Good industrial design - *Lena Hansson: Cairo glassbowl for Hadeland Glassverk*

Kredittilsynets' operations in figures

■ Number of supervised entities as at 31 December 1995

Banking and financial institutions

- 133 savings banks
- 17 commercial banks (of which 3 foreign)
Postbanken
- 10 foreign branches of Norwegian banks
- 3 Norwegian branches of foreign banks
- 40 finance companies
- 5 Norwegian branches of foreign
finance companies
- 11 mortgage companies
- 11 loan intermediaries

Insurance

- 10 life insurance companies
- 53 non-life insurance companies
- 20 local marine insurance associations
- 22 insurance brokers
- 38 local fire insurance associations
- 18 general agents of foreign companies
(six are being wound up)
- 135 private pension funds
- 129 private pension schemes
- 32 municipal pension funds
- 21 private relief funds

Securities trading

- 32 stockbroking firms (of which 26 also
trade in options and 13 are engaged
in active portfolio management)
- 23 management companies for
securities funds
- 13 project broking undertakings
- 1 options trading undertaking

Estate agency

- 318 estate agencies
- 917 lawyers' practices incl. estate agency

Debt collection

- 142 debt collection agencies

Auditors

- 3,769 auditors
- 413 auditing firms

Data progressing centres

- Norwegian Options Clearing House
- Norwegian Registry of Securities
- Banks' Central Clearing House
- Fellesdata

Other

- Register of Company Accounts in
Brønnøysund
- Accountants Authorisation Board

Number of on-site inspections by type of institution:

	1994	1995
Banks/financial institutions	49	57
Insurance	11	18
Pension funds and schemes	15	17
Stockbroking firms	29	32
Other securities institutions	10	15
Loan and guarantee intermediaries	0	2
Estate agencies	42	59
Debt collection agencies	36	41
Auditors	92	129

Establishment of branches and cross-border activity

In 1995 two Norwegian banks established branches in other EEA member states, and two banks and one finance company notified cross-border activity. Two banks and two finance companies from the EEA reported the establishment of branches. Before establishing branches the two banks were represented in Norway by subsidiaries which have now been wound up. Kredittilsynet also received 10 notification from credit institutions wishing to offer cross-border services.

In 1995 four Norwegian insurance companies reported cross-border activity in other EEA states. One insurance company from an EEA member state reported establishing a branch in Norway. Moreover, 44 insurance companies announced their wish to offer cross-border services.

Six institutions with their head offices in other EEA states are entitled to offer units in securities funds in Norway.

Increases of capital

Three commercial banks were authorised to increase their share capital by a total of NOK 104.5 million in 1995. The equivalent figures for 1994 were five commercial banks and NOK 4,254 million. Three savings banks were authorised to increase their primary capital by up to NOK 301.4 million, compared with 1994 figures of four savings banks and a maximum of NOK 554 million. Eight banks, of which four were savings banks, were authorised to raise subordinated loans of up to NOK 1,859 million. In 1994 the equivalent figures were seven banks and a maximum of NOK 3,526 million.

Two non-life insurance companies were authorised to increase their share capital by NOK 100 million and NOK 10 million respectively. In 1994 six companies were authorised to increase their share capital by a combined total of NOK 470 million.

Two mutual insurance companies were authorised to increase their guarantee funds

by up to NOK 8.3 million. No companies applied for such authorisation in 1994. Three insurance companies were authorised to raise subordinated loan capital up to a maximum of NOK 804 million, compared with NOK 543 million in 1994.

In 1995 Kredittilsynet approved increases of share capital and raising of subordinated loan capital by 10 finance companies. Total funds raised came to NOK 1,536 million, of which increases of share capital accounted for NOK 221 million. The equivalent figures for 1994 were NOK 750 million, of which increases of share capital accounted for NOK 354 million.

Cases handled after delegation from the Ministry of Finance

	SAVINGS BANKS	COMMERCIAL BANKS	INSURANCE COMPANIES	FINANCE COMPANIES	PENSION FUNDS
Articles of association	26	10	29	27	
Capital	6	8	4	10	93
Control committee				1	
Committee of representatives		1	4		
Structure				7	

Moreover, 50 applications for authorisation to act as sales agents for units in securities funds, and 71 applications for registration as fund managers, were dealt with.

The following cases were dealt with in the area of accounting and auditing:

- 591 dispensations under the Joint-Stock Company Act and the Accounting Act
- 498 complaints concerning penalties for late filing levied by the Company Register in Brønnøysund
- 2 dispensations related to auditors and auditing
- 9 dispensations from the IT regulation
- 6 complaints from applicants for certification as accountants



Good industrial design - *Nils Tvengsberg: Sno Horse sledge for Hamax*

Banking, finance and insurance

■ Summary of operations and major cases

Supervision of banking, finance and insurance in Norway is three-pronged. Alongside on-site inspections and documentary supervision, Kredittilsynet is required to perform administrative and research assignments, as well as framing and interpreting rules and regulations. In 1995 on-site inspections focused on the largest financial institutions. Other special target groups were smaller non-life insurance companies and pension funds. Some smaller savings banks were visited to check compliance with the regulation on internal control. Documentary supervision includes the collection and review of accounting data from financial institutions and insurance companies, checking compliance with various statutory requirements and scrutiny of financial statements. Financial positions and developments are analysed at institution and group level. Reports are prepared on companies' financial progress, capital adequacy and balance sheet trend for the various institutional groups.

Den norske Bank and the Dutch company Aegon applied in the summer of 1995 for a licence to take over Vital Forsikring. At about the same time Christiania Bank applied for authorisation to take over Norgeskreditt. Partly with a view to processing these cases, Norges Bank and Kredittilsynet carried out extensive analyses of the competitive situation in the banking and insurance markets. The analyses were forwarded to the Ministry of Finance and their main content was presented in the National Budget for 1996. The recommendations in the concrete licensing cases were forwarded to the Ministry of Finance at the end of September.

Kredittilsynet recommended that, subject

to certain terms and conditions, Christiania Bank be authorised to take over Norgeskreditt. It also recommended that the bank strengthen its core capital to at least the level in effect as at 31 December 1994.

In the Vital case it was recommended that both applicants be granted a takeover licence. Kredittilsynet had no substantive objections to Aegon being granted a licence. Where Den norske Bank was concerned, licensing was recommended on the following conditions:

- that the group be organised as a holding company in which the bank and the insurance company Vital were organised as independent companies, each responsible for its own investment management, and
- that core capital should not fall below the level in effect at the start of 1995.

In both cases an important argument was that a takeover could contribute to greater competition. Moreover, a takeover by Den norske Bank would help to strengthen the conglomerate's overall market presence, for example in competition with foreign financial institutions.

A report entitled "Norwegian banks' credit practice" was issued as No. 1/95 in Kredittilsynet's new "småskrift" series. The report has been sent to all banks. Against the background of the report a circular was prepared giving advice on banks' credit procedures. Banks' credit-processing systems are monitored as an intrinsic part of supervision.

A survey of financial institutions' practice and risk as regards house financing was carried out in October 1995 as a follow-up to two surveys from 1994. The institutions do not in general seem to have adopted a

Kredittilsynet recommended that Christiania Bank be authorised to take over Norgeskreditt, and that both DnB and Aegon be authorised to acquire Vital.

Advice to banks on credit procedures

No evidence of a more liberal stance on housing finance among financial institutions in general

Expanded possibilities proposed for recognition of netting agreements as a basis for reduced capital adequacy requirements

more liberal stance on housing finance, but some responses suggest that changes have taken place in the market. Two banks and two life insurance companies replied that they had raised or were about to raise the maximum size of housing loans as a percentage of property value. Otherwise the biggest changes seem to be on the price side with greater scope now being given for adjustment of interest rates to the individual customer. The survey revealed that several institutions lack an overview of their housing loan portfolio classified in terms of the loan-to-value ratio. None of the institutions systematically adjusts the value of assets underlying the housing loan portfolio. The value of a mortgaged asset is only changed if the customer requests it for refinancing purposes or if the mortgage terms are altered. Surveys have also been conducted among finance companies on their practice as regards leasing and unsecured consumer loans. Leasing burgeoned in 1995 as a result of higher new car sales and favourable tax and duty rules for this type of financing. A questionnaire sent to 11 companies focused on guarantees of repurchase value, exposure to individual dealers, credit assessment and leasing terms. The companies stated that it is normal practice for car dealers to guarantee repurchase values. After the changes in the tax and duty rules, Kredittilsynet monitored developments closely for any negative effects of note. The enquiries made suggest there are no grounds for special concern.

The survey of finance companies' practice in regard to unsecured consumer loans covered seven companies and addressed conditions including credit limits, imputed losses, processing time for credit applications and percentage of rejected applications. The replies form the basis for further follow-up of individual institutions and of any circumstances that Kredittilsynet considers unsatisfactory.

In 1995 Kredittilsynet provided financial assistance to two students at the Norwegian School of Economics and Business Administration for their work on a thesis on

the experience gained with Fokus Bank's so-called Project Bank. One of their main conclusions is that a time-horizon of two years for phasing out a loan portfolio may be too short.

Work is under way in the European Union on a proposal to amend the Capital Adequacy Directive which will expand possibilities for recognising netting agreements as a basis for reduced capital adequacy requirements. Member states are not obliged to recognise such agreements. The proposal entails giving such agreements legal force and effect, thereby permitting them to be applied vis-à-vis winding-up estates. In April 1995 Kredittilsynet set up a working group to assess the need for changes to Norwegian law to ensure that such agreements acquire legal force. The working group presented its report on 15 December 1995. The working group considers the advantages of statutory regulation to outweigh the disadvantages. A key argument is that bilateral netting agreements can help to reduce systemic and credit risk. The group also attaches importance to Norwegian financial institutions' competitive conditions, the necessity of adjustments to international rules and the importance of uniform Nordic law. It furthermore proposes that provisions enabling netting agreements to apply in respect of derivatives contracts be incorporated in the Securities Trading Act. The report was forwarded to the Ministry of Finance with a recommendation that it be circulated to relevant bodies for comment together with the proposed amendments to the Securities Trading Act.

In the autumn of 1994 a working group charged with assessing the collaboration on statistics among Statistics Norway, Norges Bank and Kredittilsynet proposed that responsibility for segments of the financial statistics be transferred from Statistics Norway to Norges Bank. In 1995 several working groups drawing representatives from the three institutions devoted much effort to preparing for this operation, which

commenced on 1 January 1996. Along with responsibility for the above statistics, Norges Bank is also taking over certain auditing functions previously assigned to Kredittilsynet.

Consultative comments have been issued regarding the Banking Law Commission's interim report, NOU 1994:19, entitled Financial Agreements and Transaction Orders. Kredittilsynet stressed that the law text should be formulated in such a way as to be readily understood by financial institutions' customers. Kredittilsynet also called for the introduction of tribunal proceedings where the ruling of the tribunal assumes binding effect if it is not referred to the courts within a certain time-limit. Furthermore, rules were proposed to enhance security related to payment cards.

In its consultative comments on NOU 1995:16 "From saving to equity capital", Kredittilsynet pointed out that the regulatory framework for life insurance companies' long-term investments has been improved through allowance of larger supplementary provisions. Even so, Kredittilsynet believes there may be a need for further adjustments to the rules. It also pointed up the significance of enhancing confidence in financial institutions in order to stimulate increased saving. While higher bank investments in shares within existing limits is not assumed to involve drawbacks of a supervisory nature, doubts were expressed regarding the present accounting rules for valuation of shares. Kredittilsynet emphasised that in view of the spill-over effects to other parts of commerce and industry a number of enterprises operating in international markets should maintaining a firm footing in Norway.

Kredittilsynet considered the issue of in what circumstances options conferring the right to buy shares in a financial institution can be said to rank equal with ownership of the shares even though shareholder rights have not been transferred to the options holder. Kredittilsynet's view is that a restriction should apply such that settlement for 75 per cent of the security under-

lying an option need not take place until the option is called. Otherwise holding the option must rank equal with ownership of the shares. The Ministry of Finance endorsed this view.

A supervisory programme was drawn up for supervising compliance with the IT regulation. In 1995 on-site IT inspections were carried out at Norges Postbank and the Banks' Central Clearing House. Similar inspections are planned for 1996.

Kredittilsynet will in the course of 1996 report on developments in IT-based money transfer systems. Effects on banks' costs and on the distribution network will be analysed. Kredittilsynet's role in regard to monitoring the systems' technology and security will be reviewed.

Compliance with the rules on money laundering is followed up through on-site inspection of institutions. The impression is that institutions by and large abide by the regulations. In 1995 Norwegian financial institutions reported 253 cases to ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime), compared with 161 cases in 1994.

In December 1995 the Ministry of Finance tabled a Bill (Odelstingsproposisjon) proposing that obligations regarding anti-money-laundering measures also be applied to a number of new institutions, among them Norges Bank, Norges Postbank, management companies for securities funds, estate agents and stockbrokers.

Further details on banking and finance

The regulation on internal control is an important tool for ensuring that banks do not incur unidentified risk. A number of savings banks have been inspected. Most banks seem to have devoted much effort to satisfying the regulation's requirements, although a fair amount remains to be done in a number of cases. The regulation has helped to clarify where responsibility for internal control lies in the individual bank, and should in due course lead to improved "self control" among banks. Kredittilsynet

Kredittilsynet to study developments in IT-based money transfer

More cases reported to ØKOKRIM by financial institutions

Measures against money laundering stepped up



Good industrial design - *Sigrid Eckhoff: Cherrox boot for Viking*

will accordingly give priority to supervising compliance with this regulation.

New accounting regulations have been drawn up for banks, finance companies and mortgage companies. The regulations came into force on 1 January 1996. In 1995 much effort was put into changes in reporting by banks to ensure conformity with the new rules. It was moreover decided that finance and mortgage companies should apply the same reporting method as the banks as from the same date. Modernisation of the companies' reporting systems will be required together with a transition to machine-readable media.

Kredittilsynet supervises financial institutions' capital on the basis of returns filed by the institutions. Where banks are concerned liquidity, share investments and investments in real property are also scrutinised. Non-life insurance companies' technical provisions are also checked on a regular basis.

In 1994 a regulation was laid down governing the establishment of branches of banks and other credit institutions having their head offices in another state in the European Economic Area. The Ministry of Finance proposed that banks and other mortgage companies with their head offices outside the EEA should, after receiving special authorisation from Norwegian authorities, be entitled to open branches in Norway. In its consultative comments on the proposal, Kredittilsynet essentially endorsed the proposed licensing arrangement.

As part of the process of implementing the EEA Agreement, a regulation has been drafted on the right of Norwegian banks, finance companies and mortgage companies to provide services and to open branches in other EEA states.

Kredittilsynet has to approve all increases of capital beyond ordinary accumulation of reserves. Kredittilsynet stresses the importance of high-quality capital that can function as a real buffer against the risks incurred by financial institutions in the course of their business. By this means

capital helps to ensure financial stability. Kredittilsynet has increased the resources it devotes to this area of supervision.

Kredittilsynet notes the growing interest shown by savings banks in issuing primary capital certificates (PCCs). Such issues contribute to strengthening these banks' core capital. Kredittilsynet also notes that issues carried out close to year-end are planned with an eye to the return on the issued certificates, even though the new subscribed capital has made no contribution to profits. Kredittilsynet views such a construction as an income transfer from savings banks' reserves to the PCC holders. This is detrimental. Kredittilsynet has requested the executive boards of the savings banks in question to play a bigger role in dividend policy.

After the failure of Bank of Credit and Commerce International (BCCI), the European Union adopted a directive designed to impede fraud and other irregularities in the financial sector. The directive requires ownership structure to be transparent and strengthens governmental powers and rights to obtain information. Proposals for amendments to laws and regulations have been drawn up.

In the spring of 1995 allegations were made in the press that the managing director of IS-bank had abused his position in the bank in connection with certain property transactions. Kredittilsynet saw to it that the bank's board of directors took the necessary steps to investigate the matter and have the managing director step down. Circumstances were subsequently brought to light which prompted the directors to report the person in question to ØKOKRIM (National Authority for Investigation and Prosecution of Economic and Environmental Crime).

Further details on insurance and pension funds

Kredittilsynet handled a number of approaches concerning interpretation of the rules governing insurance. They included

New accounting regulations for banks, finance companies and mortgage companies

EU directive will impede fraud and other irregularities in the financial sector

**During the year
3 pension funds and
12 pension schemes
were liquidated as
a result of new
capital
requirements**

**Small administrative
reserves among life
insurance
companies in group
pension insurance**

**Capital measure-
ment regulation
creates problems
for pension funds'
investments**

questions related to the regulations on pension funds, insurance broking and on private occupational pension schemes. A substantial number of cases were dealt with in 1995 regarding private occupational pension schemes. During the year three pension funds were liquidated as a result of the new capital requirements. A further 12 pension schemes were wound up and another five are in the process of liquidation. Work on monitoring the reporting of technical provisions in non-life insurance and on updating the body of rules governing provisions continued through the year.

In the spring of 1995 UNI Storebrand International AS, the international reinsurance arm of the UNI Storebrand Group, was hived off from the Group through the sale of shares to the investing public. The company was subsequently introduced on the Oslo Stock Exchange under the name Oslo Reinsurance Company AS. UNI Storebrand AS retained a holding of 10 per cent in the new company and also provided subordinated loans and assumed certain obligations in relation to the company. UNI Storebrand AS thereby reduced its exposure in the field of international reinsurance.

In 1995 all policyholders directly insured with Strand Kredittforsikring AS (under public administration) received settlement of their claims under the Credit Insurance Companies' Guarantee Scheme.

The Credit Insurance Companies' Guarantee Scheme disbursed about NOK 42 million to cover policyholders directly insured with Star Forsikring AS (under public administration). To cover this claim and the claims whose review by the Probate Court is likely to be completed in the near future, the Guarantee Scheme in 1995 called up NOK 100 million from the participating non-life insurance companies. The Guarantee Scheme's board expects that further calls on funds will be necessary. Kredittilsynet acts as secretariat to the guarantee schemes.

The size of the profit to be written back to policyholders holding individual interest-

rate and pension insurances with the insurance company Alfa has been a contentious matter. The company produced further documentation and new calculations showing that the accumulated profit was smaller than previously thought. It decided to recoup excessive pension payments by recourse to the company's equity capital. The matter was brought to completion in December 1995.

In the financial year 1994 KLP Skadeforsikring AS (a non-life company) made a group contribution to Kommunal Landspensjonskasse constituting the non-life company's entire profit for the year and 85 per cent of its invested capital. Kredittilsynet deemed the size of the group contribution to be in contravention of the Financial Institutions Act. Kommunal Landspensjonskasse was ordered to pay back that part of the group contribution which contravened the legal provision in question. A complaint against Kredittilsynet's decision was filed with the Ministry of Finance.

In the autumn of 1994 Kredittilsynet examined the principles applied by non-life insurance companies when distributing costs, losses, income and reserves etc. The explanatory accounts received by Kredittilsynet show the need for clarification of the provisions of the regulation. This will be attended to in 1996.

In Kredittilsynet's view all life insurance companies providing group pension insurance have made insufficient provisions to cover future administrative costs accruing in connection with fully paid insurance contracts. Kredittilsynet has drawn up a plan aimed at building up adequate administrative reserves by the end of 1998. A precondition is that the companies make the necessary changes in insurance tariffs.

Capital standards were applied to private and municipal pension funds as from 31 December 1994. Many pension funds were supplied with capital in 1995 in order to meet the minimum requirements. Reports to Kredittilsynet show that pension funds' investments in other financial

institutions' capital as a result of the regulation on the measurement of the capital of financial institutions has impacted heavily on their own capital. Kredittilsynet took the matter up with the Ministry of Finance with an eye to a fresh review of the body of rules. The ministry stated in September that while there is no question of excepting pension funds from the above regulations, it kept an open mind on the possibility of introducing transitional rules in the form of lower requirements as to capital adequacy ratios up to the expiry of the transitional period. In the course of 1995 the pension funds reduced the scale of investments designed to meet the capital requirement.

Since 1993 on-site inspections have been carried out at pensions funds representing about 3/4 of combined total assets of this group of institutions. Kredittilsynet has presented inspection findings at meetings with pension funds and has drawn attention to potential improvements. The pension funds appear to have improved their internal routines etc., and to have benefited from the lessons learned. These encompass the obligation to submit accounts in conformity with the provisions of the Accounting Act, the directors' responsibility for satisfactory division of responsibilities in securities trading and for proper agreements with regard to investment management.

In 1993 a scheme for making supplementary provisions to insurance reserves was introduced as a means of strengthening the financial position of life insurance companies. In 1995 two fundamental amendments were made to the rules governing supplementary provisions. One enables losses beyond those covered by the individual contract's share of previous years' supplementary provisions to be covered by the profit for the year or by a transfer from equity capital. The other amendment states that supplementary provisions cannot be reduced in the case of contracts carrying an interest guarantee lower than the actual return for the year.

According to the body of rules on

solvency margin, duly adapted to EU rules and laid down by the Ministry of Finance in May 1995, the required solvency margin and actual solvency margin capital have to be measured once a year. The first measurement date was in December 1995. Measurement of solvency margin capital and reporting to Kredittilsynet take place in conjunction with the existing reporting of capital adequacy. Hence the extra burden of increased reporting requirements for life and non-life insurance companies will be marginal. During the work on implementing the solvency margin rules it became clear that the two Norwegian P&I companies Gard and Skuld are also required to meet requirements pursuant to these rules. This entails changing the regulatory framework for these companies which have so far in effect been excepted from all national capital adequacy requirements. Moreover, an appropriate application of the rules on technical provisions to the two P&I companies must be devised as part of the process of adjusting to the rules on solvency margins. These adjustments to the regulatory framework will require Kredittilsynet to adopt a more active approach to supervision of these companies.

Based on experience gained in the period 1993-1995 Kredittilsynet will adjust both the frequency and scope of reporting for non-life insurance companies. This will apply both to reporting of technical provisions and of capital where reporting will in part be reduced and/or dispensed with. Companies with financial problems will continue to be subject to more frequent reporting.

In 1994 Kredittilsynet forwarded to the Ministry of Finance a number of proposals for regulations drawn up against the background of the insurance directives. In 1995 Kredittilsynet was involved in supplementary work in connection with proposed new regulations governing insurance classes, premiums and technical provisions in life insurance, insurance broking and investment management. Kredittilsynet has

New solvency requirements entail negligible increase in burden of reporting for insurance companies

Adjustment of reporting frequency for non-life companies

moreover prepared a draft regulation containing special rules on technical provisions for coinsurers. The regulation is based on an EU directive.

Standard articles of association for private pension funds were drawn up in 1995. The deadline for applications for approval of changes necessary to comply with the provisions of the regulation was 1 June 1995. In the second half of 1995 Kredittilsynet examined the articles of all municipal pension funds and a number of private ones.

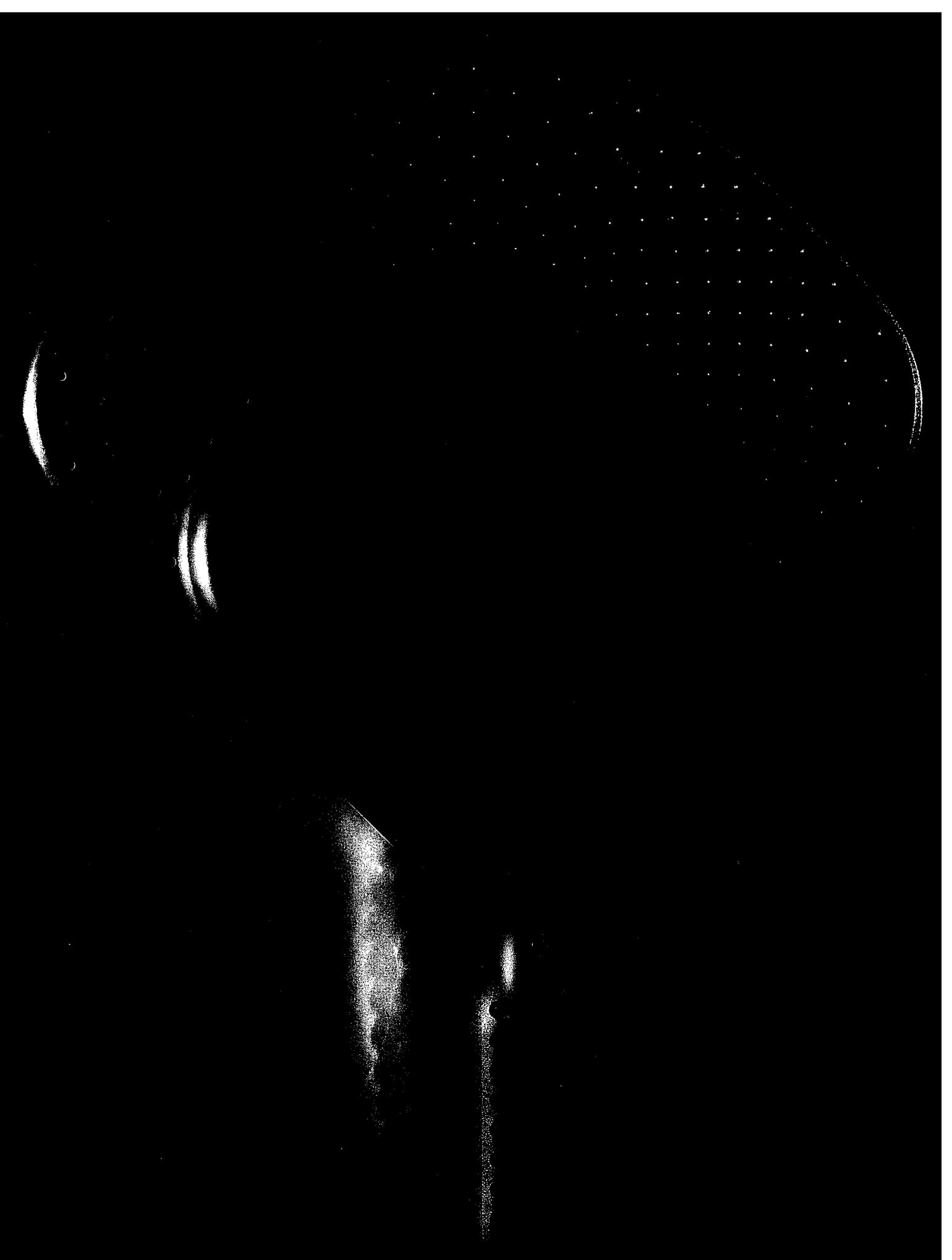
The regulation governing accounting records and statements of account in life and pension insurance was thoroughly reviewed, and a new regulation came into force in May 1995. In the autumn of 1995 the Ministry of Finance laid down two regulations based on the rules on branch establishment and cross-border activity contained in the third non-life and life insurance directives. Supervising compliance with the new rules for insurance companies' activity within the EEA will have substantial consequences for the way the supervision of insurance companies will be organised in the future.

During 1995 the financial supervision of branches (general agents) of 22 foreign non-life insurance companies and one branch of a Swedish life insurance company was transferred to the supervisory authorities of the companies' home states. A Danish non-life insurance company opened a branch in Norway on the basis of the new

regulation governing activities of foreign EEA insurance companies. A number of foreign EEA companies have notified their wish to take up cross-border activity in Norway. Kredittilsynet has so far not registered any activity of significance in the Norwegian insurance market as a result of these notifications.

Kredittilsynet's supervision of insurance companies from other EEA states is limited to host-country supervision under the rules applying in the EEA area. The regulation contains provisions governing the application of the requirements of the Insurance Act as to reasonable premiums and insurance terms, distribution of costs etc., treatment of profits in life insurance, and provisions on the transferring of policies to other companies and maintaining accounts. Verifying compliance with these provisions will make new demands of supervision if foreign life insurance companies avail themselves of the opportunity to carry on business in Norway.

Norwegian life insurance companies have so far made little use of their right to open branches or carry on cross-border activity in other EEA states. If Norwegian insurance companies wish to avail themselves of this right in the future, Kredittilsynet's supervisory responsibility in regard to Norwegian companies' activity in these countries will be duly expanded.



Good industrial design - *John R. Houghton: Wing Pan for Hackman*

Accounting and auditing

New regulation on annual accounts for financial institutions drawn up before the recommendation of the Accounting Law Commission became available

Steep increase in applications to depart from the provisions of the Accounting Act

Increased number of inspections of auditors

Several voluntary withdrawals from the register of auditors

■ Accounting

Kreditilsynet's work on framing accounting regulations has been influenced by the need to adapt to the EU accounting directive for banking and insurance. As a result of delays by the Accounting Law Commission, new regulations for the annual accounts of financial institutions and of insurance companies had to be drawn up before the Commission's recommendation became available. This does not appear to have led to untoward discrepancies between the two sets of regulations.

The recommendations of the Accounting Law Commission were finalised at the end of 1995. The Commission proposed that the legal basis for accounting provisions for supervised entities should be the Accounting Act. The present legal basis is the Act on Supervision of Banking, Insurance and Securities Trading. Kreditilsynet will express its views in a written submission.

In the accounting sphere two other factors required much attention in 1995, viz. treatment of loss provisions and of financial instruments (derivatives). Kreditilsynet is working on principles for accounting treatment and will in the event draft amendments to the relevant regulations. The work on loss provisions was intended to be completed in 1995, but proved more time-consuming than first thought. The two reports are not expected to be completed before mid-1996.

Technological developments and the trend towards international groups maintaining cross-border accounts are leading to a growing number of applications for permission to depart from various provisions of the Accounting Act. In 1995 there were 591 such applications, far more than in previous years. The increased use of electronic media, not only for accounting purposes but also for

documentation and communication of transactions, is of special interest. While it provides good opportunities for improving efficiency, it also requires legislative and supervising authorities to keep well abreast of developments. Kreditilsynet is delegated substantial responsibility for overseeing these conditions, both in terms of keeping the body of rules properly up to date and in dealing with inquiries about using various types of new technology. Kreditilsynet's responsibility in these areas encompasses all entities in Norway that are legally bound to maintain accounting records. Compared with the present Act, the proposal for a new Accounting Act sets out more variation clauses in the actual text of the Act or in appurtenant regulations, and will thereby reduce the number of individual applications to be dealt with.

Auditing

Kreditilsynet performed 129 on-site inspections of auditors in 1995, compared with 92 in 1994. Several inspections were at the outset limited to verifying compliance with specific legislation, but were later expanded into a general examination of the businesses in question. Alongside investigations based on complaints received about work done by auditors, the supervisory effort has focused on auditor categories where experience shows a higher incidence of poor auditing. These mainly comprise auditors with few assignments owing to age or other factors who in many cases have failed to keep up with the trend in sound auditing practices through refresher training, membership of auditors' associations or the like. The fact that, by experience, about 20 per cent notify their intention to cease auditing activity after notice of this type of inspection demon-

strates the need for supervision. With present capacity, it will take a further two to three years to cover all districts.

Another effect of supervision is a markedly higher standard of auditors' documentation of their work. This, together with the auditors' associations' efforts in recent years to enhance quality, seems to have brought about a clear improvement in auditors' methodology. This is confirmed by the decline in the number of complaints received against auditors. In the two-year period 1992-1993, 112 complaints were filed compared with 78 in the two-year period 1994-1995. The enhanced quality of auditors' work is without doubt of great significance for auditors' esteem.

The figures in table 5 are not a random sample. They are based on inspections in response to complaints and other evidence. In this light the figures must be said to confirm a positive trend.

Kredittilsynet drafted guidelines for auditing financial institutions' accounts which will be discussed with the auditors' associations in 1996. Moreover, a proposal has been submitted for provisions requiring auditors to disclose information on circumstances posing a threat to the stability of the particular undertaking and on possible financial crime. The proposal is based on the so-called BCCI directive.

Kredittilsynet has devoted substantial resources to framing a new Auditing Act. The committee in question is behind schedule and its recommendation is expected to be available in the spring of 1996.

Internal control and other areas

Kredittilsynet's regulations on internal control in the field of banking and insurance have roused interest beyond the financial institutions. While framing the regulations Kredittilsynet came into contact with businesses engaged in developing computerised systems designed to document risks and control procedures and systems. Systems which in a transparent manner systematically link line-organised control, auditing, and the board's and the control committee's func-

Table 5: Reactions following on-site inspections 1994-1995

	LICENCE REVOKED/ HANDED IN	STERN REPRI- MAND	REPRI- MAND/ CRITICISM	TOTAL	NO RESPONSE	SUM TOTAL
1994	32	26	35	93	27	120
1995	36	25	19	80	59	139

tions in the area of internal control, now appear to be within reach.

Kredittilsynet is favourably disposed to the ongoing reorganisation of financial institutions' internal audit departments whose operational auditing is now focused to a greater degree than previously on the establishment, implementation and surveillance of internal control. In 1995 some financial institutions entrusted this type of audit to external auditors. While Kredittilsynet has no reservations in this regard, it has warned the institutions' elected auditors that problems of competence may arise if external auditors become too heavily involved in the management's surveillance functions.

An authorisation scheme for accountants is now in place. Kredittilsynet has followed the process closely. Considering the large number of applications for permanent or temporary authorisation, the situation is satisfactory. So far Kredittilsynet has received only a small number of complaints about decisions of the authorisation board.

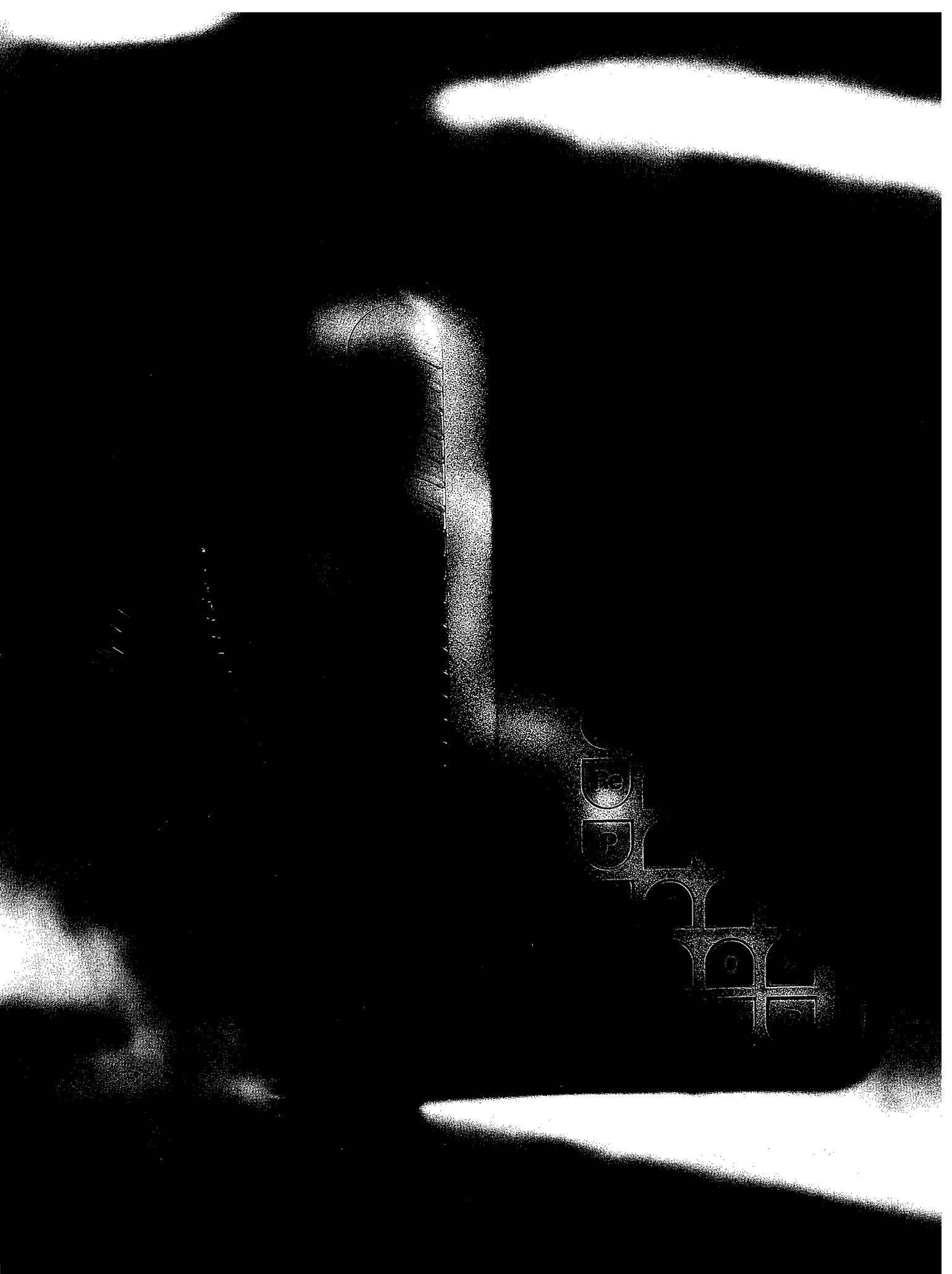
Against the background of heavy late-filing penalties levied by the Register of Company Accounts in Brønnøysund, a substantial reduction in the number of such penalties and associated complaints was expected in 1995. This did not materialise. In 1995 Kredittilsynet handled 480 complaints against the Brønnøysund Register's decisions compared with 418 in 1994. Kredittilsynet reversed the Brønnøysund Register's decision in 31 cases. The small number of reversals is due to the existence of concrete guidelines for imposing penalties which allow little scope for discretion.

Marked improvement in auditors' standards and quality

Regulations on internal control in banking and insurance have roused interest beyond the financial institutions

Few complaints to Kredittilsynet about decisions of the Accountants Authorisation Board

Still many complaints against late-filing penalties imposed by the Brønnøysund Register, but few decisions reversed



Good industrial design - *John R. Houghton: Jupiter telephone for PSE*

Securities trading

■ Summary of important cases

Supervision of the securities market comprises supervision of institutions and supervision of transactions. Institutional supervision focuses on the activity of management companies for securities funds and stockbroking firms. Transaction supervision entails checking that the various players in the securities market comply with requirements as to sound broking and business practices.

Ordinary on-site inspections entail scrutiny of the greater part of the activities of the inspected undertakings. "Thematic" inspections are limited to scrutiny of one or more selected themes. So far only stockbroking firms have been subject to thematic inspection. During the year on-site inspections of at least one of the types mentioned were carried out at almost all stockbroking firms.

Alongside on-site inspections, institutions' activities are also supervised on the basis of regularly submitted reports. Stockbroking firms report key economic variables on a weekly and monthly basis, while management companies report quarterly. The reports are followed up closely by Kredittilsynet, and have in a number of cases formed the basis for further investigation of institutions.

Within the area of supervision of transactions, a number of cases handled by Kredittilsynet in 1995 were in response to heavy activity in the market. The main focus was on deals related to takeover bids and other events substantially affecting prices. The work entailed extended contact with foreign entities and supervisory authorities. Information gathering presented few problems.

Kredittilsynet handled many applications and other approaches in relation to the

rules governing securities trading and securities funds. Far more applications for permission to act as a sales agent for units in securities funds were filed in 1995 than in 1994. The same applies to applications for permission to act as manager for foreign shareholders registered with the Norwegian Registry of Securities.

Illegal insider trading

A routine investigation in connection with a takeover bid revealed that illegal insider trading had in all probability taken place. The person responsible was not employed by the company in question, but had gained confidential information by virtue of his position as portfolio manager with a Norwegian financial institution. The confidential information was used for private trading in another person's name before it was made public. The case was referred to ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime) and was heard in court at year-end. The defendant was sentenced to a suspended six-month term of imprisonment and a fine of NOK 40,000, and was also ordered to pay compensation to the vendor of the securities.

Untoward influence on portfolio managers

In the case of an issue of bonds conferring purchase rights (call options), the brokers in question at a stockbroking firm had made an unwarranted allocation of the options. Under the terms of the issue, the options were to accrue to the subscribers to the loan. They were instead allocated to the portfolio managers at the companies which had bought the bonds. Such transfers were unlawful and the case was referred to ØKOKRIM.

In a number of cases extensive market activity prompted Kredittilsynet to scrutinise transactions

Criminal acts brought to light

Takeover bids for Norwegian financial institutions

During the year takeover bids were made for several Norwegian financial institutions, viz. Vital Forsikring AS, Norgeskreditt AS and Nordlandsbanken AS. Kredittilsynet carried out routine investigations in all the above instances to ascertain whether insider trading had taken place. No evidence of illegal trading was brought to light.

Securities issues where selected groups gained confidential information

In 1995 Kredittilsynet examined several cases where confidential information about the issuer was passed to a selection of potential investors ahead of private placings. In these cases declarations of confidentiality were employed which recipients of the information were compelled to sign to confirm their awareness of the contents and of the implications of signing. This raised a number of issues, some relating to fundamental principles, which are currently being studied. The main issue concerns equal treatment of target groups for private placings and the investing public and the market in general; equal treatment for those compelled to sign such declarations, and responsibility for enforcing declarations in cases where they contain trading restrictions.

Experience gained and consequences for supervisory activity and legislation etc.

A problem for supervision of transactions is the absence of a legal basis for demanding the surrender of information of importance for the type of cases in hand. Moreover, stockbrokers and other undertakings lack routines for fully recording important details of the preparations for and implementation of major transactions (takeover bids, mergers, contract signing etc.). Hence it is imperative to raise the awareness of market practitioners, both in terms of how they handle sensitive information and in terms of to whom such information is passed.

During the spring Kredittilsynet carried out "theme" inspections at a number of stockbroking firms and certain banks' securities departments. The theme was essentially information barriers, also known as Chinese walls. Information barriers are defined as any measure designed to prevent confidential information, especially price-sensitive information, known to persons in one part of a business from being available to persons in another part of the business. The object of the inspections was to pinpoint measures taken by businesses to prevent confidential information related to corporate finance being passed to other parts of the business or to other unauthorised persons. The degree of separation of active portfolio management from ordinary broking, as well as the relationship between banks' securities departments and other bank departments, were also scrutinised. In connection with its investigations Kredittilsynet drew up recommended guidelines and advice as regards information barriers. The resulting circular, describing certain minimum arrangements which institutions should have in place, was sent to all stockbroking firms and banks. The circular also makes certain recommendations regarding measures which may suitably be introduced by undertakings. Institutional practice in this area will be scrutinised in 1996.

At the start of 1995 stockbroking firms had assisted issues of non-standardised options on 45 different shares with a total underlying value of NOK 570 million. During the first 10 months of the year activity in the market for non-standardised options rose sharply. By the end of October 1995 non-standardised options had been issued on 71 different shares with a total underlying value of NOK 1,650 million. At this point total exposure for non-standardised options equalled total exposure for listed share options. Against the background of the huge increase in total exposure during the year, Kredittilsynet considered it necessary to take a closer look at the risk to which stockbroking firms

Lack of legal basis for Kredittilsynet to demand important information

Guidelines and advice regarding information barriers (Chinese Walls)

expose themselves by broking in non-standardised options. During November theme inspections were carried out with this in mind at a number of stockbroking firms with the emphasis on routines pertaining to broking, settlement and furnishing of security. Scrutiny also focused on written agreements used in connection with non-standardised options and on systems for keeping records etc. Kredittilsynet will make recommendations designed to minimise stockbroking firms' risk in connection with broking in non-standardised options.

During the autumn Kredittilsynet carried out theme inspections at several stockbroking firms licensed to carry on active portfolio management. A total of 13 stockbroking firms hold such licences. Competition for customers is intense and margins are under pressure. Conditions looked into included costs passed on to customers and the turnover of shares in customer portfolios. Kredittilsynet noted which stockbroking firms were used for the purpose of active portfolio management, and whether active portfolio management had been exploited to increase in-house brokerage commission earnings. Kredittilsynet also examined the standard agreement for active portfolio management and how this is utilised. Active portfolio management is tailored to the customer's interests and wishes. For this reason Kredittilsynet stresses that portfolio management instructions should not be standardised by stockbroking firms engaged in active portfolio management.

The growing activity, not least in the derivatives markets, as well as heavy losses incurred by individual institutions in Norway and abroad, made it natural to give priority to crisis preparedness. A crisis preparedness group was set up comprising Norges Bank, Oslo Stock Exchange, the Norwegian Registry of Securities, the Norwegian Options Clearing House, the Norwegian Association of Stockbrokers and Kredittilsynet.

At the start of 1995 there was a risk of a

bank strike. This could have led to considerable problems for trading in the securities market, and prompted Kredittilsynet to consider the need to clarify the issues raised. These refer for example to the account-controller function in banks in relation to the surrender of options etc., settlement for portfolio management performed for foreign customers, furnishing of guarantees by Norges Bank in connection with broker settlement (supplementary security) and margin payments to the Norwegian Options Clearing House in connection with derivatives trading. A crisis preparedness plan is being drawn up designed to put Kredittilsynet and other affected authorities in a better position to handle various types of crises.

Enforcement of rules, regulations etc., and a new body of rules

Amendments to the Securities Trading Act

A proposal to amend the Securities Trading Act has been drafted as a step in fulfilling Norway's obligations under the EEA agreement. The Securities Trading Act Committee presented its interim recommendation no. I on 16 December 1994 (NOU 1995: I Investment Undertakings). The interim recommendation considered inter alia changes necessary to meet the requirements of relevant EU directives. The Committee's recommendations were circulated to appropriate bodies for comment, and an amending Bill (Ot.prp. 15, 1995-96) was introduced on 17 November 1995. The Bill incorporates to a large degree the views presented in Kredittilsynet's submission. The Securities Trading Act Committee has now presented its interim recommendation no. II. This covers provisions governing insider trading, the notification obligation, business methods and price-manipulation, flagging, undertakings' obligation to disclose information, compulsory bid for all outstanding shares, issue control and derivatives trading, as well as supervision and sanctions.

Kredittilsynet to issue recommendations designed to minimise stockbroking firms' risk when broking in non-standardised options

Crisis preparedness group established

New regulations

In the autumn of 1995 two new regulations were laid down for stockbrokers. One deals with stockbroking firms' trading for own account and has prompted a number of enquiries regarding interpretation of certain rules. Moreover, a new reporting form for own trading was drawn up in consequence of the new regulation. The other regulation governs the establishment in Norway of branches of investment undertakings with their head offices in other EEA states. So far Kredittilsynet has not received applications from such investment undertakings for permission to open branches.

Securities funds

During 1993 and 1994 the EU Commission proposed amendments to the UCITS directive on the coordination of laws and regulations relating to undertakings for collective investment in securities (investment undertakings). The proposal entails for example the inclusion of new types of funds, restrictions on the use of derivatives and simplified requirements as to marketing of funds in other EEA states. The process of adopting the amendments has come to a halt owing to intra-EU disagreement on a number of points of the proposal. Hence it is difficult to indicate whether and when the amendments will be passed.



Good industrial design - Tove Kjær: ICE-uniform for NSB

Estate agency and debt collection

Growing interest in taking up estate agency

Poor accounting and estate agency routines brought to light by on-site inspections

Legislative amendments suggested

Growing competition in the debt collection trade

■ **Estate agency**

The recovery in the property market over the past three years has led to increased interest in taking up estate agency. Thirty-three new licences were issued in 1994, and 52 in 1995, bringing the total number of agencies to 318. Moreover, branches are steadily increasing in number. The number of lawyers running estate agencies now exceeds 900, and the figure is growing.

The growth in start-ups requires further intensification of supervision both of financial strength and of estate agency routines. New agencies are usually started with the minimum legal share capital. Hence they are vulnerable in the intense competition for assignments and in the event of a slump in or levelling-out of the property market.

On-site inspections have generally revealed weaknesses in accounting and estate agency routines. In 1995 two estate agencies had their licences withdrawn and one lawyer was deprived of his right to carry on estate agency. In these cases serious negligence was displayed in the execution of settlements and keeping of accounting records.

As a step in the documentary supervision, a questionnaire was in 1995 sent to all lawyers who have furnished security for estate agency. The survey was designed to ascertain whether routines applied in the practice of estate agency are satisfactory. Many lawyers proved not to have kept abreast of statutory requirements.

In 1995 draft amendments to the estate agency legislation were sent to the Ministry of Finance. They included:

- Introduction of requirements as to positive equity capital for estate agencies.
- Housing cooperatives' sale of title deeds in associated housing cooperatives to be regarded as estate agency.

- Introduction of suitability requirements for obtaining and renewing estate agency certificates.
- Coordination of rules for furnishing of security for estate agency, debt collection and lawyers' estate agency.

The Act is based on the premise that estate agencies cannot carry on activity other than estate agency. However, Kredittilsynet, supported by the Ministry of Finance, has opened the way for estate agencies, subject to conditions to be specified, to offer consultancy services, carry on a limited degree of own-account trading and offer contractor services in special cases. The move is justified by market needs, particularly in the commercial property industry.

Debt collection

Competition in the trade intensified in 1995. Customers are showing greater cost and quality awareness. This has resulted in new forms of agreement in the market.

On-site inspections at debt collection agencies focused on the treatment of recovered funds, the financial position of agencies and procedures applied at customers and debtors. In some cases agencies were ordered to alter their practices. Fifty new debt collection licences were issued during the year, while one licence was revoked.

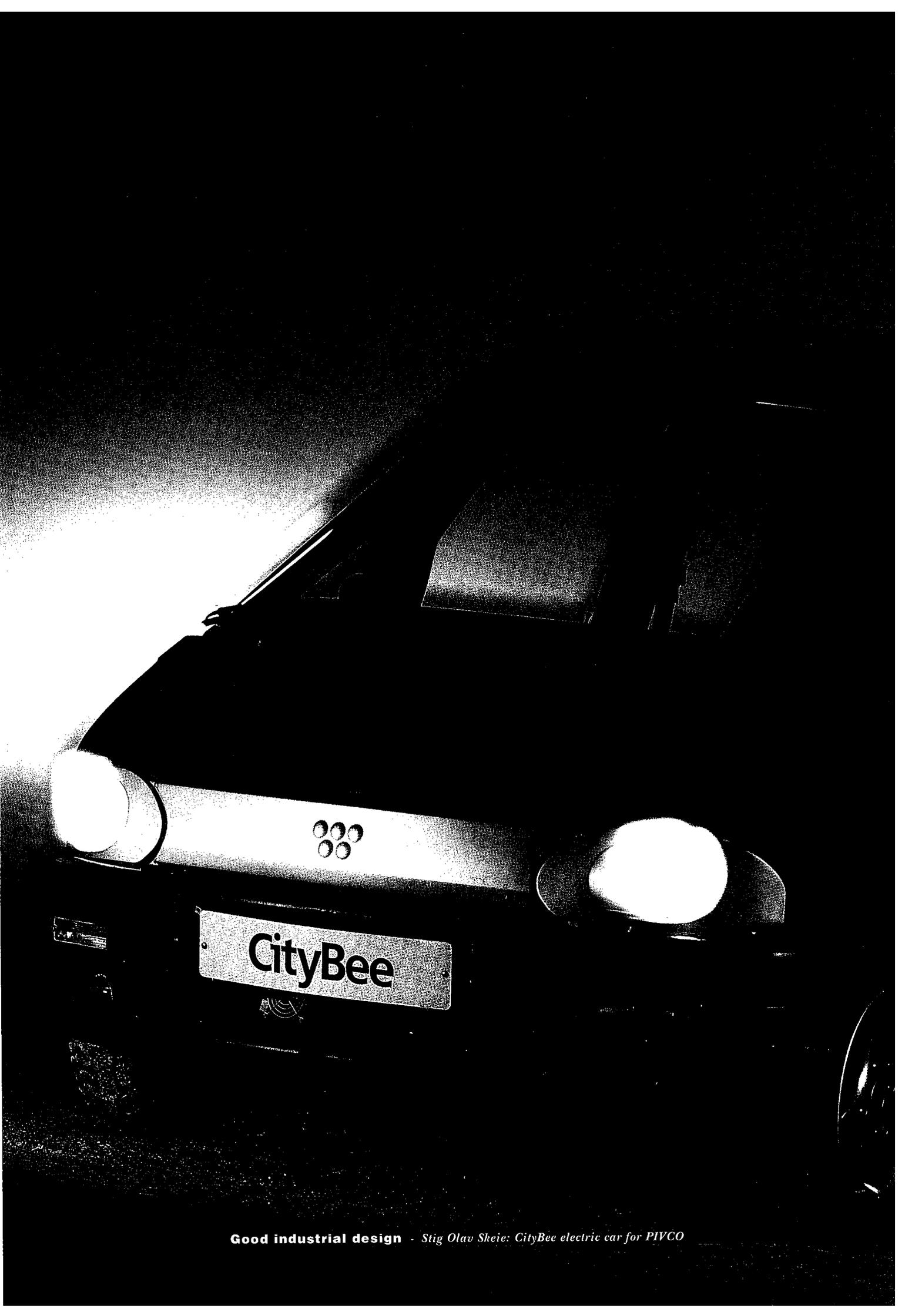
At the end of 1995, 142 debt collecting agencies were under supervision, of which 24 were housing cooperatives. Twenty-two new agencies were registered during the year, while 11 agencies discontinued debt collecting. The growth seems to be due to improved earnings in the trade. This could be related to a general improvement in debtors' ability to pay.

Reports from the periods January-April

and May-August show an increase in incoming debt collection assignments compared with the same periods of 1994. The reports also show that the number of assignments in process of execution has never been higher than in 1995. A possible explanation may be the general economic

recovery. A better economic situation may facilitate recovery of claims, which may prompt creditors to refer more claims to debt collection agencies than previously. The tendency for businesses to initiate the collection process at an earlier stage is another possible contributory factor.

**Unprecedented
number of
assignments in
process of
execution**



Good industrial design - *Stig Olav Sheie: CityBee electric car for PIVCO*

Overview of international activity

■ The EEA Agreement led to a considerable increase in international activity in 1993 and 1994. This trend is continuing in 1995 and a further increase is likely in 1996. In 1995 Kredittilsynet attended a total of 46 meetings abroad under EU and EEA auspices compared with 48 in 1994. The internationalisation of financial markets and harmonisation of rules require greater and closer collaboration among supervisory authorities. This increases the importance of keeping abreast of ongoing developments, particularly in the European Union and especially regarding rules and regulations.

Kredittilsynet attends meetings of the liaison bodies Groupe de Contact (banking supervision) and the EU Conference of Insurance Supervisory Authorities as an observer, in effect with virtually the same status as that of EU member states.

As a prospective EU member state, Norway was admitted as an observer to the EU Banking Advisory Committee (BAC) and the Insurance Committee (IC). Norway's status changed after the referendum on EU membership. EEA states outside the European Union now attend consultative meetings in advance of meetings of the above committees. At consultative meetings we can express our opinions in matters brought up in the committees, but have to assume that they are accorded little weight. Such meetings do however help to ensure that Norwegian authorities are well informed about the application of the body of rules applying across the internal market in the financial sphere and about the elaboration of new rules.

Kredittilsynet also attended the high-level committee for securities supervision, an informal committee under the EU Commission. The Commission proposed the establishment of a securities committee on a

par with the Banking Committee and the Insurance Committee to replace the high-level committee. When this will happen, and what status Norway might be accorded, are uncertain.

As regards collaboration among supervisory authorities on the insurance front Norway, Iceland and Liechtenstein have now acceded to the EU states' protocol of collaboration. Within the banking sector collaboration among supervisory authorities is organised through bilateral agreements or Memoranda of Understanding (MoU). In 1994 MoUs were signed with the supervisory authorities in all Nordic countries as well as England, France and Luxembourg. In 1995 MoUs were signed with German and Dutch supervisory authorities. No further MoUs are needed with EEA states for the time being.

On the securities front the MoU with the UK Securities Investment Board was renewed in 1995. Work is in progress on an updated joint Nordic MoU. This will form the basis for bilateral agreements among the Nordic countries.

Maintenance and further development of bilateral cooperation with EU member states is dependent on initiatives taken by Norwegian authorities. This will be an important task for Kredittilsynet in 1996 as previously.

International cooperation outside the European Union and the European Economic Area

Kredittilsynet is a permanent member of the International Organisation of Securities Commissions (IOSCO) which meets annually, and participates in one of the organisation's working groups. As from 1995 Kredittilsynet became a member of the informal Enlarged Group on the Supervision of

High level of international activity as a result of the EEA Agreement

Agreements signed with supervisory authorities in other countries

EU committees and working groups on supervisory issues:

<i>Banking</i>	
Banking Advisory Committee (BAC)	
Groupe de Contact	
EMI - Banking Supervisory Subcommittee	
<i>Insurance</i>	
Insurance Committee (IC)	
Conference of Insurance Supervisory Authorities of the EU Countries	
<i>Securities trading</i>	
Informal Group of Chairmen of EU Securities Commissions	
High Level Securities Supervisors Committee	
Enlarged Group on the Supervision of Collective Investment Funds	

EU- and EEA-related meetings abroad attended by Kredittilsynet:

	NO. OF MEETINGS IN 1995
Permanent supervisory bodies	5
Consultative meeting, BAC and IC	6
Working and expert groups under the EU	22
Other liaison meetings, seminars etc.	4
Bilateral meetings	9
Total EU- and EEA-related meetings	46

Collective Investment Funds. We regularly attend meetings of the OECD's Capital Markets Committee and Insurance Committee. The basic object here, as in the EEA, is increased harmonisation and liberalisation of financial markets. Kredittilsynet also attends conferences and meetings arranged by the Basle Committee on Banking Supervision. In the insurance field Kredittilsynet is a member of the International Association of Insurance Supervisors (IAIS) which formalises cooperation among supervisory authorities on a global basis.

Kredittilsynet collaborates closely with the other Nordic supervisory authorities. Top-level meetings are held on an annual basis. Twelve Nordic ad hoc meetings on specific areas of supervision were held in 1995.

Kredittilsynet maintains regular contact with other countries' supervisory authorities in individual cases, including cases related to branch establishments and cross-border activity. As previously, Kredittilsynet engaged in contact and dialogue with other countries' supervisory authorities in connection with calls on or on-site inspections at Norwegian banks abroad. In 1995 meetings were for example held with federal and state authorities in the USA, at the Bank of England and with the supervisory authorities of Luxembourg.



Good industrial design - *John R. Houghton: Luxo Vision lamp for Jac. Jacobsen*

Experiences of the investigating committee

**Investigating
Committee
completed its
mission in 1995**

■ The Investigating Committee completed its mission in 1995.

The Committee started work in September 1990. Kredittilsynet commissioned district recorder Håkon Wiker to head a Committee to investigate whether heavy losses incurred by financial institutions could be related to circumstances of a criminal nature. The Committee's mandate was drawn up in consultation with the Ministry of Finance, prompted partly by desires in political circles for a thorough investigation of such matters. The mandate was confined to the institutions' senior management and officers. The Committee operated within Kredittilsynet's legal authority and framework. It reported to Kredittilsynet whose directors reviewed the Committee's findings before deciding whether there was a basis for notifying its recommendations to the prosecuting authority for possible criminal investigation. Kredittilsynet resolved that the Committee should investigate a total of 11 financial institutions.

In 1995 the Committee submitted reports on Christiania Bank, Fokus Bank/-Rogalandsbanken and Den norske Hypotekforening. The report on Christiania Bank, containing 575 pages and 341 annexes, was forwarded by Kredittilsynet to ØKOKRIM (the National Authority for Investigation and Prosecution of Economic and Environmental Crime) in line with the Committee's recommendation. The main report on Rogalandsbanken was forwarded to ØKOKRIM for information purposes. Two interim reports on Rogalandsbanken had already been forwarded to ØKOKRIM in 1994 to permit timely investigation of circumstances which might otherwise have been barred by lapse of time. Like other reports assessing suspicions regarding

individuals, these reports are confidential.

The Committee submitted 11 interim recommendations. The financial institutions in question were Sunnmørsbanken, Tromsø Sparebank, Spareskillingsbanken Trøndelag, Sparebanken Nord, Sparebanken Romsdal, Spareskillingsbanken Oslo, Vesta Hygea, Hemnes Sparebank, Christiania Bank, Den norske Hypotekforening and Fokus Bank/-Rogalandsbanken. Two other reports were produced at Kredittilsynet's request concerning the involvement of Christiania Bank and Christiania Bank's subsidiary, Østlandske Stenexport, in the K/S Airbus A321 and K/S Apollo Air I projects. ØKOKRIM is still working on cases involving Christiania Bank. The others were dropped owing to "lack of evidence".

At Kredittilsynet's request the chairman of the Committee, Håkon Wiker, prepared a final report. It was presented in September 1995 and contains the chairman's evaluation of the activity of the Committee. Since it examines many of the cases forwarded to ØKOKRIM, it is confidential.

The Ministry of Finance has asked Kredittilsynet to prepare a report on the work of the Committee, the results of the work and Kredittilsynet's experiences with the Committee. This report is public and reproduces Mr. Wiker's general views in key areas.

Kredittilsynet's final report gives an account of the work of the Committee with emphasis on an overview of the types of violations dealt with in the Committee's conclusions. The main impression is that potentially criminal acts were in all essentials linked to how the banks entered losses in their accounts. Several banks appear to have contravened Kredittilsynet's loss regulations, in some cases in order to obscure actual loss figures. Their methods include failure to

**Final report on the
work of the
Committee**

enter registered losses, overstating the value of collateral security, "misuse" of loan loss reserves, agreements on soft loans or rolled-up interest, renewal of loans already in default or sale of problem loans, either to supposedly outside companies or to intra-group entities with associated private repurchase agreements etc.

In general Kredittilsynet considers that the Committee has done a thorough job in conformity with its mandate to Kredittilsynet's satisfaction. However, the time spent, with many investigatory reports not produced until three to five years after the event, was in isolation unsatisfactory. The lengthy period spent on the inquiry process made it difficult to complete the ensuing criminal investigation in time. Moreover, the long delays entailed an unnecessary personal burden on the persons at whom the inquiry was addressed.

The excessive time spent was partly due to the belated, substantial enlargement of the Committee's mandate to include several more heavyweight institutions and to the fact that the overall task proved far bigger than expected. Moreover, Kredittilsynet should have intervened more actively to ensure the Committee access to continual and sufficient secretarial capacity.

As a general rule Kredittilsynet should itself have resources to uncover possible rule violations by financial institutions. However, when investigating more complex circumstances, for instance a beleaguered

bank of some size, it should be possible to appoint independent committees including auditors and lawyers, like the Wiker Committee. This is especially relevant if there is a possibility that Kredittilsynet's own procedures might be subject to scrutiny. When committees are appointed in the future it is important that Kredittilsynet make arrangements to ensure that the inquiry takes a shorter time and that clear guidelines are established for the committee's case-handling procedures.

Assessment of the relevant laws leads to the conclusion that the current criminal legislation is not particularly suited for applying sanctions in response to the rule violations that appear to have taken place. Doubts may also be raised as to whether the criminal legislation is in any way a suitable means of preventing a repetition of the circumstances in evidence during the banking crisis. In order to perform efficient supervision that is capable of preventing crises in financial institutions and of reducing the extent of damage resulting from such a crisis, a body of rules is required that makes it easier for Kredittilsynet to intervene in any malpractices at an earlier stage. Kredittilsynet has accordingly proposed to the ministry that it consider introducing administrative sanctions.

The report also contains an overview of the other Nordic countries' handling of the legal aspects of the banking crisis.

Kredittilsynet should itself have resources to uncover possible rule violations by financial institutions

Criminal Code little suited as a deterrent to rule violations. Changes needed, e.g. rules on administrative sanctions



Good industrial design - *Tias Eckhoff: Maya cutlery for Norsk Stålpress*

Organisational set-up

■ The Board

Kredittilsynet is headed by a board of five members. Members and alternates are appointed by the King for a four-year term. The board was composed as follows in 1995:

Mr. Erling Selvig, professor, dr.juris., chairman

Ms. Else Bugge Fougner, supreme court justice, deputy chair

Mr. Asbjørn Rødseth, professor

Ms. Mary Kvidal, deputy director of education

Mr. Ingebrigt Børsheim, managing director

Alternates:

Ms. Turid Hundstad, director

Mr. Steinar Undrum, director

Mr. Harald Bøhn, assistant director at Norges Bank, was appointed observer to the board.

Two members elected by and from among the employees supplement the board when administrative matters are dealt with. Employee representatives in 1995 were:

Ms. Runa Kristiane Sæther, deputy director general

Ms. Kjersti Elvestad, adviser.

The board met 13 times in 1995. In addition some matters were dealt with by circulation to board members. The board handled a total of 127 supervisory and administrative matters, in addition to a number of matters submitted to the board for their information only.

Reorganisation

Kredittilsynet's international operations were reorganised as from 1 July 1995. The International Department was dispensed with, its resources and international operations were transferred in their entirety to

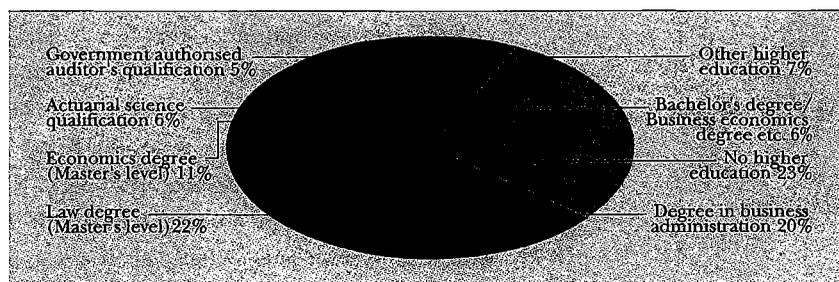
the various sectoral departments, and an international co-ordinator was assigned to the Staff of the Director General of Kredittilsynet. The reorganisation represents an adjustment to the increased internationalisation in evidence in all spheres of Kredittilsynet's activity, and signals an increased focus on international operations.

Administration and staff

Kredittilsynet acquired four new positions in 1995, bringing the total number of positions to 135. At year-end there was a permanent staff of 129, compared with 124 at the end of 1994. The Storting's treatment of a White Paper (Innst.S.nr.246 (1991-92) entitled "Organisation of the public supervision of the financial industry" resulted in a programme designed to progressively strengthen Kredittilsynet's resources. With the adoption of the budget for 1996, which included four new positions, the progressive increase from 103 positions in 1992 to 139 in 1996 was brought to completion.

Twenty-nine vacancies were advertised in 1994, including four internally. Applicants totalled 446. Kredittilsynet benefits from a satisfactory flow of high-quality applicants with university training or the equivalent.

Staff educational background, 31 December 1995



Reorganisation of international operations

Budget adopted for 1996 completes resources-upgrading programme

Ample supply of recent graduates

Greater emphasis on strengthening staff expertise

New information strategy

New IT strategy

Kredittilsynet also considers it important to recruit staff with broad experience from and knowledge of sectors and trades under its supervision. At end-1995, 24 staff members had such experience, of whom four were on short-term contracts. Seventy-seven per cent of the staff have higher education.

A very high proportion of Kredittilsynet's staff have a university education or the equivalent. High-level expertise is a precondition if Kredittilsynet is to successfully fulfil its role in the community. Our ability to recruit and retain able staff members is therefore pivotal. The overview, grasp and experience acquired by our staff fairly quickly render them attractive on the labour market. Kredittilsynet faces competition from, among other areas, the private financial sector. For this reason it is important to develop a policy on salaries and staff that exploits the flexibility inherent in the central government pay system.

A new position as adviser has been advertised as a step in systematising and enhancing Kredittilsynet's focus on organisational development and competence training, partly with a view to improving the institution's ability to recruit, develop and retain high-quality staff members.

Competence

In 1995 Kredittilsynet concluded a cooperation agreement with the Centre for Research in Economics and Business Administration. The agreement, whereby the Centre will perform analysis, research and consultancy assignments etc., for Kredittilsynet, will be a useful adjunct in the work of supervising financial institutions and financial markets.

In keeping with Kredittilsynet's focus on market risk, a competence-training project

was initiated in 1995 for staff members engaged in on-site inspections. The project will comprise theoretical and practical training. Kredittilsynet will also continue to strengthen expertise in insurance among staff members engaged in on-site inspections.

Language training was given priority in 1995 in consequence of the increase in international operations. This will continue in 1996.

Reorganisation and new investments on the IT side were complemented by training.

Public relations

Providing information, formulating premisses and dispensing advice are important elements of the strategy of supervision. To this end information activity was stepped up in 1995, partly through increased contact with the press. An information strategy was drawn up based on the main principles of central government information policy. Internally emphasis was given to integrating public relations in Kredittilsynet's general activities. 1995 saw the publication of two booklets in a new "småskrift" series, and a brochure (also in an English version) presenting Kredittilsynet and its operations. About 51 circulars were sent to supervised institutions. Management and staff gave lectures and contributions in various specialist fora, and had articles printed in the daily press and journals.

Information technology (IT)

An IT strategy was drawn up for the period 1996-1998. The strategy focuses on co-ordination of Kredittilsynet's IT investments and IT development. The IT regime will be updated to enable Kredittilsynet to exploit the potential for efficient electronic communication externally while appropriate systems will be developed internally.

A customer/server-based filing system was installed in 1995. The introduction of electronic mail for internal use was completed. A project was started with a view to converting internal databases to facilitate information retrieval in a systematic and standardised manner.

Finances

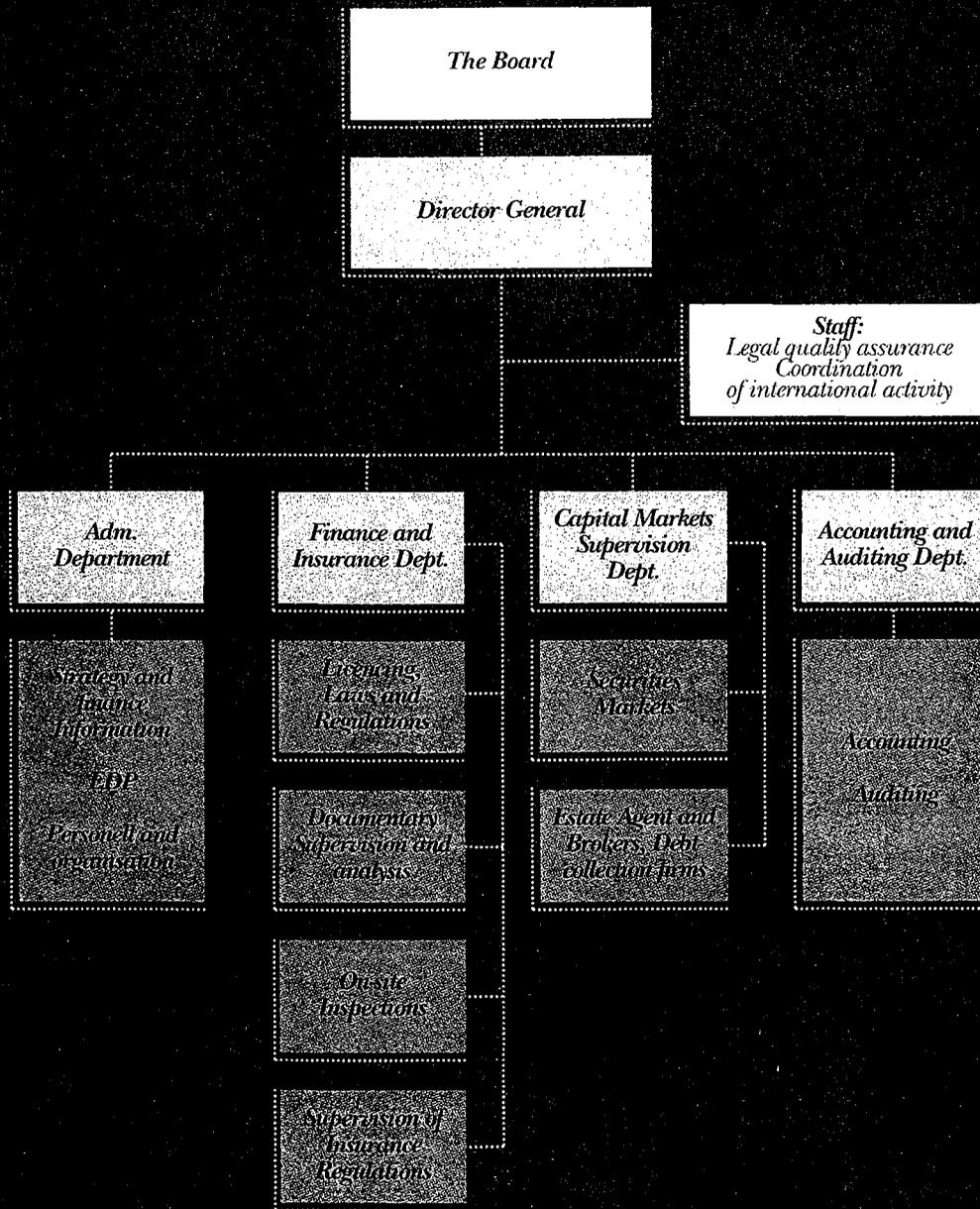
Kredittilsynet total expenditure for 1995 came to NOK 69.6 million, i.e. an increase of 2.8 per cent on 1994. Remuneration, national insurance and superannuation amounted to NOK 44.5 million. Expenditure on operating expenses, travel, competence training, consultancy services and organisational development came to NOK 24.4 million. This sum included about NOK 3.0 million on EDP facilities.

Under section 9 of the Act on Supervision of Credit Institutions, Insurance Companies and Securities Trading, etc., Kredittilsynet's expenses are covered by the institutions under its supervision at the start of the financial year. The expenses are apportioned among the various institutional groups based on the extent of the supervision, and are payable the year after they are incurred. The total amount to be levied for 1994, i.e. NOK 63.4 million, was approved by the Ministry of Finance on 4 August 1995. There were 3,095 supervised entities in 1994 - i.e. 606 fewer than in 1993. The number fell because auditing firms were permitted to pay on behalf of the auditors working there. Even so, auditors still account for some 50 per cent of supervised entities.

**Total expenditure
in 1995:
NOK 69.6m, i.e. an
increase of 2.8 per
cent on 1994**



Kredittilsynets organisasjon



KREDITILSYNET

The Banking, Insurance and Securities Commission of Norway

Kredittilsynet

Østensjøveien 43

Postboks 100 Bryn

N-0611 Oslo

Norway

Ph. 47 22 93 98 00

Fax. 47 22 63 02 26