Bankenes sikringsfond/Norwegian Banks' Guarantee Fund

Postboks/Postal address:
P.O. Box 6805 St. Olavs plass
N-0130 Oslo

Telefon/Telephone:
+47 22 11 00 75
www.bankenessikringsfond.no

Grafisk produksjon
MacCompaniet as, Oslo

Norwegian Banks'
Guarantee Fund

Annual Report 2007

We have illustrated the 2007 Annual Report with historical photographs depicting scenes from the Norwegian banking industry. The photograph on the cover and above shows Den norske Creditbank's head office at Kirkegaten 24 in Oslo, taken in about 1862.

Contents – Annual Report 2007

The Norwegian Banks' Guarantee Fund – objects and activities

The Norwegian Banks' Guarantee Fund was established under a legislative amendment on 25 June 2004. The Act came into force on 1 July 2004 with the amalgamation of the Commercial Banks' Guarantee Fund and the Savings Banks' Guarantee Fund. The operations of the Norwegian Banks' Guarantee Fund are regulated in the Guarantee Schemes Act of 6 December 1996 No. 75.

Membership of the Norwegian Banks' Guarantee Fund is mandatory for all savings banks and commercial banks with headquarters in Norway. The King may also decree that in addition to banks, other credit institutions are required to be members of the Guarantee Fund.

Credit institutions headquartered in other EEA states but receiving deposits from the general public through branches in Norway, may become members of the deposit guarantee scheme if the deposit guarantee scheme in the branch's home country is not considered to provide the branch's depositors with protection equal to that provided under the Act.

The purpose of the Guarantee Fund is to secure the deposit liabilities of its members in such a way that deposits of up to NOK 2 million per depositor per bank are guaranteed, should a member be unable to meet its commitments. All banks domiciled in EEA states have equivalent arrangements. The rules in force in the European Union provide for a guarantee of at least EUR 20,000. The Guarantee Fund's website (www.bankenessikringsfond.no) contains an overview of the cover provided in the various states. The Norwegian deposit guarantee scheme covers a higher sum than the schemes applicable in most other countries.

One of the Guarantee Fund's most important functions relates to situations in which one or more banks encounter difficulties in meeting their commitments. By way of preparation for such a situation, contingency plans are drawn up and maintained and exercises are conducted. The Norwegian Banks' Guarantee Fund does not have sufficient personnel resources to handle crisis situations unaided. Accordingly, binding agreements have been concluded with the Norwegian Financial Services Association (FNH) and the Norwegian Savings Bank Association, under which access to additional resources can be provided should a crisis arise.

The Guarantee Fund has accumulated considerable funds over time for use in the event of a crisis and as at 31 December 2007 the capital base of the Guarantee Fund stood at NOK 17.2 billion. However, this is not sufficient for the Fund to be able to avoid calling up membership levy in 2008.

The bodies responsible for the day-to-day operations of the Guarantee Fund include a department responsible for, amongst other areas, preventative work in the form of analyses of member institutions using various standard and key figures, providing advisory services to smaller banks, organising courses, calculating and collecting the levy and guarantees and reporting on the cover provided under the deposit guarantee scheme.

The Fund also has a department tasked with managing the assets of the Fund with the aim of securing the best possible return on capital. As well as implementing the strategic decisions adopted by the Board, the department has administrative responsibility in its own right and supervises external asset managers.

The development of a guarantee fund institution has been necessary in order to put in place satisfactory safeguards for customers, banks and Society. The development process involves work on framework conditions and statutes etc. Establishing channels of cooperation with guarantee funds in other countries forms part of this work.

As part of the process of forming the Norwegian Banks' Guarantee Fund a memorandum of understanding was concluded between the Norwegian Savings Banks Association and the Norwegian Financial Services Association, under which the office of Manager of the Fund will alternate between the two associations. Under the memorandum of understanding it was agreed that the Norwegian Financial Services Association would hold this office for the first three years – from 1 July 2004 until 30 June 2007 – and that the office would then pass to the Norwegian Savings Banks Association for a period of three years until 30 June 2010. On 1 July 2007, Managing Director Arne Hyttnes of the Norwegian Saving Banks Association assumed the office of Manager of the Guarantee Fund, succeeding Managing Director Arne Skauge of the Norwegian Financial Services Organisation.

Leader

The latter half of 2007 was a period of turbulence for large parts of the world's financial services industry. Heavy losses by banks, particularly on the sub-prime market, sparse and costly funding and major fluctuations in stock market prices combined to create problems. In the case of Northern Rock in the UK, the situation even reached the point where – in no less a place than the financial capital, London – people queued to withdraw their deposits, something most observers had assumed was a thing of the past. The problems surrounding Northern Rock highlighted the importance of maintaining a deposit guarantee scheme that enjoys the trust of customers. In light of this situation, it is gratifying to note that Norwegian banks are reporting healthy results and that in 2007 as in earlier years no Norwegian bank needed support from the Banks' Guarantee Fund.

The asset management result was 4.2 per cent, approximately 0.8 percentage points below index. Although internal asset management operations generated an excess return relative to index, the external managers underperformed, and we are accordingly not entirely satisfied with the overall result recorded. The requirements relating to asset management are becoming increasingly more stringent and provisions on ethical management were embedded in the Statutes in 2007, reflecting the general increase in awareness of ethical issues.

Although some uncertainty attaches to how the problems outside Norway's national borders will affect the domestic situation, the outlook for the Norwegian economy in 2008 is fairly promising. This is important for the banks, and we therefore believe that 2008 will prove to be another good year for the Norwegian banking industry. Nevertheless, as a guarantee fund we are obliged to be prepared for all contingencies. The report entitled "Management of banks in crisis" was completed in 2006, and during the course of 2007 we worked on drafting a 15-point list to further concretise the steps to be taken for handling any problems that might arise. (See page 53) If nothing else, 2007 confirmed that traditional banking skills are as important today as they ever have been, and that sound credit assessments and robust funding are most important of all.

Returns on investment, growth in the measurement base for determining the minimum size of and disbursements by the Fund determine whether an annual levy will need to be paid by the members. The asset management strategy is discussed in thorough detail by the Board, the aim being to balance risk against the required rate of return. As a consequence of the significant growth by the banks over a number of years combined with a difficult financial market in the second six months of 2007, one-third of the full levy will have to be called up in 2008. From the perspective of bank customers, Norway has one of the best deposit guarantee schemes in the world, and over the last three years this scheme has cost the members nothing. Even if one-third of the full levy is called up in 2008, this burden can only be described as moderate, and in our assessment there can be no doubt that the scheme enhances confidence in the industry.

Under the agreement that was concluded when the two guarantee funds merged, the Norwegian Financial Services Association (FNH) and the Norwegian Savings Banks Association alternate the office of Manager every three years. As a result, I took on this office on 1 July 2007. It has been a genuine pleasure to take over an organisation that is healthy in every way, and I look forward to continuing this close cooperation in operating the Fund in the future.

Oslo, 26 February 2008

Arne Hyttnes
Manager

Directors' Report 2007

As at yearend 2007, the Norwegian Banks' Guarantee Fund had 143 members. One new ordinary member, Bank Norwegian AS, joined the Fund during the course of the year, as did three branch members: Nordnet Bank AB, Sweden, Kaupthing Bank hf NUF, Iceland and Fokus Bank, which changed its membership status as a result of becoming a branch of Danske Bank A/S. During the course of 2007, Ankenes Sparebank and Narvik Sparebank merged. The merged bank took the name of Sparebanken Narvik. In January 2008, Pareto Bank ASA joined the Fund. Moreover, Swedbank's branch in Norway has applied for branch membership with topping up cover.

The Guarantee Fund was not involved in crisis measures during 2007, nor was it necessary to place any bank under public administration. There are no indications that the Banks' Guarantee Fund will be required to pay out under the deposit guarantee scheme in the immediate future.

The results reported by the members in 2007

Provisional accounting figures reported by the members show 2007 to have been a prosperous year. Expressed purely in terms of kroner most banks reported improved figures. However, the improvement in performance is closely linked to the significant growth in the volume of business done by the banks, and for many members the result expressed as a percentage of average total assets and return on equity was down compared to 2006. Net interest income expressed as a percentage has been falling over the last ten years, although there are many indications that a reversal in this trend may have occurred during the course of the autumn of 2007.

As in previous years, the losses reported in 2007 were very low, virtually zero for most banks. Defaulted and exposed loans remain low, although the figures indicate that the downward trend is in the process of reversing.

The liquidity and capital adequacy figures reported by our members in 2007 were satisfactory.
However, the cost of funding increased in the second half of the year as a result of unrest on the financial markets. Although the financial crisis did not originate in conditions in Norway, there is no doubt that it had knock-on effects for Norwegian banks. Liquidity is generally the most vulnerable area and will need to be monitored closely in the coming period. Experience has taught us that liquidity shortages can trigger a crisis.

The results of the Guarantee Fund in 2007

2007 was a very turbulent year during which the Fund saw major fluctuations in return over the course of the year. New all-time highs on the stock market were followed by repeated corrections as a consequence of the rising fear of recession in the US economy. A falling US housing market and reports of heavy losses on exposed housing loans eventually triggered a financial crisis, as a result of which the return recorded for the year as a whole was significantly lower than in 2006, as well as being lower than the rate of return required for the long-term.

The profit recorded for 2007 was NOK 679 million, as compared with NOK 1 159 million in 2006. It is proposed that the profit be applied to the equity capital of the Fund.

The result of asset management gross of costs and fees totalled NOK 700 million. This represents a time-weighted rate of return of 4.2 per cent. Relative to index the Fund recorded a return that was 0.8 percentage points lower, equivalent to NOK 128 million.

The going concern assumption has been applied in the accounts. The Fund's holdings of securities are viewed as a trading portfolio, and market value has been applied in the accounts.

31.12.2007 Asset categories	Return (MNOK)	Return (%)	Excess return (MNOK)	Excess return (%)
Money market	221.4	4.5%	5.0	0.1%
Bonds	191.3	2.9%	-37.3	-0.5%
Equities	288.7	6.6%	-58.3	-1.7%
Absolute management	-1.4	-1.0%	-37.2	-5.3%
Total portfolio	**700.0**	**4.2%**	**-127.9**	**-0.8%**

The contributions by asset class

Equities accounted for 41 per cent of the result, money market for 32 per cent, bonds for 27 per cent, while absolute management made a marginally negative contribution. Thus whereas equities once more made the biggest contribution to result in nominal terms, this class of assets recorded the worst performance relative to index. Only money market assets recorded a positive contribution relative to index, and again, this was marginal. The table below shows the results for the various asset classes gross of fees. Because the portfolios are grouped differently, the table is not entirely comparable with the profit and loss account.

Return on money market investments totalled 4.5 per cent, compared with an index return of 4.4 per cent. Losses on higher credit exposure relative to index were more than balanced out by gains on interest rate positions.

The return on bonds was 2.9 percent, as against an index rate of return of 3.4 percent. A weak credit market resulted in low returns overall, whereas the underperformance can be attributed largely to losses on interest rate and foreign exchange positions in the global fixed income management.

Equities recorded a return of 6.6 percent, as compared with a return on index of 8.3 per cent. Norwegian equities reported a return of a very sound 17 per cent, as compared with an index return of 13.7 per cent. The return on global equities was zero, as compared with an index return of 4.6 per cent following a weak asset management performance.

Absolute management comprises various strategies within tactical allocation, Norwegian equities and credit. The return recorded was minus 1 per cent, as compared with an index return of 4.3 per cent. Losses on credit and tactical asset allocation exceeded gains on equities. As a result of poor liquidity and losses, active credit management was discontinued.

The performance of asset management

Overall, the asset managers recorded a negative performance last year, underperforming by NOK 128 million or minus 0.8 percentages points. The table below presents the relative performances of internal management and external management. It shows that value creation by internal management was positive, whereas external management's contribution was negative, a reversal of the situation in 2006.

The global fixed income manager and the global equities manager reported poor relative performances, whereas the internal equities managers and one of the external credit managers recorded excellent performances. These results reveal that 2007 was a difficult year for active management, with considerable variations in performance.

Other operating revenues

Other operating revenues totalled NOK 16.1 million in 2007, of which income relating to loans assumed from Ålesund og Giske Tunnel- og Bruselskap amounted to NOK 15.7 million.

Operating expenses

Operating expenses for 2007 totalled NOK 39.8 million, as compared with NOK 39.9 million in 2006. Higher wage and social costs as a consequence of increases in manning levels were counter-balanced by lower provisions for bonus payments.

The bonus programme for employees of the Asset Management Department is linked directly to the added value created. The scheme is based on a profit sharing model, in which profit is defined as the year's excess return less ordinary operating expenses. The total bonus payable is a percentage share of profits, and for 2007 NOK 0.8 million has been allocated for this purpose.

Total asset management costs, including bonuses, amounted to NOK 27.4 million. This made for an ordinary cost percentage for asset management of 0.16

Managers	Result	Return %	Excess return NOK	Excess return %
Internal Management	509.2	6.8%	27	0.3%
External Management	190.8	2.1%	-155	-1.7%
Total	**700.0**	**4.2%**	**-128**	**-0.8%**

before and after bonus in 2007. The equivalent figures last year were 0.15 and 0.18 per cent, respectively.

Financial position
At yearend, 39.1 per cent of the assets of the Fund were invested in government and government guaranteed certificates and bonds. The table below shows actual managed capital allocated between the various asset classes (excl. operating assets) and the equivalent allocation for the strategic index.

At the outset of the new year the Fund was tactically positioned for rising share prices and interest rates. At yearend, Value at Risk stood at 4.7 per cent and Tracking Error at 0.9 per cent which was well within the maximum limits applicable to both risk values.

Section 2-6 of the Guarantee Schemes Act requires the aggregate capital base of the Fund at all times to as a minimum equal the sum of 1.5 per cent of aggregate guaranteed deposits lodged with the members and 0.5 per cent of the sum of the measurement basis for the capital adequacy requirements. The minimum capital base requirement for 2008 has been estimated at NOK 17.7 billion. The equity capital of the Fund totalled NOK 17.2 billion. Thus at year-end, the Fund was undercapitalised by NOK 458 million.

Outlook for 2008
The start of the new year has been accompanied by considerable unrest, with crash-like conditions on the equities market. The financial unrest that developed over the course of 2006 proved to be more fundamental than had been feared. The failure of the housing market in the United States has resulted in heavy losses on exposed housing loans. The knock-on effects of these problems have caused fear of recession and that the banking system may be faced with far-reaching problems. The Federal Reserve cut interest rates by 1 percentage point last year and by a further 1.25 percentage points earlier this year. Further cuts are expected. Monetary policy alone cannot solve the problems, and accordingly extensive tax rebates have been proposed and are expected in the United States.

With the US economy in all probability in recession, it is likely that economic growth in the rest of the world will also suffer, although so far growth in Europe and Asia appears to be healthy. Nevertheless, expectations are falling and it is probably only a matter of time before other central banks are forced to lower their interest rates.

In Norway, activity levels in the economy are high and the labour market is tight. The Central Bank of Norway raised interest rates by 1.75 percentage points to 5.25 per cent in 2007 and has announced that further increases may be announced this year on expectations of accelerating price and wage growth.

No Norwegian bank has reported direct losses on US housing loans, or losses relating to structured loans, such as those invested in by certain Norwegian municipalities. Some increase in losses on securities and loans must be expected, and this, combined with downward pressure on margins, will mean that results in 2008 will probably be weaker than those recorded in 2007. Nevertheless, financial stability would seem to be balanced, even though growth is disquietingly high. The Board is of the view that, as in previous years, the industry will avoid crises, although it notes that the risk of a reversal in fortunes has increased.

For the Fund, the expectation is that 2008 will underperform 2007, which was not a good year. The unrest evident in the market last year and clearly present at the outset of 2008 may shape the market throughout 2008. Having said this, however, prices on

31.12.2007	**Market value (NOK million)**			**Weight (%)**		
Asset category	**Guarantee Fund**	**Ref. index**	**Diff.**	**Guarantee Fund**	**Ref. index**	**Diff.**
Money market	5 285	5 147	138	30.8%	30.0%	0.8%
Bonds	6 675	6 863	-188	38.9%	40.0%	-1.1%
Equities	4 441	4 289	151	25.9%	25.0%	0.9%
Absolute management	756	858	-102	4.4%	5.0%	-0.6%
Total portfolio	**17 157**	**17 157**	**0**	**100%**	**100%**	**0%**

the equities market are not alarmingly high and accordingly the Board maintains its view that in terms of return, equities represent a sound alternative for the long-term investor. Government bonds, on the other hand, seem to be overpriced, although this is normal in the type of market we are witnessing at present, where investors are shying away from risk.

Investment strategy 2008

Each year the Board reviews the investment strategy of the Fund. The current strategy was implemented in 2005. The review in 2007 took the form of a reality check in light of the financial crisis that hit markets in the late summer and autumn last year. Liquidity and credit risk, in particular, increased markedly, challenging the assumptions contained in the investment strategy then in place.

The triggering factor took the form of reports of heavy losses and defaults on housing loans in the United States, in parallel with clear signs of weakness on the housing market following many years of growth. Reports and rumours that banks and others were suffering problems in several countries created shock waves which spread to the capital markets worldwide forcing central banks to inject large quantities of cash in order to keep the wheels turning. Even so, the outcome was rising money market interest rates and a loss of liquidity which impacted on all types of credit bonds. Although the Fund had no direct investments in exposed housing loans, it saw an unfortunate concurrence of risk that was stronger than would normally be expected. Falling asset values and the loss of liquidity, combined with an increase in the risk of losses by banks, makes for a dangerous mix and one that the Board takes very seriously. In light of this situation the Board resolved to make certain changes to the investment strategy with a view to limiting unfortunate correlation of risk in future crises. The changes are discussed below.

The Fund's portfolio is broadly composed in terms of both assets and countries. The goal is to diversify investments with a view to achieving the highest possible return at the lowest possible risk. The Statutes impose certain restrictions on investments, one example being that the Fund is precluded from investing in equities, primary capital certificates or subordinated loan capital issued by its members, and moreover that the proportion of government bonds held must as a minimum make up one-third of the Fund's assets.

Furthermore, the investment strategy is designed to promote prudent management, a satisfactory return on investments, necessary liquidity and ethical management.

Liquidity and risk considerations were central to the decision by the Board to reduce future credit exposure in general and financial exposure in particular. A loss of liquidity across an entire asset class, breaches the liquidity considerations that follow from the Statutes. Moreover, we have seen that in a globalised economy, once a financial crisis reaches a certain momentum, it spreads quickly. For the Fund this has meant that the restriction under which investment in Norwegian banks is precluded could profitably be extended to apply globally. The choices have been made on the assumption that the adjustments will take place gradually with the aim of safeguarding the Fund's interests in the short and the long term.

Future credit exposure will be confined to money market investments, which will be reduced in scope by 15 percentage points to 20 per cent. Long bonds will be confined to government bonds, the share of which will be increased by 10 percentage points to 50 per cent by means of the introduction of inflation-linked bonds. In equities, exposure to banks generally and Norwegian equities in particular will be reduced, and replaced by other sectors. At the same time, it has been decided that the proportion of equities should be increased by 5 percentage points to 30 per cent by the introduction of equities in emerging markets. This latter move is motivated by a wish to maintain expected returns in the belief that emerging markets will continue to provide the highest economic growth over the coming years.

The Board has also decided to increase the number of asset managers in several asset classes. This will take place gradually over the course of 2008. Taken as a whole, it is thought that these changes will strengthen the liquidity of the Fund without reducing expected returns significantly.

Policy for supporting banks in crisis

The Board has on a number of occasions discussed the need to develop a policy for supporting banks in crisis. This subject was also touched upon by the project entitled The Management of Banks in Crisis. From a management perspective, it is of particular importance to devote special attention to this subject, and to this end the Board has tasked the administration with compiling a policy proposal for use as a guideline by the Fund in the event of future crisis situations.

In the assessment of the Board it is essential to ensure that the Fund has a variety of tools at its disposal should a crisis occur. Public administration may be the only solution available where losses are extensive. However, in other situations this approach may be both more costly and less beneficial for all parties concerned, including for Society as a whole. In a situation of this nature the Fund should exercise its statutory right to arrange for soulitions implying going concern. In a typical situation where time is of the essence it will be important for the Fund to put in place the prerequisites for a solution of this nature, including what will be required in order for continued trading to be justified and realised.

An agreed policy will have to be based on existing legislation and must enjoy the required degree of support from the regulatory authorities. The Board has therefore determined that the project group, on which all the relevant parties are represented, should be involved in the continuing work.

The Management of Banks in Crisis. Following up the report

Against the background of the report the Board adopted a decision to follow up certain issues raised by the management of the Fund. Priority should for example be given to the work on putting in place contingency plans for rapidly repaying guaranteed deposits, should a bank be taken under public administration. Moreover, the Board has given priority to the work of discussing solutions if a bank encounters problems. The other issues, which, inter alia, encompass funds transfer, security for loans granted by the Fund and notification of contact persons in the event of a crisis, will be presented to the Board on a continuous basis.

New members and the entrance fee

The Board takes a very critical view of the fact that new members are able to join the Guarantee Fund at virtually no cost. This issue is of particular pertinence when the Fund is fully capitalised. New banks are then granted access to a far-reaching deposit guarantee scheme in which existing members have paid for the risk that the Fund takes on in respect of new members. The Financial Supervisory Authority of Norway (FSA) and the two industry organisations have raised this issue with the Ministry of Finance on a number of occasions, but without response. In a letter dated 11 January 2007, the Guarantee Fund wrote to the Ministry of Finance adding its support to FSA proposal that new members of the Banks' Guarantee Fund should be required to pay an annual fee for five years, even if the Fund is fully capitalised. The Ministry of Finance has not responded to this approach.

Branch membership – topping up

To date, the Guarantee Fund has received applications for topping up from four branches. Two of these branches are new members of the Fund, while the third branch, Fokus Bank, changed its status from a subsidiary of Danske Bank to a branch of the same bank on 1 April 2007. In addition, Swedbank has applied for topping up from the Guarantee Fund. This application was reviewed by the Board of the Guarantee Fund at its meeting on 26 February 2008. The branches are domiciled in Sweden (two), Denmark and Iceland, respectively.

Agreements between the Norwegian Banks' Guarantee Fund and FNH/Norwegian Savings Banks Association

On 1 July 2004 the Guarantee Fund concluded an agreement with the Norwegian Financial Services Association (FNH) and the Norwegian Savings Banks Association, under which the Guarantee Fund would be able to draw on the resources of these two organisations in the event of a crisis in a bank. This agreement was renewed with the changeover of Manager on 1 July 2007. The background to this agreement is that in its day-to-day operations the Guarantee Fund would not have sufficient resources to handle a bank in crisis unaided.

Administrative issues

The Board of the Guarantee Fund, including the first deputy member, who is convened to all Board meetings, comprises five men and three women. The Board is fully aware of Society's expectations as regards measures to promote equality between the genders on the board and in the management of the Fund.

The Fund's manager is Arne Hyttnes, Managing Director of the Norwegian Savings Banks Association. He succeeded the Managing Director of the Norwegian Financial Services Association (FNH), Arne Skauge, on 1 July 2007. This change of Manager will not entail any significant changes in operations. The offices of the

Guarantee Fund are located at Universitetsgaten 8 in Oslo. The administrative staff of the Fund comprises 14 employees, four of whom are women.

The Fund has a corporate health service agreement. Absence due to illness in 2007 totalled 125 days or 4.3 per cent.

The activities of the Norwegian Banks' Guarantee Fund have no impact on the external environment, be it in the form of noise or emissions, and the working environment is considered to be satisfactory. No injuries or accidents in the workplace were reported during the course of the year.

Oslo, 26 February 2008

Finn Haugan
Chairman

Tom Grøndahl
Deputy Chairman

Jan Arveschoug

Kristin Gulbrandsen

Geir-Tore Nielsen

Gunn Wærsted

Bjørn Skogstad Aamo

Arne Hyttnes,
Manager

Profit and loss account

	NOTE	2007	2006
Levy received from members	11	1 083 875	499 670
Result of asset management activities			
Interest on bank deposits		9 020 118	4 218 894
Result fixed income instruments	12	335 238 709	288 957 354
Result equities portfolios	13	356 941 962	890 580 314
Result of asset management		701 200 789	1 183 756 562
Other operating revenues	14	16 126 495	14 367 553
Other operating expenses	15	-39 775 323	-39 936 190
Profit for financial year		678 635 836	1 158 687 595
Appropriation of profits			
Transferred to the Guarantee Fund's equity		678 635 836	1 158 687 595

Balance sheet

	NOTE	31.12.2007	31.12.2006
ASSETS			
Bank deposits	2	243 573 112	154 718 557
Loans	3	19 478 812	28 174 812
Bonds and certificates	4	12 457 516 359	11 809 410 170
Shares	5	4 962 730 319	4 395 872 319
Tangible fixed assets	6	651 572	680 539
Other receivables	7	75 274 553	49 018 719
Accrued interest not due	8	136 006 362	143 390 835
Total assets		17 895 231 089	16 581 265 951
LIABILITY AND EQUITY			
Other liabilities	9	679 235 974	43 510 517
Provision for commitments	10	10 869 549	11 265 704
Total liabilities		690 105 523	54 776 221
Equity of Guarantee Fund	1	17 205 125 566	16 526 489 730
Total liabilities and equity		17 895 231 089	16 581 265 951

Oslo, 26 February 2008
31 December 2007

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Arne Hyttnes
Manager

Notes to the accounts as at 31 December 2007

General comments

Membership of the Norwegian Banks' Guarantee Fund is mandatory for all savings banks and commercial banks in Norway. The King may decree that in addition to banks, other credit institutions are also required to be members of the Guarantee Fund. Credit institutions headquartered in other EEA states receiving deposits from the general public through branches in Norway have the right to join the deposit guarantee scheme if the deposit guarantee scheme in the home state of the branch is not considered to provide the branch's depositors with protection equal to that provided under the Act.

The accounts of the Norwegian Banks' Guarantee Fund are set out in accordance with the provisions of the Guarantee Schemes Act, the Statutes of the Guarantee Fund, the Accounting Act and generally accepted accounting practice. The format has been adapted to the activities of the Guarantee Fund.

Principles applied in valuing financial instruments

General comments

The Fund's holding of securities and financial contracts is valued as a trading portfolio and these holdings are recorded at market value. Where available, the official closing price in the market is used for all types of securities. The primary source is FT Information (FTI), followed by Bloomberg Data from Reuters is used to supplement this information where necessary. All listed securities are priced at the official published closing prices.

Equities

The last traded price is the norm, but in special cases manual prices may be sought from brokers.

Bonds/certificates

The official purchase price is the norm. Where this is not available manual prices are sought from brokers. In the case of bonds, if no official stock exchange price is available, an ICMA quotation, Bloomberg generic price or an estimated price from FTI will be applied.

Financial derivatives

The Guarantee Fund conducts continuous market value calculations for all derivatives. These calculations are based on observed market values for instruments where these are available. If the market value is not directly available, market values will be calculated on the basis of underlying market prices using mathematical models that are generally accepted for the purpose of pricing instruments of this type.

Stock options

All options are priced on the basis of the JPM Futures interface, which uses Reuters prices. Over the counter options (OTC) are valued by fund managers or brokers.

Stock futures/interest rate futures

All futures are priced using the JPM Futures interface, which uses Reuters prices. Stock and interest rate futures are settled daily on the basis of the preceding day's market movements. Value changes on futures contracts are booked on an ongoing basis as realised result.

Interest rate swaps

Swaps are valued with the aid of a fund manager or broker. Accrued interest income and interest expense on interest rate swaps is recognised in the Profit and Loss Account on a continuous basis.

FRAs

FRAs are recorded at market value and settled at the start of the period to which the agreement relates.

Forward foreign exchange contracts
Forward foreign exchange contracts are primarily used for currency hedging securities and other financial instruments. The contracts are recorded at market value.

Foreign currency
Shares, bonds, certificates, liquid assets, receivables and debt are converted at the rate of exchange applicable on the balance sheet date as provided by WM Reuters at 4 p.m. London Close Spot.

Miscellaneous valuation principles

Accrual - recognition as income
Interest is recorded in the Profit and Loss Account as income when earned, in line with the general accounting principles provided for in the Accounting Act. Prepaid income and accrued but not paid expenses are accrued and recorded as debt in the Balance Sheet. Earned income not received is taken to income and recorded as a receivable in the Balance Sheet. Dividend on shares is taken to income on the ex-date and registered as a receivable until payment is confirmed.

Pension costs and commitments
The year's pension cost is recorded net in the Profit and Loss Account. Net pension commitment is calculated and recorded as a long-term debt in the Balance Sheet. Net pension commitment is calculated as the difference between gross pension commitment and pension assets in the insurance and pension premium fund. Gross pension commitments are the present value of expected future pension benefits. Corrections are made to the net pension commitment for estimate variances and the effect of changes in underlying assumptions. Changes in pension commitments and pension fund assets that come about as a consequence of changes in and deviations from the assumptions underlying the calculations (estimate changes) are recognised in the profit and loss account as estimated pension expense as they occur.

Tangible fixed assets
Ordinary tangible fixed assets are recorded in the accounts at acquisition cost less accumulated depreciation. Depreciation for the year is charged to the year's operating expenses and are included in this item.

All figures in the notes to the accounts are in NOK, save as otherwise stated.

Note 1
The capital base of the Guarantee Fund
The size or aggregate capital base of the Guarantee Fund is defined in Section 2-6 of the Guarantee Schemes Act and shall at all times at least equal the sum of 1.5 per cent of aggregate guaranteed deposits with the members plus 0.5 per cent of the sum of the measurement basis for the capital adequacy requirements for member institutions. Members pay an annual fee to the Guarantee Fund, unless the equity capital of the Fund as stated in the most recent annual accounts exceeds the minimum requirement.

Minimum size of the capital base in 2008
The statutory capital base in 2008 is calculated on the basis of the average of guaranteed deposits and the average measurement base for the two last quarters of 2006 and the two first quarters of 2007.

1.5 % of average guaranteed deposits	660 014 mill	9 900 213 990
0.5 % of average measurement base	1 552 524 mill	7 762 621 745
Minimum size of capital base		17 662 835 735
Equity capital Banks' Guarantee Fund at 31.12.2007		17 205 125 566
	Shortfall at 01.01.2008	-457 710 169

Minimum size of the capital base in 2007
The statutory capital base in 2007 is calculated on the basis of the average of guaranteed deposits and the average measurement base for the two last quarters of 2005 and the two first quarters of 2006.

1.5 % of average guaranteed deposits	604 992 mill	9 074 874 840
0.5 % of average measurement base	1 378 445 mill	6 892 226 710
Minimum size of capital base		15 967 101 550
Equity capital Banks' Guarantee Fund at 31.12.2006		16 526 489 730
	Surplus at 01.01.2007	559 388 180

Minimum size of the capital base in 2006
The statutory capital base in 2006 is calculated on the basis of the average of guaranteed deposits and the average measurement base for the two last quarters of 2004 and the two first quarters of 2005.

1.5 % of average guaranteed deposits	573 616 mill	8 604 234 180
0.5 % of average measurement base	1 157 930 mill	5 789 648 860
Minimum size of capital base		14 393 883 040
Equity capital Banks' Guarantee Fund at 31.12.2005		15 367 802 135
	Surplus at 01.01.2006	973 919 095

The equity of the amalgamated fund has developed as follows: For the period prior to 2004 the equity capital and profits of the two merged funds have been combined (figures in NOK million)

	2007	2006	2005	2004	2003
Equity capital 01.01.	16 526	15 368	14 036	12 303	9 433
Change in equity capital during period	679	1 158	1 332	1 733	2 870
Equity capital 31.12.	17 205	16 526	15 368	14 036	12 303

Note 2
Bank deposits
Tax withholding funds deposited in a dedicated account total NOK 704 017. Of the bank deposits, NOK 79 831 716 is in foreign currency. Foreign currency holdings were converted at the rate of exchange as at 31.12.2007 and break down into the following currencies:

NOK	163 741 396
EUR	31 648 381
USD	26 922 060
GBP	13 640 882
JPY	6 197 984
CAD	3 119 951
HKD	1 505 210
CHF	620 236
AUD	591 819
PLN	264 642
SEK	66 462
DKK	44 485
SGD	16 785
ZAR	52
NZD	-4 807 233
Total	243 573 112

Note 3
Loans
Loans to Ålesund og Giske Tunnel og Bruselskap (ÅGTB) were assumed by the Commercial Banks' Guarantee Fund in connection with the banking crisis. The loan agreements between ÅGTB and other creditors provide that interest and instalments on the loans are to be serviced by means of toll revenues from the tunnels. The Ministry of Transport decided in 1998 that the period during which tolls could be levied would come to an end in 2009. Because the toll revenues are not sufficient to cover both interest and instalments, a write-down plan has been drawn up for the remaining balance of the loans, according to which the balances of the loans will be written down to zero in 2009. In 2007, NOK 24 401 308 was paid in, of which NOK 8 696 000 has reduced the amount outstanding under the write-down plan and the remaining NOK 15 705 308 has been recognized as income under Other income in the accounts, see Note 14 Other Operating Income.

The loan item includes 630 shares in Ålesund og Giske Tunnel og Bruselskap (ÅGTB), with a nominal value of NOK 1,000 each. The shareholding was written down to NOK 1 in 1995.

	31.12.2007	**31.12.2006**
Shares in ÅGTB	1	1
Loan to Ålesund og Giske Tunnel og Bruselskap	324 799 382	324 799 382
Writing down of loan	-305 320 571	-296 624 571
Net loan tunnel project ÅGTB	19 478 812	28 174 812

Note 4
Bonds and certificates

Debtor category	Original cost	Market value
Public sector		
Bonds	2 428 202 750	2 322 195 391
Commercial papers	3 845 484 908	3 885 473 427
Other issuers		
Bonds	6 201 356 953	5 834 058 003
Commercial papers	415 726 491	415 789 538
	12 890 771 102	12 457 516 359

In total, the market value/book value is 433 254 743 lower than cost price.

Bonds and commercial papers are held in the following currencies (figures in NOK 1000)

EUR	5 220 214
NOK	4 724 453
USD	2 212 201
CAD	235 457
GBP	65 191
Total	12 457 516

Debtor category	Modified duration	Redemption yield
Public sector	2.05	1.91
Bonds	1.59	2.77
Commercial papers	2.31	1.39
Other issuers	0.33	5.15
Bonds	0.34	5.09
Commercial papers	0.22	6.01

Note 5
Shares

Summary	Purchase price	Market value
Norwegian shares listed on Oslo Stock Exchange	1 991 167 967	2 213 135 116
Unlisted shares	5 670 000	7 560
Foreign shares listed on Oslo Stock Exchange	331 330 049	304 211 888
Foreign shares listed on foreign stock exchanges	2 453 185 290	2 440 313 067
Global equity funds	5 373 122	5 062 688
Total	4 786 726 427	4 962 730 319

In total, the market value/book value is NOK 176 003 891 higher than the purchase price of the shares.

Holdings of shares/equity funds at 31.12.2007

Norwegian shares listed on Oslo Stock Exchange	Number	Stake	Purchase price	Market value
Statoilhydro	2 858 891	0.09 %	402 317 498	483 152 579
Orkla	2 137 400	0.21 %	173 030 159	224 961 350
Telenor	1 663 800	0.10 %	193 943 047	215 878 050
Yara International	652 400	0.22 %	106 471 122	164 078 600
Norsk Hydro	1 372 630	0.11 %	104 806 431	106 516 088
Renewable Energy Corp	352 674	0.07 %	86 222 230	97 338 024
Petroleum Geo Services	555 690	0.31 %	79 280 048	87 660 098
Seadrill	427 473	0.11 %	50 552 712	56 640 173
Aker Kvaerner	352 250	0.13 %	57 152 298	50 900 125
Sevan Marine	571 000	0.32 %	36 243 603	46 822 000
Aker Yards	644 100	0.57 %	53 664 257	39 934 200
Prosafe	375 900	0.16 %	23 970 988	35 522 550
Fred Olsen Energy	117 030	0.18 %	31 891 741	34 816 425
Songa Offshore	424 400	0.49 %	27 373 725	31 193 400
Tandberg	236 500	0.21 %	28 933 890	26 842 750
Schibsted	112 960	0.16 %	30 010 864	26 602 080
TGS Nopec Geophysical	341 040	0.32 %	29 769 401	25 441 584
Cermaq	331 600	0.36 %	25 593 365	25 035 800
Ementor	601 200	0.63 %	24 915 846	24 769 440
Blom	315 000	0.76 %	21 999 899	23 625 000
Norske Skogindustrier	513 626	0.27 %	32 957 959	23 215 895
Rocksource	11 503 000	1.97 %	17 223 587	23 006 000
Subsea 7	180 800	0.12 %	24 426 065	21 967 200
Kongsberg Automotive	511 400	1.15 %	19 413 066	20 507 140
Norse Energy Corp.	4 143 000	1.17 %	17 171 716	18 892 080
Aker Drilling	420 000	0.45 %	15 799 771	17 850 000
Aker	51 520	0.07 %	18 826 049	17 465 280
DNO International	1 722 000	0.19 %	19 820 879	17 357 760
Revus Energy	215 000	0.52 %	18 304 123	16 985 000
Ocean Rig	425 000	0.25 %	18 290 906	16 872 500
Marine Harvest	4 828 000	0.14 %	25 042 935	16 849 720
Fast Search And Transfer	971 000	0.29 %	14 508 498	13 691 100
Wilh. Wilhelmsen A	57 100	0.15 %	9 713 456	12 105 200
Wilh. Wilhelmsen B	7 150	0.06 %	1 465 611	1 394 250
Wavefield Inseis	282 000	0.22 %	13 451 248	11 928 600

EDB Business Partner	282 969	0.31 %	12 679 237	11 516 838
Data Respons	566 500	1.52 %	8 667 431	9 743 800
Ekornes	96 400	0.26 %	10 344 206	9 206 200
Scana Industrier	447 300	0.27 %	7 750 755	8 453 970
Hafslund A	51 800	0.04 %	7 400 820	8 080 800
Hafslund B	1 550	0.00 %	238 495	241 800
Eltek	258 600	0.96 %	8 530 987	7 499 400
Veidekke	144 400	0.10 %	6 951 826	7 328 300
Tomra Systems	170 600	0.10 %	6 971 888	6 568 100
Awilco Offshore	106 700	0.07 %	6 671 158	6 487 360
Pronova Biopharma	277 000	0.09 %	6 242 804	6 094 000
Austevoll Seafood	150 600	0.08 %	8 029 697	5 948 700
Stepstone	246 700	0.19 %	5 298 419	5 920 800
Lerøy Seafood Group	48 000	0.09 %	4 979 904	5 280 000
Camillo Eitzen & Co	63 000	0.15 %	4 239 683	4 725 000
Norwegian Air Shuttle	27 400	0.13 %	2 488 387	4 630 600
Komplett	23 700	0.14 %	2 731 755	2 938 800
DOF Subsea	67 600	0.06 %	2 456 397	2 832 440
BWG Homes	87 800	0.13 %	3 443 061	2 748 140
Copeinca	53 800	0.09 %	2 147 799	2 609 300
Opera Software	183 000	0.15 %	2 359 418	2 360 700
Seabird Overseas	96 400	0.12 %	2 138 342	1 937 640
Odfjell A	18 100	0.03 %	2 005 028	1 610 900
Odfjell B	25 000	0.12 %	2 430 232	1 775 000
Mamut	102 000	0.18 %	1 580 949	1 632 000
Nordic Semiconductor	71 000	0.20 %	1 562 000	1 597 500
Eitzen Chemical	60 000	0.03 %	1 493 357	1 374 000
Salmar	26 000	0.03 %	1 046 219	1 144 000
Superoffice	32 000	0.15 %	963 308	1 075 200
Itera	140 000	0.16 %	733 968	763 000
Profdoc	23 600	0.12 %	708 000	755 200
Lighthouse Caledonia	62 420	0.18 %	1 173 092	322 087
BW Gas	2 100	0.00 %	150 349	115 500
Total			1 991 167 967	2 213 135 116

Unlisted shares

Safetel	1 890	0.05 %	5 670 000	7 560
Sum			5 670 000	7 560

Foreign shares listed on Oslo Stock Exchange	Number	Stake	Purchase price	Market value
Acergy	398 150	0.20 %	54 293 215	48 275 688
Golden Ocean	1 421 800	0.52 %	51 952 701	47 985 750
Royal Caribbean Cruises	145 700	0.07%	36 903 448	33 365 300
Stolt-Nielsen	202 150	0.34 %	31 788 265	32 748 300
PA Resources	733 400	0.51 %	38 213 071	32 636 300
Deep Sea Supply	983 200	0.76 %	23 414 384	24 285 040
Frontline	86 900	0.12 %	22 801 817	22 680 900
Jinhui Shipping	350 800	0.42 %	24 789 209	20 697 200
SAS	263 800	0.16 %	21 164 070	18 136 250
Golar LNG	77 000	0.11 %	8 878 015	9 163 000

BW Offshore	207 000	0.05 %	5 488 043	4 740 300
Usgamma Gamma Medica	119 470	1.63 %	7 034 860	4 539 860
Vizrt	63 000	0.10 %	2 260 487	2 425 500
Funcom	53 500	0.10 %	1 198 463	1 337 500
Medi-Cult	50 000	0.18 %	1 150 000	1 195 000
Total			331 330 049	304 211 888

Foreign shares listed on foreign stock exchanges with a market value in excess of NOK 7 million.	**Currency**	**Purchase price**	**Market value**
In one company the Guarantee Fund holds shares with a market value of NOK 2.1 million, equivalent to a 2.3 per cent stake. In the other companies, the Guarantee Fund holds no stake greater than 0.07 per cent in any of the foreign companies.			
BHP Billiton	AUD	8 306 605	11 110 639
Nestle	CHF	15 889 452	15 996 176
Novartis	CHF	12 023 398	11 674 529
Roche Hldg	CHF	11 795 422	11 137 215
UBS	CHF	10 128 073	8 867 332
Total	EUR	14 651 888	15 407 466
Nokia	EUR	8 197 682	13 483 273
Telefonica	EUR	9 917 568	12 721 840
E.On	EUR	11 455 608	11 967 126
Banco Bilbao Vizcaya	EUR	11 850 028	11 902 641
Siemens	EUR	9 446 669	11 368 661
BNP Paribas	EUR	10 041 951	9 755 572
Unicredito Italiano	EUR	10 230 687	9 353 006
Allianz	EUR	8 765 043	9 330 488
Eni	EUR	9 101 457	8 885 278
Sanofi-Aventis	EUR	8 528 026	8 614 159
Daimler	EUR	8 058 568	8 544 985
BASF	EUR	6 376 232	7 150 587
ING Groep	EUR	8 887 085	7 039 966
HSBC Holdings	GBP	23 385 264	20 928 683
BP	GBP	20 872 042	20 381 232
Vodafone	GBP	16 862 900	17 352 007
Royal Dutch Shell A	GBP	13 826 402	14 372 251
Royal Dutch Shell B	GBP	10 396 005	10 697 541
Glaxosmithkline	GBP	13 454 469	13 356 739
Rio Tinto	GBP	6 427 533	9 792 252
Royal Bank Of Scotland	GBP	15 364 477	9 476 194
Tesco	GBP	7 844 097	7 455 225
BG	GBP	6 477 814	7 242 688
Barclays	GBP	7 286 518	7 030 790
Toyota Motor	JPY	11 806 504	13 093 270
Mitsubishi	JPY	8 095 553	7 577 357
Exxon Mobil	USD	34 512 510	45 825 227
General Electric	USD	41 023 393	38 235 005
Microsoft	USD	21 842 176	25 866 989
AT&T	USD	20 547 952	21 826 728
Procter & Gamble	USD	20 361 104	21 009 759
Chevron	USD	15 636 637	17 747 012
Johnson & Company	USD	18 360 080	17 339 299
Bank Of America	USD	21 654 500	16 393 358
Apple	USD	8 239 187	15 505 052

Altria	USD	13 899 841	14 999 684
Cisco Systems	USD	12 302 656	14 873 370
Google	USD	10 839 603	14 391 507
Pfizer	USD	18 417 672	14 317 024
Intel	USD	13 733 097	13 433 999
International Business Machines	USD	12 928 925	13 006 597
Jpmorgan Chase & Co	USD	13 621 873	12 929 531
Citigroup	USD	21 900 980	12 626 929
Verizon Communications	USD	12 093 823	12 176 075
Hewlett-Packard	USD	7 784 939	11 964 140
Merck & Co	USD	10 896 275	11 886 908
American International	USD	13 448 578	11 763 696
Coca-Cola	USD	10 995 002	11 630 390
Pepsico	USD	11 090 810	11 117 913
Wal-Mart Stores	USD	11 041 614	10 089 926
Schlumberger	USD	10 103 528	9 951 991
Wells Fargo & Co	USD	9 204 334	9 262 213
Oracle	USD	6 593 414	8 707 234
Abbott Labs	USD	7 681 092	7 843 804
United Technologies	USD	6 937 992	7 237 271
Miscellaneous (986)	(Misc.)	1 659 740 683	1 623 287 270
Total		2 453 185 290	2 440 313 067

Global equity funds

Morgan Stanley Cap '61'	USD	5 373 122	5 062 688

Gross foreign exchange exposure on foreign shares and units of all types breaks down as follows:
Foreign exchange risk on the foreign shares is hedged.

	Translated to NOK 1000
USD	1 166 870
EUR	431 847
GBP	285 127
JPY	236 462
NOK	304 212
CAD	98 363
AUD	74 752
SEK	22 572
HKD	26 442
CHF	82 101
SGD	11 261
DKK	8 400
NZD	1 180
	2 749 588

Note 6
Tangible fixed assets

	2007		2006	
	Vehicles	Inventory	Vehicles	Inventory
Purchase price 01.01.	347 000	781 309	347 000	500 000
Purchases	371 743	0	0	281 309
Disposals	171 500	0	0	0
Gains on sales	17 500	0	0	0
Purchase price 31.12.	564 743	781 309	347 000	781 309
Accum. depreciation 01.01.	154 000	293 770	102 000	100 000
Year's depreciation	52 940	193 770	52 000	193 770
Accum. depreciation 31.12.	206 940	487 540	154 000	293 770
Book value 31.12.	357 803	293 769	193 000	487 539
Total tangible fixed assets	651 572		680 539	

The Guarantee Fund's tangible fixed assets are depreciated at the following rates:

Vehicles	15 % of purchase price
Renovation	20 % of purchase price
Inventory	1/3 of purchase price

Note 7
Other receivables

	31.12.207	31.12.2006
Dividend	2 991 886	2 596 146
Refundable withholding tax	2 474 545	481 579
Other receivables	3 682 721	2 486 212
Currency derivatives, market value	66 125 401	33 955 227
Share derivatives, market value	0	9 499 555
Total	75 274 553	49 018 719

Currency derivatives

	Market value
Currency swap agreements	1 232 846
Currency options, Call	822 043
Currency options, Put	724 111
Forward contracts	63 346 400
	66 125 401

Forward contracts

	Net nominal volume	Market value
NZD	197 156 922	-271 412
AUD	137 171 001	3 939 305
SEK	100 951 819	-463 346
PLN	5 528 057	-5 735
CHF	-7 232 206	561 850
DKK	-8 380 261	180 509
SGD	-11 434 935	169 047
HKD	-28 357 753	688 497
GBP	-265 903 122	13 025 987
JPY	-565 246 499	9 671 085
CAD	-860 785 701	-9 827 953
USD	-2 582 545 837	17 441 555
EUR	-6 459 224 500	28 237 010
Total:	10 348 305 014	63 346 400

Options
Options are used to exploit the scope for return on the fixed income and stock market.

Currency swaps
Currency rate swaps are used both to control exchange rate risk and to take up active positions in the money market.

Financial forwards
Financial forwards are used to exploit the scope for return on the stock market.

Note 8
Accrued interest not yet due
Accrued interest not yet due in the amount of NOK 136 006 362 as at 31.12.2007 relates to Norwegian and foreign commercial papers and bonds.

Note 9
Other liabilities

	31.12.2007	31.12.2006
Unsettled trades, asset management	2 915 586	24 264 290
Advance deduction, Employer's National Insurance contribution	1 256 664	1 454 636
Bonus	722 000	4 080 000
Miscellaneous other debt/accrued expenses	5 801 814	5 742 598
Stock derivatives, market value	936 500	0
Interest rate derivatives, market value	3 048 895	7 968 995
Short positions	664 554 515	0
	679 235 974	43 510 517

Stock derivatives

	Market value
Financial futures	-936 500
	-936 500

Interest rate derivatives

	Market value
Financial Futures	
Interest	-1 309 951
Bonds	-5 332 467
Bond index	4 618 982
Credit derivatives	2 607 911
Options	
Interest rates	894 853
Bond index	667 872
Interest rate swaps	-5 196 095
	-3 048 895

Short positions

	Market value
Equities	-610 212 552
Bonds	-54 341 963
Total	-664 554 515

Options
Options are used to exploit the scope for return on the fixed income and stock market.

Interest rate swaps
Interest rate swaps are used both to control interest rate risk and to take up active positions in the fixed income.

Financial futures
OBX-, bond, interest rate and share index futures are used to take up active positions in the market.

Credit derivatives
Credit default swaps are used to hedge or to take up active positions in the credit market.

Note 10
Pension costs, pension commitments and pension fund assets
The Guarantee fund has a defined benefit pension scheme for employees and retired personnel which is covered under an agreement with an insurance company. The pension benefits cover retirement pension, disability pension, spouses and children's pension and supplements the benefits paid under the Norwegian National Insurance Scheme. The arrangement follows the Occupational Pensions Act. This agreement is referred to in the following as secured benefits.

The Guarantee Fund has had a group annuity insurance for pension rights for pay of over 12 G (G = the basic National Insurance amount). As a result of changes to the pension regulations, this agreement was wound up with effect from 31 December 2006, and a decision has been adopted to introduce a new scheme providing retirement pension, children's pension and surviving spouses' pension which will be funded from the operations of the Guarantee Fund. Disability pension for pay in excess of 12 G will be secured by means of an annual premium to an insurance company.

Pension agreements for which insurance cover has not been taken out are referred to as unsecured pension commitments and cover the following:
– With effect from 2007 onwards pension commitments (except disability pensions) relating to pay of over 12 G will be covered under an administrative pension scheme.
– Membership of the early retirement pension scheme for the financial services industry (CPA) between the ages of 62 and 67 years
– Current pensions - agreed take-up of CPA early retirement with severance package
– Early retirement at age 62 for the two heads of department of the Banks' Guarantee Fund
– Supplementary pensions for retired personnel. These benefits are only covered in part by the collective agreement and the commitments relating to the unsecured benefits are included in the pension commitment.

The pension commitment as at 31 December 2007 is calculated as the present value of those parts of future pension benefits that have been earned as at the balance sheet date. The earnings period for the CPA commitment is calculated from the date of employment. Estimated value is used for the purpose of valuing pension fund assets as at 31 December 2007.

The Balance sheet shows the difference between pension commitments and pension fund assets. Changes in the pension commitment and pension funds assets that come about as a result of changes in and deviations from the underlying assumptions (estimate changes) are recognised in the Profit and Loss Account on a continuous basis as calculated pension costs (referred to below as actuarial gain/loss). In addition, the effect of plan changes relating to pay of over 12 G was recognised in the Profit and Loss Account in 2007.

The actuarial calculations are based on the updated Norwegian Accounting Standard No. 6: Pension costs.

The NAS Guidelines on pension assumptions has been applied for the purpose of determining the economic assumptions underlying the pension commitments. The calculations are based on the following economic and demographic data:

	2007	2006		2007	20056
Discount rate	4.80%	4.55%	Expected growth in pay	4.50%	4.50%
Expected return	5.8%	5.60%	Expected adjustment, G value	4.25%	4.25%
Take-up tendency CPA (on all age stages during the CPA period)	70%	70%	Expected reg. of pensions	2.00%	2.00%
Demographic assumptions regarding mortality *	K2005	K1963			
Number of occupationally active personnel	15	12	Number of retired personnel	6	6

*) The calculation for 2007 is based on statistical assumptions about population mortality contained in statistics from 2005. Calculations conducted in previous years used statistics from 1963.

Pension cost		**2007**			**2006**	
Profit and Loss Account	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Present value of year's pension earnings (incl. ENIc)	2 289 297	673 318	2 962 615	2 188 619	621 457	2 810 076
Interest expense on accrued commitment	1 114 065	303 431	1 417 496	1 157 981	287 557	1 445 538
Expected return on pension fund assets	-1 069 686	-	-1 06 9 686	-1 095 257	-	-1 095 257
Plan change	-1 668 758	2 565 459	896 701	-	-	-
Administration costs *)	-	-	-	66 794	-	66 794
Pension cost before actuarial variances	664 918	3 542 208	4 207 126	2 318 137	909 014	3 227 151
Actuarial gain/loss on pension fund assets recorded in P&L account	-1 049 401	-	-1 049 401	448 351	-	448 351
Actuarial gain/loss on pension fund commitments recorded in P&L account	-1 742 094	626 638	-1 115 456	-3 232 140	521 436	-2 710 704
Total	-2 126 577	4 168 846	2 042 269	-465 652	1 430 450	964 798
Accrued pension premium carried back	-75 000	-	-75 000	-75 000	-	-75 000
Net pension cost recorded in P&L account in period	-2 201 577	4 168 846	1 967 269	-540 652	1 430 450	889 798

*) With effect from 2007 (inclusive) paid up costs are included in the calculation.

Pension commitment		**2007**			**2006**	
Balance Sheet	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Estimated accrued pension commitment (incl. ENIc)	21 646 685	10 597 864	32 244 549	25 368 090	6 908 614	32 276 704
Estimated value of pension fund assets	-21 550 000	-	-21 550 000	-21 261 000	-	-21 261 000
Net pension commitments in accounts	96 685	10 597 864	10 694 549	4 107 090	6 908 614	11 015 704
Allocated pension premium			175 000			250 000
Total			10 869 549			11 265 704

Year's change in pension commitments

Pension commitments	**2007**	**2006**
Opening balance at 01.01.	32 276 704	32 236 312
Year's earnings	2 962 615	2 810 076
Year's interest expense	1 417 496	1 445 538
Payments to retirees and payment of ENIc on premium	-1 704 683	-1 504 518
Plan change	-1 592 127	-
Actuarial gain/loss (net)	-1 115 456	-2 710 704
Closing balance at 31.12.	32 244 549	32 276 704

The structure of the pension fund assets

Pension fund assets	**2007**	**2006**
Estimated pension fund assets at 01.01.	21 261 000	19 213 419
Actuarial gain/loss	1 049 401	-448 351
Actual pension fund assets at 01.01.	22 310 401	18 765 068
Forecast return on pension fund assets	1 069 686	1 095 257
Premiums paid	1 651 032	2 426 030
Pensions paid out	-992 291	-958 561
Costs	-	-66 794
Plan change	-2 488 828	-
Estimated fund assets at 31.12	21 550 000	21 261 000

Note 11
Levy received from member banks
The annual levy for 2007 is calculated in accordance with the provision of the Guarantee Schemes Act and the regulations on the calculation of the levy payable to the Norwegian Banks' Guarantee Fund. Briefly stated, the annual levy is calculated on the basis of the average of guaranteed deposits (0.1%) and the measurement base for capital ratio (0.05%) as at the end of the third and fourth quarter 2005 and first and second quarter 2006. Members with a tier 1 capital ratio in excess of 8.0% as at 31 December 2005 are granted a discount on their annual fee. The maximum discount is 35% for a tier 1 capital ratio of 16.75%.

In view of the fact that the Banks' Guarantee Fund was fully capitalised as at 1 January 2007 no ordinary levy was called up from the members in 2007.

The levy of NOK 1 083 875 paid up in 2007 was received from newly formed banks, which according to the regulations are required to pay a levy for a minimum of 12 months.

yA Bank AS	Remainder fee 6 months	61 750
Gjensidige Bank	Fee for 12 months	525 000
Fokus Bank	Entry fee	451 000
Norwegian Bank	Fee 1.5 months	46 125
Total		1 083 875

Note 12
Result portfolios of fixed income instruments

	2007	2006
Interest received bonds/certificates	552 409 503	450 948 777
Realised capital gains/losses (*)	108 058 278	-78 816 366
Unrealised capital gains/losses (*)	-325 229 071	-83 175 057
	335 238 709	288 957 354

(*) Specification of realised capital gains/losses	2007	2006
Bonds/commercial papers	-395 884 101	-101 027 637
Forex contracts	452 905 150	-10 911 438
Short sales	21 094 226	27 290 192
Derivatives	48 984 508	10 021 696
Miscellaneous	-10 568 314	275 834
Costs	-8 473 191	-4 465 012
	108 058 278	-78 816 366

Note 13
Result equities portfolios

	2007	2006
Share dividends	102 169 521	81 057 456
Realised capital gains/losses (*)	617 644 423	807 826 407
Unrealised capital gains	-362 871 982	1 696 451
	356 941 962	890 580 314

(*) Specification of realised capital gains/losses	2007	2006
Shares	318 757 001	733 095 909
Forex contracts	168 441 807	74 219 810
Short sales	12 257 283	115 716
Derivatives	127 229 419	2 646 268
Miscellaneous	-6 400 853	471 283
Costs	-2 640 234	-2 722 580
	617 644 423	807 826 407

Note 14
Other operating revenues

	2007	2006
Refund, withholding tax pre-2004	86 330	0
Net income Ålesund og Giske Tunnel og Bruselskap (see note 3)	15 705 308	14 235 908
Net income from courses	334 857	131 645
	16 126 495	14 367 553

Note 15
Other operating expenses

	2007	2006
Salaries, fees and social costs	14 348 607	15 002 260
Administration and operating costs	14 466 467	14 334 048
Costs external managers	10 713 539	10 354 112
Ordinary depreciation	246 710	245 770
	39 775 323	39 936 190

Information on employees and officers

Total number of employees as at 31 Dec. 2007: 14			2007	2006
Salaries, fees in total			9 795 318	7 731 853
of which paid out in 2007:	Chairman	29 500		
	Other board members	106 500		
	Manager	100 602		
Bonus, asset management			722 000	4 080 000
National Insurance contributions			1 792 661	2 077 532
Pension costs			1 675 206	820 849
Social costs			363 422	292 026
			14 348 607	15 002 26 0

No special payments have been agreed in the event of the termination of or changes to the terms of employment or office of the Manager or Chairman of the Board.

Auditor's fee etc.	2007	2006
Remuneration for statutory audit incl. VAT	176 816	121 488
Remuneration for other attestation services	0	0
Remuneration for tax advisory services incl. VAT	114 768	1 104 296
Remuneration for other services	0	0

Cash Flow Statement

	2007	2006
Profit for year	678 635 836	1 158 687 595
Gain on sale of tangible fixed assets	-17 500	0
Ordinary depreciation	246 710	245 770
Contributed from year's activities	678 865 046	158 933 365
Investment in tangible fixed assets	-371 743	-281 309
Sale of tangible fixed assets	171 500	0
Increase in holding of bonds	-648 106 189	-645 085 323
Increase shareholdings	-566 858 000	-348 281 552
Reduction accrued interest not yet due	7 384 473	14 720 473
Increase other receivables	-26 255 834	-39 660 575
Reduction in loans	8 696 000	8 051 900
Reduction in provisions for commitments	-396 155	-2 082 189
Increase (+)/reduction (-) other liabilities	635 725 457	-161 100 279
Net change in cash	88 854 555	-14 785 489
Cash balance at 01.01.	154 718 557	169 504 046
Cash balance at 31.12.	243 573 112	154 718 557

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AS
Postboks 748
NO-0106 Oslo
Telephone +47 02316
Telefax +47 23 16 10 00

To the Annual Shareholders' Meeting of Bankenes sikringsfond

Auditor's report for 2007

We have audited the annual financial statements of Bankenes sikringsfond as of December 31, 2007, showing a profit of NOK 678 635 836. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information given in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, February 26, 2008
PricewaterhouseCoopers AS

Petra Liset
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Safe-deposit box vault – around 1900.

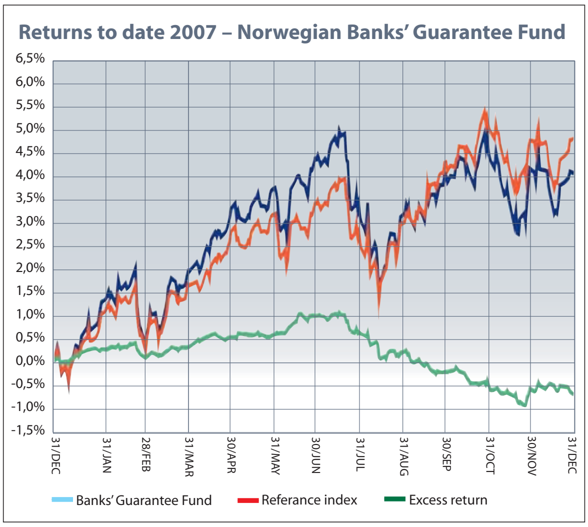
Result of asset management

The present investment strategy was implemented in 2006, and 2007 was accordingly the second full year of the new strategy. In the following, a presentation is provided of the results that were achieved last year. The figures for 2006 are also shown.

Results relative to index and required rate of return in 2007

The Fund reported a result of NOK 700 million or 4.2 per cent. This was NOK 128 million or 0.8 percentage points lower than the strategic index. Relative to overall results, the underperformance amounted to 18.3 per cent.

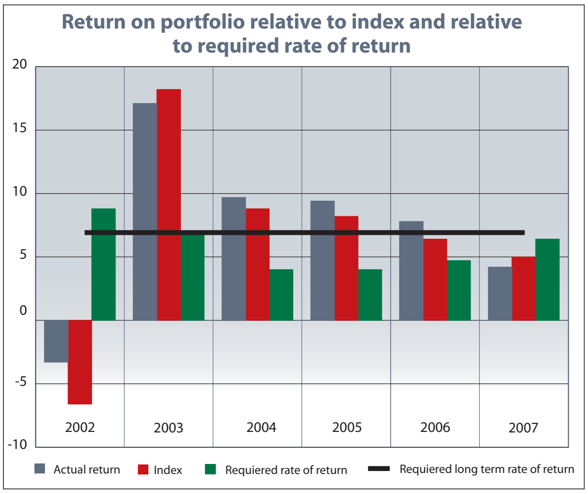
This result conceals a turbulent year with wide fluctuations in most classes of assets. The figure below illustrates developments in the financial result of the Fund over the course of the year. It will be seen that developments up until the end of July were satisfactory in both absolute and relative terms. Bad news from the US housing market triggered corrections in the equities, fixed income and foreign exchange markets and resulted in a large-scale flight to the safe haven of government bonds. This unrest developed into a financial crisis, causing major fluctuations throughout the autumn and into 2008. At the same time, the Guarantee Fund saw



the excess return swept away in the unrest and even though further all-time highs were recorded on the stock market at the end of October, asset management were never able to recover lost ground. Accordingly, 2007 was a bad year relative to index.

Historical perspective

The figure below puts last year's performance in perspective by showing the equivalent figures for the last six years (excluding the former Commercial Banks' Guarantee Fund). The figure illustrates actual returns relative to index and relative to a continuous required rate of return defined as risk-free return plus two percentage points and a long term of return defined as a neutral rate of interest plus a premium of two percentage points (solid line).



Of the six years shown, only 2003 and 2007 underperformed relative to index. In four out of the six years, returns were higher than the required rates, whereas the index underperformed the long-term required rate of return in the two last years.

The figure below illustrates aggregate return for the Fund, the index, the target rate of return and the risk-

free rate of return. The figure shows that active asset management has been profitable and that it has played its part in ensuring that in the years shown the Fund outperformed the long-term target rate and performed far better than the risk-free rate of return.

Results recorded by internal and external asset management

Result and excess return are measured for the various asset managers and were allocated as follows between internal asset managers and external asset managers:

Managers	Result	Return %	Excess ret.	Excess ret.%
Internal	509.2	6.8%	26.7	0.30%
External	190.8	2.1%	-154.6	-1.67%
Total	**700.0**	**4.2%**	**-127.9**	**-0.78%**

Internal asset management recorded an excess return of NOK 26.7 million last year, equivalent to an excess return of 0.3 percentage points. This performance can be ascribed to the excellent results recorded by the Norwegian equities management. The fundamental and the trend-based equities model both made major positive contributions, while losses on credit and tactical allocation reduced the overall performance.

External asset management underperformed relative to index by no less than NOK 154.6 million. This poor contribution can be attributed to both the global equities management and the global fixed income management, whereas the management of US credit bonds made a positive contribution.

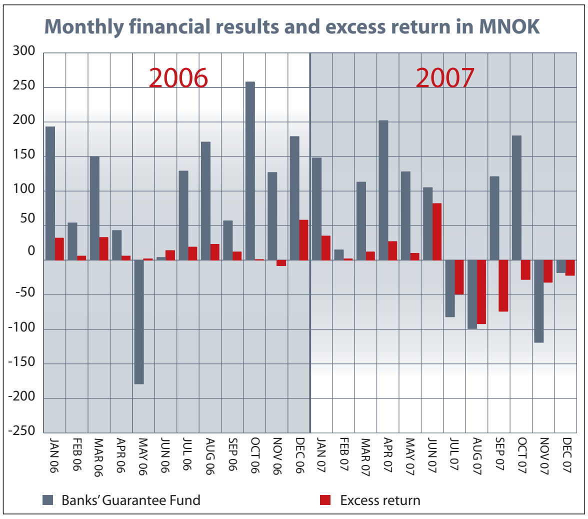
Asset management costs

The asset management costs in the table below specify both direct and indirect costs as well as performance-related bonuses. Costs broken down between internal and external asset management were as follows: (in NOK 1000):

The cost percentage both before and after bonuses was 0.16. The equivalent figures for 2006 were 0.15 and 0.18, respectively.

The performances of asset classes

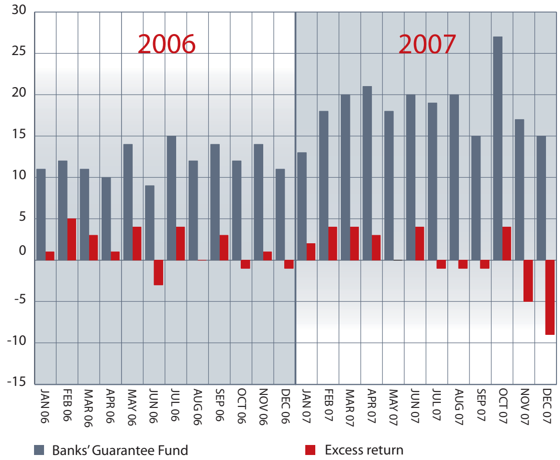
The Fund recorded positive results in both absolute terms and relative to index in the first six months of last year. The results recorded in the last six months of the year fluctuated dramatically in overall terms, but were poor relative to index. July, August and November saw negative results as a consequence of a negative return on the stock market. April was the best month in absolute terms, while June was the best month relative to index. The biggest losses relative to index were recorded in August and September. Monthly results for the last two years are shown in the following figure.



Managers	Direct	Indirect	Total ordinary	Bonuses	Sum total	Cost % ord	Cost % total	Asset
Internal	12 482	2 164	14 647	825	15 471	0.19%	0.20%	7 783
External	10 714	1 269	11 983		11 983	0.13%	0.13%	9 181
Total costs	**23 196**	**3 434**	**26 630**	**825**	**27 454**	**0.16%**	**0.16%**	**16 964**

The Money Market asset class comprises a portfolio of government and government-guaranteed fixed income instruments and a portfolio of credit bonds with high creditworthiness. In terms of value, the two portfolios are of equal size. Performance in 2007 is shown in the following figure:

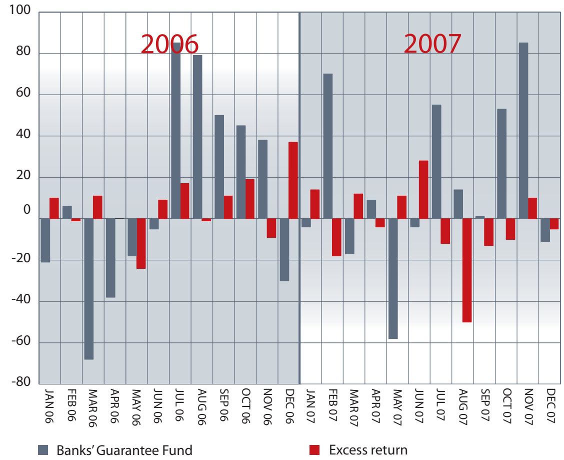
Money market – monthly results and excess return in MNOK



Despite a relatively difficult credit market, absolute results remained relatively stable throughout the year. Relative to index, results were positive during the first six months of the year and fell during the latter half, with November and December being particularly bad months for credit. This unrest generated increased credit premiums, which served to reduce excess return during the latter half of the year. Nevertheless, sound contributions from positions in higher Norwegian and lower US short-term interest rates secured a positive contribution relative to index for the year as a whole.

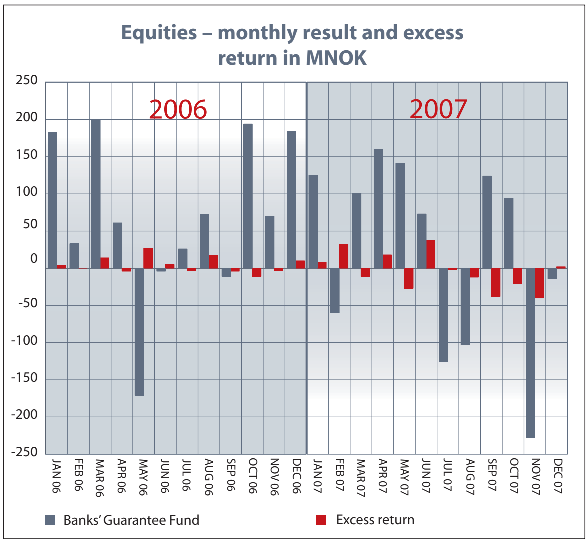
The Bond asset class comprises a portfolio of global government and government-guaranteed bonds, which makes up 50 per cent of the class in terms of weighting. The other half of the class is made up of credit bonds of high creditworthiness, apportioned between two equal-sized portfolios of US and European bonds. Performance in 2007 is shown in the following figure:

Bonds – monthly results and excess return in MNOK

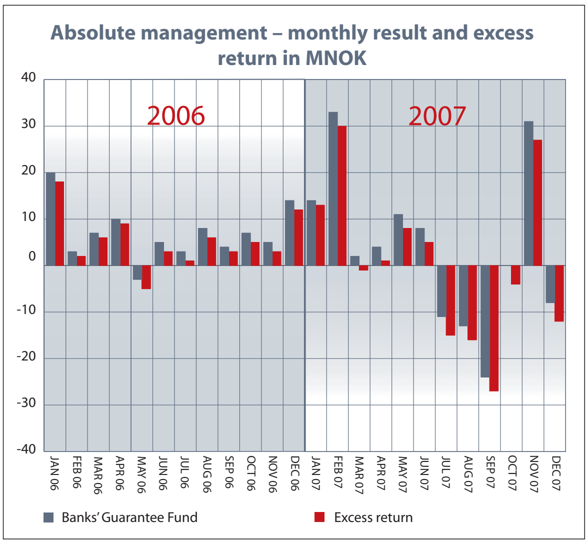


The results were characterised by shifting expectations with regard to growth and inflation. The first six months of the year saw rising interest rates on the back of growing fears of inflation, while the second half of the year brought marked reductions in interest rates in response to expectations of falling inflation and credit unrest. Rising credit premiums relative to government bonds resulted in low returns for this class of assets. Losses on foreign exchange and interest rate positions in the global fixed income management served to enhance the negative picture, where losses in August in particular were heavy. Credit management within US bonds made a positive contribution relative to index, although not enough to compensate for losses in other portfolios.

The Equities class of assets is made up of two portfolios: Norwegian equities (40 per cent) and global equities (60 per cent). The results reflected a healthy equities market in the first half of 2007, while the second half of the year saw wide fluctuations. Performances ranged from good in the first half of the year to weak in the second half. Nevertheless, sound performances in Norwegian equities throughout the year were unable to compensate for weak performances by the global equities in the autumn. As a consequence of heavy losses the mandate for global equities was altered to an index mandate. Developments in 2007 are shown in the following figure:



The asset class Absolute Management comprises tactical asset allocations, alpha equities trend, alpha relative value and alpha credit. This class typically embodies a higher level of risk than the three other asset categories. Developments in 2007 are shown in the following figure:



The results recorded by absolute management varied widely from month to month, and performance over the year as a whole was weak. The biggest positive contribution in 2007 was made by alpha equities trend, whereas the biggest negative contribution came from alpha credit, which was wound up as a result of losses. Tactical allocation also contributed a negative result last year.

Compliance

Flows of information
The Guarantee Fund uses a reporting solution supplied by the Fund's custodian bank, J.P. Morgan (JPM). Reporting at portfolio and overarching level is conducted on a daily basis. Reporting is based on JPM's own portfolio system, which receives transaction data from the Guarantee Fund's various managers, external as well as internal. JPM in turn reports on accounts, returns, risk and compliance as well as on other relevant issues.

Internal management
For its internally managed portfolios the Guarantee Fund uses Storebrand Investment Operation Systems (SIOS) for settlement. The Simcorp Dimension portfolio management system is used by capital management for registering trades in internally managed portfolios. The transactions are then transferred electronically to JPM's portfolio system.

External management
External managers such as BlackRock, Crédit Agricole, DnB NOR and Nordea all hold mandates for the Guarantee Fund and individually report their transaction data to JPM on a daily basis.

Monthly reconciliation
The managers and JPM price securities independently of each other. Values are then reconciled on a monthly basis and deviations in excess of 0.1 percentage points are investigated. Minor differences will occur as a consequence of the use of different pricing sources, whereas greater differences can generally be ascribed to faults in fundamental data. These issues are reviewed by JPM and the managers, and errors are corrected. JPM also reconciles all bank and custodian accounts.

Independent opinions on procedures and control activities are obtained from external auditors:

- Auditors PWC of New York compile a six-monthly report on JPM's internal control procedures. (Independent Service Auditor's Report, SAS-70)
- Auditors Deloitte, Oslo compile an annual report on SIOS' internal control procedures. (Opinion from the service organisation's auditor, RS 402 type B)

Internal control procedures
The Guarantee Fund's controller conducts systematic reviews of key risks and the ways in which systems and procedures are structured in order to control these risks, including whether they function satisfactorily. Checks are performed on more or less a daily basis to ensure that restrictions that follow from the Guarantee Fund's Statutes, decisions by the Board or instructions issued by the Manager are followed. The main control points are:

- Restrictions contained in the Statutes, including on equity capital instruments in Norwegian banks
- Minimum holdings in government and government guaranteed securities (one-third)
- Maximum ownership stake in any individual company (5 per cent)
- Maximum cash holding (10 per cent)
- Maximum Tracking Error (3 per cent)
- Maximum Value at Risk (10 per cent)

Any breaches of the above control points must be reported to the Manager without delay.

No breaches of the above rules occurred in 2007. As the table below shows, asset management remained within the stipulated limits. Measurement is on a daily basis.

	Limit	31.12.	01.01.	High	Low
Proportion govt. guaranteed certificates and bonds	>1/3	39.3	38.0	47.0	33.8
Cash holdings	<10%	1.1	0.7	3.6	-0.6
Tracking error	<3%	0.9	0.4	1.1	0.4
Value at risk	<10%	4.7	3.3	6.1	3.2

Measuring performance and managing risk

The Guarantee Fund has introduced a system for monitoring the performance of mandates and managers based on developments in defined key figures. Developments relative to the benchmark indices are monitored over time. The results are communicated to the individual managers at periodic follow-up meetings.

The goal is alpha

Alpha is a measure of the value created in asset management, in which return over the benchmark is measured. Alpha can be achieved only by taking risk that deviates from the index. In the case of managers of fixed income securities, the most common sources of alpha are duration risk, curve risk, foreign exchange risk, country-related risk and credit risk. For an equities manager, the sources of risk will typically be company and industry risk. The more sources a manager uses, the better. This helps to diversify and reduce overall risk. All the Fund's mandates are managed actively, but with varying risk profiles and limits.

Key ratios

Four key ratios have been selected, each of which describes the performance of a manager. These ratios are: Information Ratio (IR), Skewness, Consistency and the alpha contribution. For definitions of these concepts please also see the section entitled Key terms used in asset management.

IR is a measure of performance in which alpha is measured in relation to active risk (TE). A good performance over time is an IR of 0.5 or higher.

Skewness measures average excess return in relation to average underperformance and shows the extent to which the manager is contributing more upside than downside in relation to the benchmark index. Accordingly the ratio should be greater than 1.

Consistency measures the frequency of value-creation in the form of the number of months of positive alpha as a proportion of the total number of months. In the interest of stable value creation this figure should be at least 50 per cent.

The alpha contribution measures the value created in absolute terms. The mandate is required to not only report good figures in percentage terms, but also to contribute well in terms of kroner. Here the target figures are fixed individually depending on the risk limits applicable to the mandates.

Total score

The four key ratios are then weighted in a total score which sets the grade for the asset manager. Over time, developments in this grading will constitute an important factor in determining whether or not the mandate will be continued. Normally, a historical time scale of 1 to 3 years will be applied when assessing an asset manager. Asset managers are informed of their scores and developments in these scores as and when they are assessed.

Reporting and monitoring

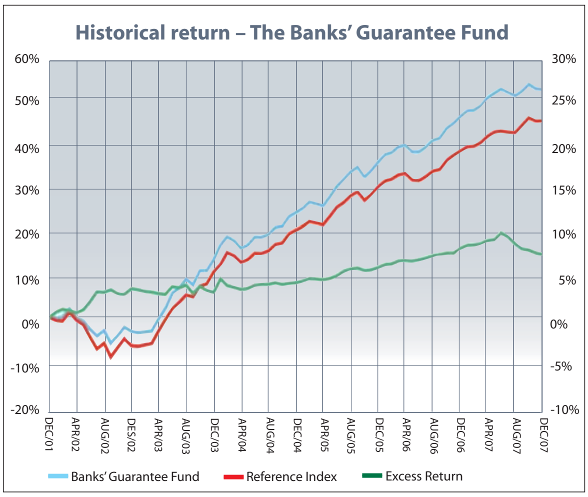
The Fund's reporting systems are based on JPM's systems in which all exposure is priced and reported on a daily basis. Both the asset manager and JPM produce reports on a monthly basis, and these are reconciled. The outcome of this process provides the basis for performance measurement, with the score card being updated on a monthly basis for the individual asset manager.

At least two performance meetings are held with each manager each year, at which the status of the asset manager is reviewed, with attention being focused on both quantitative and qualitative developments.

The creation of value by asset management over time

The Guarantee Fund has monthly series of data for the last six years (excluding the former Commercial Banks' Guarantee Fund). Over this period the Guarantee Fund has achieved an IR of 0.9, which is satisfactory. A skewness of 1.4 shows that the positive months have, on average, made a greater contribution than the negative months. The consistency of 61 per cent reveals a high degree of stability in value creation, and the alpha contribution has on average been 1.2 per cent per annum, a very satisfactory figure. This makes for a satisfactory overall score. Developments were negative throughout the whole of last year.

The figure below shows historical performance over the last six years relative to benchmark. Aggregate return (left-hand axis) totalled 52.4 per cent whereas aggregate excess return (right-hand axis) totalled 7.2 per cent over the period.



The figure shows very clearly that the current financial crisis created major problems for the active asset management of the Fund. Market risk higher than benchmark in the period leading into the crisis meant that several managers took losses and some mandates were changed as a consequence of this.

The main contributor to the Fund's alpha over time has been the tactical allocation, which has fluctuated between being over or underweighted in equities, bonds and money market investments compared with the Fund's benchmark. However, this mandate made a negative contribution last year.

Risk management

Risk limits are set for the individual mandate expressed as TE, i.e. the acceptable fluctuation in relation to index expressed as a standard deviation. The asset manager is at liberty to exploit this limit provided that a diversified approach is taken. This means that the manager cannot exploit the limit through an individual position, but must apportion the limit between several uncorrelated positions. This is a central principle of risk management and in following up the individual manager.

The Fund practises a risk management model in which mandates that lose their entire risk limit, be it in three months or three years, are withdrawn or indexed. This model entails that the risk is of withdrawal greatest at the outset. This in turn entails that in practice the manager should increase risk gradually in order to avoid early withdrawal.

Investment strategy for 2008

The Board reviews the question of amendments to the investment strategy at least once a year. The main elements of the current strategy were adopted and implemented in 2005. The review conducted in 2007 took the form of a reality check in response to the financial unrest which developed during the course of the summer and autumn and which provided direct experience of the ability of the Fund's investment strategy to function in the face of a financial crisis. Although the Fund had no direct exposure to exposed housing loans, certain weaknesses nevertheless came to light, in response to which the Board has deemed it appropriate to make certain adjustments. The exposure to credit and finance has been particularly problematical, and it has been decided that this exposure should be reduced. The main elements of the strategy and the adjustments that have been made are discussed below.

The restrictions embodied in the Statutes
The investment strategy is firmly anchored in the overarching provisions of the Statutes, according to which the management of the Guarantee Fund's assets is to be based on prudent management, a satisfactory return on investments, necessary liquidity and ethical management. Moreover, the Fund is not permitted to invest in equities, primary capital certificates or subordinated loans issued by its members, and of the total assets of the Fund at least 1/3 must be invested in government or government-guaranteed certificates or bonds.

Satisfactory return and the issue of risk
A central goal of the Guarantee Fund's asset management is to generate a return over time that to as great an extent as possible matches the growth in the capital base requirement. This growth is to be achieved through active and balanced risk taking. This approach also endeavours to fulfil the aspiration of the members that the guarantee fund scheme should to some extent be self-financing.

Taking as its point of departure the historical growth in the capital base requirement, the Board has determined that the long-term investment goal should be a risk-free (neutral) rate of return with the addition of two percentage points. This goal cannot be realised without taking risk, and the target rate of return is subject to the following limitations on risk:

- Absolute risk as defined by Value at Risk (VaR) must be limited to 10 per cent of net asset value
- Active risk taking as defined by Tracking Error (TE) must be limited to 3 per cent relative to index

The first limitation (VaR) restricts the absolute risk of losses by the Fund, whereas the second (TE) limits the relative risk between the return generated by the strategy and the return on the portfolio.

The current financial crisis has not resulted in breaches of any of these ceilings on risk and the Board has therefore determined that they should remain in place unchanged.

Necessary liquidity
Necessary levels of liquid reserves are maintained for contingency purposes should a banking crisis occur. It is impossible to predict precisely when a disbursement by the Fund might be required. This uncertainty entails that in formulating the investment strategy of the Fund the Board has had to weigh possible short-term requirements against long-term interests. The Board has adopted a neutral approach to this uncertainty and has sought a high level of liquidity in its choice of indices and of securities. A high proportion of both foreign securities and government bonds is a natural consequence of this approach.

The current financial crisis has shown that liquidity risk is a highly critical factor. It has impacted on the capital market in general and credit bonds in particular. The loss of liquidity is highly disqualifying in relation to the considerations prescribed in the statutes, and against this background the Board has decided to replace exposure to long credit bonds and to reduce exposure on the money market in preference for more government bonds and equities.

Prudent management
Prudent management involves balancing various types of risk. It is particularly important to balance asset risk against liability risk. Asset risk is the financial risk inherent in the Fund's portfolio of securities, whereas liability risk is the risk attaching to the deposit guarantee scheme. The challenge lies in selecting a level of risk that remains reasonably neutral over time and is such that there is no risk of major losses in the value of the portfolio at the same time as the risk of disbursements increases.

In the current financial crisis financial, equities and bonds have both lost value relative to other sectors. Equity and credit indices both contain high proportions of banking and finance companies, and the Fund decided some time ago to exercise restraint when it comes to investing in Nordic financial securities.

Experience has shown that in a globalised economy, crises spread rapidly across national borders, and the Board has therefore found it appropriate to extend the restraint that it already exercises with respect to Nordic finance companies to apply in a global perspective.

The Board has already decided against taking up alternative investments such as hedge funds, private equity funds, property funds and high-yield bonds. Given the obligations of the Fund, the liquidity risks inherent in investments of this nature make them too unstable in light of the Fund's commitments.

Prudent management also necessitates a lowering of the operational risk associated with the relatively complex asset management model. Here the Fund has stressed the importance of maintaining a secure infrastructure with good systems, multiple control points and independent measurement of results and performance.

Ethical management

Ethical management is safeguarded by means of a procedure whereby companies that are in breach of international conventions on good corporate governance are excluded from the Fund's investment universe. Reference is made to the article on this subject.

Strategic index

The strategic index is structured to facilitate the achievement of the required rate of return and the objective of diversifying risk. Moreover, all mandates are to be managed actively, since value creation at asset management level is sought. Nevertheless, the risk profile varies from mandate to mandate and is determined by predefined TE limits.

Asset management has been concentrated in a limited number of large portfolios, which seek to combine the goals of a high level of cost effectiveness and specialist expertise. The table below shows the strategic allocation between asset classes for implementation in 2008, including the indices used. Overall, these changes represent a general improvement in liquidity, at the same time as which they are not expected to reduce return.

Money market investments make up 19.5 per cent of the index. This represents a reduction of 15 percentage points where the government share has been replaced by government bonds and equities in emerging markets. The money market investments comprise short-term fixed income papers.

Bonds make up 50 per cent of the index, an increase of 10 percentage points. The bond class now consists in its entirety of government and government-guaranteed bonds, long-term credit bonds having been removed from the index. The primary reason for this is that as an asset class, government bonds offer the Fund better protection against downside risk and are also far more liquid.

Equities make up 30 per cent of the index, having been increased by 5 percentage points with the introduction of equities in emerging markets. In addition, the universe of the Norwegian portfolio of equities has been extended to include Nordic equities.

In addition to the traditional asset classes of money market, bonds and equities, where the primary risk generally relates to the market, the Fund has also chosen a category for more absolute management strategies. This

Strategic index	Share (%)	Benchmarks
Money market	**19.5**	
– Money market credit	19.5	DnB Moneymarket 6 months index
Government bonds	**50**	
– Global government	40	Citi Group Non Yen World Gov index hedged to NOK
– Inflation-linked govt. bonds	10	Barclays Gov World ex UK inflation Linked index hedged to NOK
Equities	**30**	
– Norwegian equities	10	MSCI Nordic Equities net ex bank hedged to NOK
– Global equities	15	MSCI-World Global Equities net ex bank hedged to NOK
– Emerging markets	5	MSCI Global Emerging Markets Equity net dividend index
Alternative investments	**0.5**	
– Miscellaneous	0.5	DnB Moneymarket 6 months index
Total	**100**	**Composite index**

comprises risk taking of various types within tactical allocation, fixed income and equities, where over time investments will be less dependent on general market risk. This class requires little capital since a variety of derivatives are used as primary sources of risk.

The selected indices are tailored to the requirements of the Fund on the basis of a range of criteria. In the case of investment in Nordic and global equities, the Fund has chosen to exclude the banking sector, since this is the sector that potentially involves the greatest negative risk relative to the Fund's commitments (liability risk). This does not mean, however, that a blanket ban has been introduced on investments in bank shares. The proscription applies only to member institutions and parent companies of members in corporate groups. This reflects the provisions of the statutes. The consequence of excluding banks from the index will, nevertheless, in practice entail a significant reduction in general bank exposure.

Similarly, most of the indices are currency hedged. This does not, however, represent a proscription against taking currency risk. The key point for the Fund is to remove the general currency risk. Some mandates are managed passively, in which case currency risk is hedged within defined ranges whereas others are managed actively, in which case currency risk is a defined source of excess return. The managers themselves define their approach to currency risk within the specified TE limit.

Other restrictions include the exclusion of Japan from the bond index as a consequence of the Fund's unfavourable tax position in Japan. The UK is excluded from the inflation-linked bond index as a consequence of extremely low real rates of interest. Even so, both countries form part of the investment universe available to managers.

In the case of shares in emerging markets, a more pragmatic and opportunistic approach has been adopted to both bank risk and currency risk. Both of these risk factors are viewed as important drivers of economic growth in these countries, and have been identified as a desirable risk for the Fund.

Over time the strategic index has generated an excess rate of return of close to 2 percentage points above risk-free return and a risk expressed as VaR of 7 per cent. This is in line with the target rate of return.

Both internal and external asset management

The Guarantee Fund's policy is to maintain an active presence in the Norwegian financial market, both as investor and as asset manager. Consequently, a mixed model has been chosen in which internal management resources are combined with external asset managers. The Fund's goal is to attract proactive asset managers capable of outperforming their indices as well as to stimulate Norwegian asset management environments.

The Fund's internal asset management resources have overall responsibility for implementing strategy and mandates and putting in place the necessary infrastructure. Moreover, internal asset management holds mandates within all asset classes. In total, 40 per cent of capital is managed internally. The department employs eight full-time personnel, all of whom perform asset management functions.

External asset management consists of various mandates and managers within bonds and equities. These make up a total of 60 per cent of the capital. The Fund is in the process of extending the number of external asset managers and additional managers will be retained during 2008.

Settlement functions have been outsourced to Storebrand (SIOS). J P Morgan performs the role as the Fund's global banker and custodian, while Mercer Investment Consulting is used as a consultant in connection with the selection of managers. These represent well established systems and procedures.

Consequences in terms of taxation

The Guarantee Fund is exempted from domestic taxation in Norway, but pays withholding tax on its investments abroad. Since the Guarantee Fund does not pay tax to Norway, it is generally not encompassed by the tax treaties that Norway has concluded with other countries. This puts the Fund in an unfavourable tax position, which entails that it pays more tax on its investments abroad than other taxpayers resident in Norway. The Fund adjusts to its tax position in part by avoiding investments in countries in which its position will be particularly unfavourable and in part by means of securities lending.

Implementation of the investment strategy

In implementing the new investment strategy, the Fund has opted to take whatever time is required. Normally, an index change of this nature would be relatively simple. However, in the current uneasy market this is not a straightforward matter. In order to avoid incurring unnecessary transaction charges the Board has decided to postpone the changes until the markets have returned to normality.

Ethical asset management

The Board adopted a decision 2006 to introduce rules and guidelines on ethical capital management, and provisions reflecting this wish were introduced into the Statutes by the General Meeting in 2007.

Ethical values, a prerequisite for high returns

The Board's point of departure has been to create conditions in which the asset management of the Guarantee Fund is subject to guidelines on ethical values, as is the case for other leading asset managers. Thus the objective of achieving the highest possible return at the lowest possible risk has been modified by the proviso that this should take place within the framework of accepted ethical values. In the short term and on a large scale there may be some conflict between achievement of the target rate of return and the need to uphold ethical values. However, the Board has concluded that ethical values represent an important and sustainable prerequisite for generating a high return in the long term and that this policy will accordingly serve the best interests of the members.

Guidelines and principles

The Guarantee Fund will not undertake investments where there is an unacceptable risk that the Fund might be a party to unethical actions or omissions which contravene fundamental human rights or humanitarian principles or lead to gross corruption or environmental destruction. These principles are based on international conventions and in practice involve the negative screening of the investment universe with the aim of weeding out companies that are considered to be in breach of the ethical standards upon which these conventions are founded.

The exclusion of companies

The companies that are or have been excluded are those which – by their own efforts or through nominee companies - manufacture weapons that are in breach of fundamental humanitarian principles, for example land mines and cluster bombs. The Fund will also exclude companies in cases in which there is considered to be an unacceptable risk of participation in breaches of human rights in the form of murder, torture, unlawful detention, forced labour, the worst forms of child labour and other exploitation of children, serious violation of the rights of individuals in war or conflict situations, serious environmental damage, gross corruption or other gross violations of fundamental ethical norms.

Collaboration partner

The Guarantee Fund has concluded an agreement with DnB NOR Kapitalforvaltning, which has already introduced the standards discussed above. This work is conducted by an ethics council, which selects and evaluates companies and submits a recommendation to the head of the asset management department. The head of the asset management department in turn makes decisions on a case-by-case basis. Decisions to exclude are communicated as they are taken to the head of the Guarantee Fund's Asset Management Department.

Implementation

Decisions to exclude companies are taken by the head of the Asset Management Department, who in turn instructs all the Guarantee Fund's managers to exclude the company in question from the Fund's investment universe. The decision is then incorporated in the compliance system of our global banking and custodian services provider (JPM), which ensures that any breaches of the instructions can be followed up with the asset manager in question. The Guarantee Fund does not publish the identity of companies that have been excluded.

Development and practice

The trend in this area is increasingly in the direction of a greater focus on the attitudes and behaviour of companies in their conduct of their businesses. The Guarantee Fund follows these developments closely. In general, the approach of the Guarantee Fund is to look to the work done by, for example, the Government Pension Fund – Global and others in this area, rather than conducting its own ethical development work, although the Guarantee Fund has opted for a less ambitious approach within the area of active ownership, since this would otherwise be resource-intensive and require the restructuring of the Fund's asset management.

At the outset, the primary focus of attention was on companies which produced landmines and cluster bombs. Since then the focus has been expanded to take in companies that use child labour and are in breach of important principles of labour law or human rights. More recently, the threat of climate change has attracted increasing attention and companies with large emissions of climate gases will in the future have to expect that active owners insist that they take responsibility for their emissions by means of treatment procedures or purchasing emission quotas.

In the practice of ethical management, a shift is taking place, away from simple exclusion and towards a greater degree of active ownership and involvement. This means that asset managers increasingly prefer to influence companies by exercising their voting rights and by active dialogue rather than divestment. The acknowledgment that dialogue and long-term commitment have a greater impact than refraining from ownership plays a central role here. Nevertheless, the threat of exclusion can also be effective, given the negative attention and loss of reputation that a company will thereby suffer. Accordingly, these methods can function in tandem, even though on the surface they may appear to be contradictory.

In its evaluation of models and practice, it will be natural for the Fund to consider alternative methods of involving itself with a view to increasing its influence. In this context, organisational issues and cooperation with other managers will both need to be considered. The Guarantee Fund is in dialogue with its collaboration partners with a view to determining how this can best be developed.

Review of 2007 and the outlook for 2008

2007 was a turbulent year and will be remembered for the credit crisis that was sparked off by sub-prime mortgages in the United States. The crisis hit during a period in which the economies of the US and the world were performing well, household incomes were rising and interest rates were low seen in a longer term perspective.

Households with low incomes and few assets were lured into the housing market with the aid of loans on which the interest rate was set at a temptingly low level for an agreed period of time. Poor repayment ability and rising interest rates created major repayment problems when the interest rates were adjusted on these loans. Loans of this type were generally packaged together in what are termed structured credit products where the risk was not readily identifiable. These packages were sold on to investors throughout the world. When the credit crisis struck, the risks and losses came to light, and during the course of the autumn investors lost their confidence in these structures. The fear of heavy losses on the part of banks led to major funding problems, forcing central banks to inject large quantities of cash in order to keep the wheels turning. Money market interest rates soared in most countries, as did credit premiums in general, and liqudity dropped dramatically.

Despite the weakening of the US housing market and the credit crisis, the US economy performed well throughout 2007. GDP grew by almost 3 per cent in 2007, which was surprisingly good in view of the shocks to which the economy had been exposed. Outside the US, economic growth was also good. Emerging regions experienced yet another year of very strong growth. However, at the start of 2008, there are a number of signals pointing in the direction of a worsening of the situation. In the US it is very likely that growth will be negative, and outside the US there are clear signs of a slow-down.

The Norwegian economy had yet another year of strong growth. Unemployment continued to fall, reaching historically low levels. Notwithstanding the unrest in the credit market, Norges Bank continued to raise interest rates throughout the autumn. However, in Norway as elsewhere there has been a downturn in the housing market, the stock market has continued to fall in 2008 and leading indicators point in the direction of a slow-down in growth. The market is factoring in a peak in interest rates and that Norges Bank too, will cut the interest rate during the course of the year. It is likely that Norway will be amongst the last countries to take this step, as a consequence of the tightness of the economy.

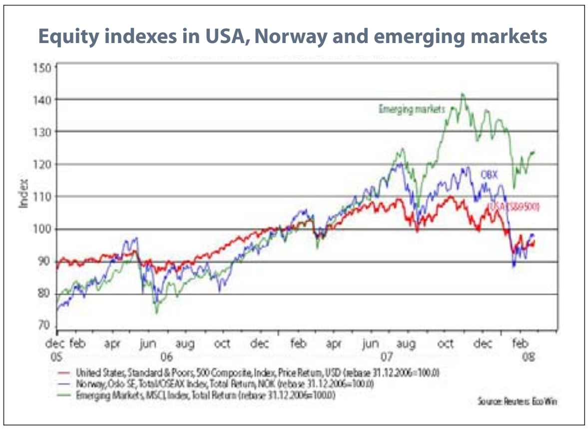
On the securities markets, the most obvious effect of the credit crisis was that the divergence between bonds with credit risk and government bonds increased sharply over the course of the autumn. Stock markets recovered following a major correction in July and August, and most markets ended the year well up.

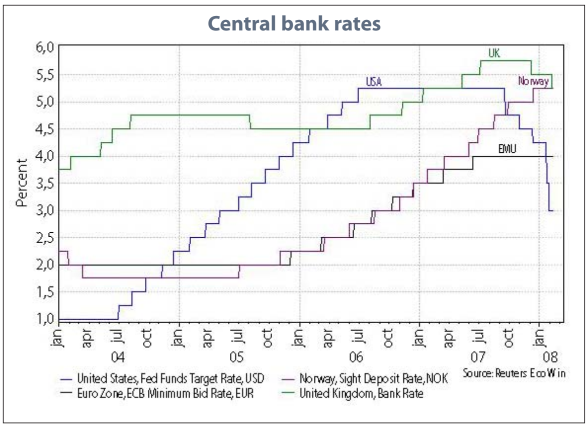
At the time of writing, however, we are experiencing what can only be described as a stock market crash. Interest rates worldwide have dropped sharply and a reduction in the US policy rate of interest to 2 per cent during the course of the summer is being factored in. In our assessment, both stock markets and fixed income markets are factoring in a serious recession in the United States and a major downturn in growth worldwide.

Volatile stock markets in 2007

Following a relatively small correction in February 2007, stock markets climbed until the end of July. As a consequence of the credit crisis, there was a sharp drop in the stock market in July and August. However, markets picked up again during the course of the autumn and global equities (MSCI world) ended the year up by 7.5 per cent in local currency.

MSCI World Sectors	2007	As at 12.02.2008
MSCI World Energy Sector Local	22.5%	-13.2%
MSCI World Industrials Local	8.8%	-9.8%
MSCI World Consumer Discretion Local	-8.2%	-9.1%
MSCI World Health Care Local	0.1%	-6.5%
MSCI World Financial Local	-14.8%	-11.7%
MSCI World Telecommunication Sector Local	12.6%	-9.8%
MSCI World Utilities Sector Local	13.0%	0.0%



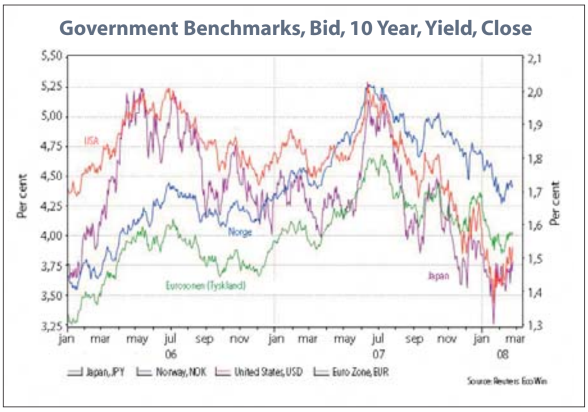


There were major regional differences in performance. Japan was amongst the weakest markets and ended the year down by about 12 per cent (Topix). Yet again, emerging markets performed best with a return of 36 per cent. At sector level, too, there were major divergences in returns, as the table shows. Not surprisingly, finance was the weakest sector, showing a negative return of 15 per cent. Aided by a sharply rising oil price, energy ended up as the best performing sector reporting a return of 23.5 per cent. Elsewhere, defensive sectors such as telecoms and utilities performed well, whereas more cyclical sectors did not do so well.

Diverging developments in interest rates

During the first half of 2007 central banks continued to raise key rates of interest, see the graph below. In the US, the Federal Reserve reduced the interest rate in the wake of the credit crisis, and the policy rate was cut by a total of 1 percentage point over the course of the autumn to 4.25 per cent. At the start of 2008, the Federal Reserve cut the policy rate by a further 1.25 percentage points, and market expectations are that the policy rate will be come down to 2 percent. In the UK, too, the Bank of England reduced the interest rate at the end of the year, although for the year as a whole, the key rate was up by 0.5 percentage point. In Norway, the key rate was raised by 1.75 percentage point to 5.25 per cent, which is 1.25 percentage points higher than the EMU rate.

The graph below shows that yields on 10-year government bonds rose sharply during the first half of the year followed by substantial drop in the second half. There were major regional differences. US 10-year government bonds ended the year at 4.07 per cent, 0.6 percentage points lower than at the start of the year, whereas the equivalent German yield ended the year some 0.4 percentage point higher at 4.34 per cent.

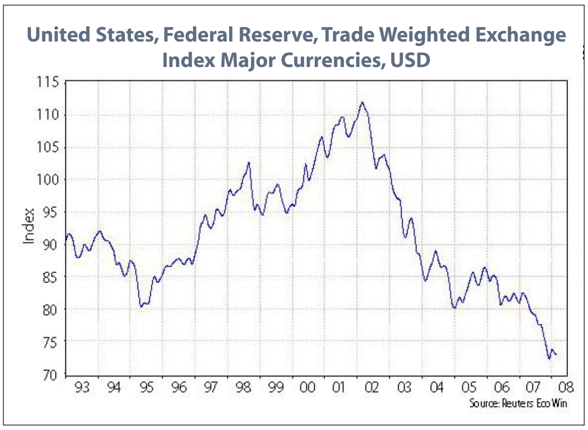


Higher credit premiums

The graph below shows interest rate differences between credit bonds of various qualities and government bonds in the US. As will be seen, all credit premiums rose markedly from the historically low levels registered last summer.

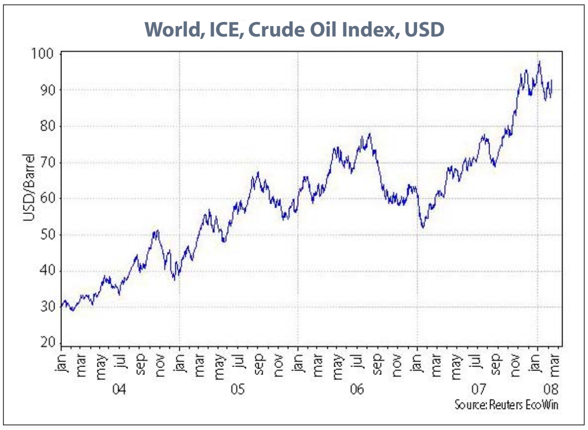
Value of US dollar continues to fall

The US dollar continued to weaken against most currencies last year. The figure below shows that the trade-weighted USD weakened (against the major currencies) by some 10 per cent over the course of last year. From a Norwegian perspective, one dollar cost 15 per cent less at the end of the year than at the outset of the year. The trade-weighted Norwegian kroner strengthened by approximately 7 per cent over the course of last year.



Commodity prices hit new highs

In December 2007, the price of WTI oil reached USD 100 a barrel. As will be seen from the graph below, by the end of the year the oil price had doubled from its level of around USD 50 per barrel in January. Recurring disappointments on the supply side combined with sound underlying growth in demand pushed the oil price to new peaks, although some of this development must also be ascribed to the weakening of the dollar. A number of other commodity prices also rose sharply last year. The prices of precious metals and agricultural products were up by some 30 per cent. The prices of industrial metals, however, fell by 9 per cent following an increase in the first half of the year.



Outlook for 2008

Assuming that the United States is in recession, as the market believes, we will probably see a downturn in growth worldwide. However, given the developments that we have seen in the market since the start of the year, we believe that much of this development has already been factored in.

The crisis in the financial sector is not over. We can probably expect more bad news from the banking sector. Confidence in the financial sector could be further weakened and we may see an increased focus on counterparty risk. The US Federal Reserve has recognised the seriousness of the situation and is cutting the interest rate rapidly and by significant amounts. Stimulation will also be provided through fiscal policy. Over time, this will serve to stimulate the economy, even though the effects of interest rate cuts may be less pronounced than earlier, since financial institutions are now far more restrictive in their lending policy, resulting in higher risk premiums.

Extensive monetary and fiscal stimuli will shore up the economy, which in combination with an improvement in the balance of trade could boost growth in the US economy into 2009. Europe will see lower growth with a lag in relation to the US. With a far less proactive central bank and a resulting stronger currency, developments could be more negative than feared. Leading indicators also point in the direction of lower growth in Japan and in most emerging markets.

The Norwegian economy has long been in a favourable position with a significant improvement in the terms of trade (export prices relatuive to import prices). Sound central government finances will offer freedom of action within fiscal policy should we see an economic downturn. However, we do not believe that Norway will be protected in the event of a global economic downturn, and in particular the Norwegian housing market could be volnerable. Even so, we are well-equipped to cushion the downturn, although a flexible monetary policy will be required.

Stock markets worldwide are priced reasonably in relation to current levels of earnings. The big question, however, is how much earnings will fall by in the future. In recent years, companies have enjoyed high economic growth, low inflation (where pay rates have been the key factor) and high growth in productivity. Much of this has now been exhausted and the profitability of companies will detoriate. The credit crunch will also make funding more costly. Margins will shrink and the growth in top line will tail off.

Relative to government bonds where yields are now low, equities look like a better class, viewed purely from the perspective of valuation. The financial strength of companies is generally good. Interest rate reductions and fiscal policy will stimulate growth in US and result in steeper yield curves. Moreover, history has shown us that stock markets can perform well with the aid of a multiple expansion (rising P/E where P rises without E doing the same) even though the growth in earnings falls.

However, we are witnessing an abnormally large uncertainty for the stock market this year. In a worst case scenario in which the US sinks into a deep and lasting recessing and global growth falls significantly, the stock market could easily fall by a further 20-30 per cent relative to the current level. However, assuming that both monetary and fiscal stimuli work, the willingness to take risk will gradually return. If so, the potential upside is substantial.

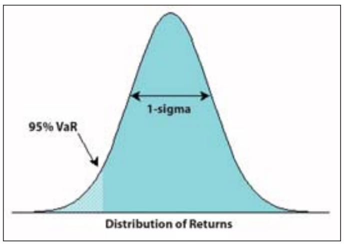
Government bonds, however, have little upside from the current level. With yields on 10 year government bonds in the industrialised nations at less than 4 per cent, the real rates of interest appear to be too low and it probably too early to predict the death of inflation. Inflation-linked bonds are now factoring in a real rate of growth over the next ten years of between 1 and 1.5 per cent in the United States. This is abnormally low.

Despite significant interest rate reductions and expectations of further reductions, the US dollar has strengthened over the last few weeks. We take this as an indication that the long-term trend in the direction of a weaker dollar may now have turned around.

Key terms used in asset management

Value at Risk (VaR) and standard deviation are both measures of risk that describe the risk profile of portfolios or indices. Standard deviation measures spread in performance figures, both positive and negative. The Greek letter sigma is used as a symbol of this measure, 1 sigma being one standard deviation etc.

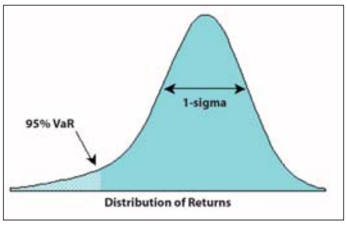
VaR differs from standard deviation in that it measures only the risk of a negative outcome. It is shown as a percentage rate indicating the area under the curve that is not assessed as VaR. 95 per cent VaR means that 95 per cent of the area under the curve is to the right, and 5 per cent of the area is to the left. These percentage rates are linked directly to the probability of losing an amount equal to or greater than estimated VaR. The graph below shows a typical distribution of returns with 1-sigma breadth of 95 per cent VaR level.



For many types of financial instruments, the normal distribution is as shown in the figure. A normal distribution follows a precise mathematical formula (Gaussian distribution) with a number of interesting features. The most interesting for our purposes is that the tail of a normal distribution is proportional to the breadth. This means that VaR levels can be found quite simply by multiplying the standard deviation by a factor as specified below.

Number of Sigma	Value-at-Risk
1.00	84.1%
1.28	90.0%
1.64	95.0%
2.00	97.7%
2.33	99.0%
3.00	99.9%

Generally, one of three alternative methods is used in calculating VaR: Monte Carlo simulation, Historical simulation or Parametric modelling. If Parametric modelling is chosen, a normal distribution is assumed. VaR at various levels of confidence will then be calculated as shown in the table above. However, many instruments (for example options) have a fatter tail that a normal distribution would suggest, as the figure below shows:



In distributions of this type, there is no direct relationship between VaR and standard deviation. In cases such as this, VaR will have to be calculated separately for each confidence level. The Guarantee Fund has chosen to use Monte Carlo simulation and a 95 per cent confidence level for calculating VaR ex ante, since this method takes account of non-linear and non-normally distributed risk.

Tracking Error (TE) is used as a measure of the relative risk between a portfolio and its index. TE expresses the standard deviation of the difference between the portfolio return and the benchmark return.

Information Ratio (IR) is a measure of the performance of a portfolio which measures excess return (alpha) divided by Tracking Error. An IR of 0.5 or better is regarded as very satisfactory.

Alpha is a measure of the performance of a portfolio which shows excess return relative to the index against which it is measured (its benchmark), expressed in terms of kroner or as a percentage.

Sharpe Ratio is a measure of the performance of a portfolio or an index and describes the risk-adjusted return defined as return over and above the risk free rate of return, divided by the standard deviation of the portfolio/index. The Sharpe Ratio of the portfolio should be higher than for the index. This indicates that risk taking is rewarded.

Consistency is a measure of the performance of a portfolio where the number of months of excess return (alpha) is measured in relation to the total number of months. In the interest of a stable excess return, consistency should exceed 50 per cent.

Scewness is a measure of the performance of a portfolio and measures whether on average a manager performs better in a rising or in a falling market. Average positive contribution over average negative contribution provides the measure, and should be greater than 1.

Duration expresses the effectiv maturity of fixed income instruments or portfolios. Duration is calculated by determining the present value of each coupon payment multiplied by the time to payment. The total of these present values is then divided by the market price.

The Guarantee Fund levy 2008

At its meeting on 26 February 2008, the Board of the Guarantee Fund decided that NOK 458 million will be collected in ordinary levy in 2008. This is equivalent to 1/3 of the full ordinary levy.

The backdrop to this decision was the fact that the Guarantee Fund's equity capital will not be sufficient to cover the minimum capital requirement in 2008, which is required by statute to be at least NOK 17 663 million. The equity capital of the Guarantee Fund as at 31 December 2007, the measurement point, stood at NOK 17 205 million. This represents a shortfall of NOK 458 million. The maximum ordinary levy that could be called up in 2008 totals NOK 1 375 million.

The calculations of the size of the Guarantee Fund and of payments to the Fund are based on the provisions of the Act on Guarantee Schemes for Banks and Public Administration etc. of financial institutions (Guarantee Schemes Act).

Section 2-6 *Size of the Guarantee Fund*
(1) The Guarantee Fund's aggregate capital base shall at all times at least equal the sum of 1.5 per cent of aggregate guaranteed deposits with the members plus 0.5 per cent of the sum of the measurement bases for the capital adequacy requirements for those institutions which are members pursuant to section 2-1.

Section 2-7 *Members' fees*
(1) The members shall each year pay a fee to the Guarantee Fund unless the Fund's own capital according to the last annual accounts exceeds the minimum requirement under section 2-6.

(2) A member's annual fee shall be fixed at the sum of 0.1 per cent of total guaranteed deposits plus 0.05 per cent of the measurement base for the capital adequacy requirement, nonetheless such that
a) for a member with tier 1 capital adequacy below 8 per cent, the amount of the fee shall be raised by a percentage addition of 4 times the number of percentage points by which the tier 1 capital adequacy falls short of 8 per cent,
b) for a member with a tier 1 capital adequacy of more than 8 per cent, the amount of the fee shall be lowered by a percentage deduction of 4 times the number of percentage points by which the tier 1 capital adequacy exceeds 8 per cent, but the deduction may in no case exceed 35 per cent.

(3) For branches as mentioned in section 2-2 first and second paragraph a fee shall each year be paid to the Fund corresponding to 0.1 per cent of total deposits in the branch. A pro rata deduction shall be made in respect of that part of the guarantee amount under section 2-10 second paragraph for which cover is deemed to be provided under the deposit-guarantee scheme in the branch's home state. The provisions of the second paragraph litra a and b otherwise apply correspondingly.

(4) The King may lay down further rules on the calculation of members' fees pursuant to this section and may give his approval for the fee to be set lower than mentioned in the second and third paragraph. If the total amount of fees from the members in any particular year comes to less than one tenth of the Fund's minimum own capital pursuant to section 2-6, the King may decide that the annual fee shall be calculated on the basis of higher rates than those set out in the preceding paragraph.

The Guarantee Fund has received a report from the Financial Supervisory Authority (FSA) on guaranteed deposits, the measurement base for calculating capital adequacy and tier one capital ratio for the member banks, which information provides the basis for calculating the minimum size of the Guarantee Fund in 2008 and the allocation of the ordinary levy. In the case of DnB NOR, OBOS and branches with topping up arrangements, separate reports have been compiled. The minimum size of the Guarantee Fund in 2008 is to be calculated on the basis of the measurement dates 30 September 2006, 31 December 2006, 31 March 2007 and 30 June 2007.

Guaranteed deposits
Average guarantee deposits for the last period totalled NOK 660 billion. The growth in guaranteed deposits since the last period totalled 9.1 per cent. The growth in guaranteed deposits has been effected by the fact that Fokus Bank has become a branch of Danske Bank. Although Fokus Bank will continue to be a branch member with topping up cover, guaranteed deposits will be reduced by the amount guaranteed by the Guarantee Fund for Depositors and Investors in Denmark (up to 300,000 Danish kroner per depositor). Guaranteed deposits (excluding branches with topping up cover) amounted to 58.2 per cent of total deposits.

Guaranteed deposits as a percentage of total deposits have developed as follows:

	2005	2006	2007	2008
Total (excl. topping up cover)	67.5%	65.2%	60.1%	58.2%

Measurement base for capital adequacy

The measurement base has grown by 12.7 per cent and the measurement base for 2008 will increase to NOK 1 553 million. Growth has been influenced by the fact that Fokus Bank has become a branch and the measurement base for the branch is not included in the total measurement base. If adjusted for Fokus Bank, growth would have been 19 per cent.

Minimum size 2008 – the Norwegian Banks' Guarantee Fund

Based on the information from the members compiled by FSA for all four periods, the minimum size of the Norwegian Banks Guarantee Fund in 2008 is calculated to be:

Guaranteed deposits	660 014 mill.	x 1.5 %	= NOK 9 900 mill.
Measurement base	1 552 524 mill.	x 0.5 %	= NOK 7 763 mill.
Total			NOK 17 663 mill.

As illustrated in above calculation, the minimum size of the Guarantee Fund will increase from NOK 15 967 million in 2007 to 17 663 million in 2008, or by 10.6 per cent or NOK 1 696 million. Had Fokus Bank not become a branch, the minimum size of the Guarantee Fund would have been approximately NOK 550 million larger.

Financial unrest

Last year's international financial unrest impacted heavily on the financial markets. This unrest originated in the US housing market. Borrowers who are not sufficiently creditworthy to obtain ordinary mortgages make up a sector known as sub-prime and the proportion of sub-prime loans has been increasing since 2002. Default rates on these loans are much higher than in the case of ordinary housing loans. The market value of these loans is to a greater extent than in the case of normal loans dependent upon developments in the value of the security interest.

Defaults on US housing loans have been increasing since the second half of 2006. This has spread to the securities market since many of the housing loans have been funded by issuing securities with security in housing loan portfolios. This has resulted in heavy losses for both European and US banks. According to figures published by the OECD at the beginning of December, total losses deriving from the housing loan crisis in the US will be as high as NOK 16 billion.

In the autumn of 2007, the fall in housing prices spread to money market interest rates and it proved difficult to acquire short-term funding. This was one of the reasons why the UK bank Northern Rock found itself in trouble. The bank was initially rescued by the Bank of England, which injected liquid assets and guaranteed the bank's deposits. In February 2008, Northern Rock was nationalized after several attempts to sell the bank had failed. A number of other European and US banks were also forced to effect major write-offs.

Norwegian banks have had little direct exposure to the US sub-prime housing loan market and limited direct exposure to structured products or hedge funds. The knock-on effects from the US housing market have resulted in increased credit mark-ups on corporate bonds in general, and this in turn has resulted in trading losses on the bond portfolios of banks. Generally, the international money market interest rate is considerably higher than the yield on government bonds. In Norway, too, the money market rate of interest at the end of the year was significantly higher than Norges Bank's policy rate and the yield on government bonds.

Developments in the market for US bonds and sub-prime loans were one of the causes at the root of the losses suffered by Norwegian local authorities as a consequence of high risk investments through Terra Securities and the subsequent bankruptcy of that company. Taken as a whole, the performances of the banks have only to a limited extent been hit by the international unrest.

Scene from 1928-29 during the bank crisis. Depositors queueing to withdraw their funds.

Following up the report on “Management of Banks in Crisis”

On the recommendation of the management, the Board adopted a decision at its meeting on 7 June to following up certain points in the report entitled “Management of Banks in Crisis”. This report was discussed in the Annual Report for 2006. Information on the handling of the individual points is provided below.

The complexity of banks’ computer systems and repayment of guaranteed deposits

If a bank is placed under public administration, steps will need to be taken to gain a comprehensive, accurate and speedy overview of the bank’s creditors and debtors.

Full details on customers are compiled and forwarded to the bank’s customers at the end of each year. The difficulties faced by a data processing centre in a public administration situation will probably include the following:

- Updating customer information at a time that deviates from the normal time
- Identifying guaranteed deposits
- Providing information to customers on their customer status and on how to change banks
- Handling customers who wish to change banks
- Disbursements

The Guarantee Fund has been in contact with the data processing centres of the banks in order to put procedures in place for ensuring the speediest possible disbursement.

Under the Guarantee Schemes Act, the Fund is required to cover losses on guaranteed deposits at the earliest possible time and no later than within three months. The Fund must ensure that each depositor first receives coverage for losses on deposits in an amount in Norwegian kroner equivalent to 20 000 euros. The goal is to reduce the time to disbursement significantly.

Information procedures relating to “who informs whom” in a public administration situation

The Ministry of Finance, Norges Bank and The Financial Supervisory Authority are compiling an overview of the roles played by the various authorities in the event of a bank being placed under public administration. In addition, a more concrete and detailed contact list will need to be compiled to provide unambiguous information on which institutions are expected to perform the various functions that will need to be executed as soon as a bank is closed.

Policy for supporting banks in crisis

The Board has on a number of occasions discussed the need to develop a policy on the problems associated with providing support to banks in crisis. This subject was also touched upon by the group working on the Management of Banks in Crisis project. It is, in the assessment of the Board, of major importance for the Fund to have a range of means at its disposal should a crisis occur. Public administration may be the only course available in cases in which the losses are heavy. However, in other situations this solution may be both more costly and less beneficial to all the parties concerned, including Society at large. Where this is the case, the Fund should exercise its statutory right to enable the bank to continue trading.

The policy will have to be based on existing legislation and must enjoy the support of the regulatory authorities. The Board has therefore resolved that the Working Group – on which all the relevant parties are represented – should be involved in the continuing work on this issue.

Security in the loans outstanding of banks

It can be assumed that if the Guarantee Fund (or Norges Bank) is to provide liquidity loans to a bank in crisis, then security will be required. Without security, there is a considerable risk that the Fund will sustain greater losses if it subsequently proves that the bank must after all be placed under public administration.

A bank in crisis will probably have sold off securities and equivalent liquid assets before the Guarantee Fund is asked to step in to provide support. In the main, the assets remaining on the balance sheet of the bank will consist of loans to customers. In the past, most loans to customers were in the form of negotiable interests of debt and could therefore, without difficulty, be furnished as security to a lender, including the Guarantee Fund.

The Guarantee Fund has asked the authorities to amend the regulations to permit loans extended in consumer relationships to be sold to - and thereby mortgaged to the benefit of – the Guarantee Fund and Norges Bank respectively.

Contact with bond trustee Norsk Tillitsmann ASA

Norsk Tillitsmann represents the majority of bond and certificate holders in Norway. The Fund’s management has held talks with Norsk Tillitsmann. In the event of a crisis in a bank, Norsk Tillitsmann will in all probability be one of the parties with whom discussions will need to be conducted.

Various solutions were discussed with Norsk Tillitsmann, although no decision was reached on which of these would be chosen/recommended in a crisis. Nevertheless, the parties agreed that the likelihood of losses for the creditors, Norsk Tillitsmann and the Guarantee Fund, will often be lower in the event of a controlled winding-up/merger etc. than if the bank is placed under administration.

Reopening of a bank placed under administration/ Agreement and regulations relating to the continued operations of a bank placed under administration

The primary purpose of placing a bank under administration is to avert winding-up. The question of whether a bank that has been placed under public administration could be reopened is raised in the report and is discussed in the comments received from the consultative bodies. The report concludes that for a number of reasons – not least reasons of time, technical reasons and possibly also contractual reasons – this is not realistic. It may well be that this question should be taken up again when some of the problems relating to technical issues are closer to a solution. An assessment should also be performed of whether the agreements/regulations relating to the further operations of a bank placed under administration suffer from defects.

Agreement with a law firm in connection with an administration situation

The Working Group has identified a number of problems that will need to be resolved speedily when a bank is placed under public administration. A complicating factor is that a newly-appointed administration board will need to spend time on familiarizing itself with the more general problems associated with the public administration process. An assessment should be performed of whether it might be useful to put in place some form of prequalification process to determine the suitability of likely candidates for members of an administration board. Such persons should also be expected to keep themselves fully apprised of development in the relevant areas of technical/professional expertise.

Setting up web pages in connection with public administration

The Guarantee Fund has its own website: www.bankenessikringsfond.no The site should probably be adapted to allow ongoing information to be provided to customers of the bank placed under public administration and to others. Since the website already exists, information on this subject could be made available relatively quickly, and the pages could be updated as and when new information is forthcoming. When a bank is placed under public administration, references to the website should be included in information/press releases issued by the Ministry of Finance, FSA, the Guarantee Fund and the bank in question (if it is still operational).

Questions relating to settlement

Rejected transactions

Questions concerning delineation problems relating to transactions that were rejected in the settlement but that it has been suggested may be included in a new settlement guaranteed by the Guarantee Fund, were raised in the report and in the consultative responses. This issue will need to be reviewed in consultation with the parties concerned.

The role of the NICS Operations Office (NICS – Norwegian Interbank Clearing System)

If a bank is placed under public administration, it is essential that the situation should be handled correctly and efficiently in the infrastructure for transaction exchange, reconciliation and settlement. The speedy communication of correct information to the NICS Operations Office and the NICS Operator (BBS) will be essential in order to implement the measures that will ensure that transactions with the bank placed under administration proceed in accordance with the applicable procedures. NICS Operations Office and the NICS Operator must be included on the list of institutions to be notified by the Ministry of Finance as soon as a decision has been adopted on public administration or other insolvency proceedings entailing that the problem bank will no longer conduct ordinary banking activities.

Securities settlement, CLS settlement

This encompasses the Norwegian kroner part of foreign exchange trades settled through the international CLS system and will involve only the biggest banks. Norges Bank maintains contact with both the broking offices and the banks in question. The Working Group will review these settlements and assess whether they will have a significant influence in the event of a bank being placed under public administration.

Review of the Guarantee Fund Scheme

In its consultative response, Norges Bank raised the question of whether a review of the Guarantee Schemes Act was required. The Bank notes that it may be that this question should be placed in abeyance until such time as a new directive in this area has been put in place. This matter will be postponed until there are further developments at international level.

Contact with the membership

The Banks' Guarantee Fund's Department for Analysis was originally set up by the Savings Banks' Guarantee Fund in 1964, amongst other reasons to provide the membership with assistance on audit-related matters. Although the functions of the Department have gradually changed over the years, analysis and the provision of information to member banks remain key functions.

Information on member banks is compiled pursuant to Section 2-4 (4) of the Guarantee Schemes Act: "The Fund may investigate members' bank accounts and audit practices and appraise their conduct of business. In that connection the Fund may require a member bank to present any documents etc., and information deemed necessary by the Fund."

Accounting supervision and analysis

As in previous years, the Department for Analysis reviewed the annual and quarterly financial statements of all member banks during 2007. The annual accounts and the annual report and the reports of the auditor and the control committee are reviewed with a view to providing the Department for Analysis with as much up-to-dated information on the individual bank as possible.

The annual accounts provide the basis for the Department for Analysis's analysis of accounts and standard figures, and represent a key source of information for conducting an overall assessment of individual banks and groups. This review forms part of the basis upon which banks are selected for inspection visits.

The spread in the sizes of the member banks entail that on a number of areas the smallest banks are not directly comparable with the very largest banks. The largest member, DnB NOR has total assets of over NOK 1,100 billion, making up almost 45 per cent of the total, whereas the smallest bank has total assets of NOK 0.3 billion. The variations between the member banks are taken into account in the assessments.

As in previous years, the analyses of accounts and standard figures in 2007 were conducted using official accounting date compiled directly from the banks. The results of the analyses and the standard figures for the savings banks were sent to the individual banks on 26 March 2007. For internal use the accounting figures were adjusted for, amongst other values, equity capital differences.

Developments in the accounts of the banks over the course of the year are monitored, inter alia by compiling and reviewing the quarterly accounts of all banks. The Department for Analysis has created a database program for registering key figures from the banks' quarterly accounts. In addition to accounting values, capital adequacy figures and information on defaulted and exposed loans are registered. The Department for Analysis has been registering quarterly figures for savings banks for six years and for commercial banks for four years. In terms of overview this has provided the Department with a highly efficient tool, which proved to be of great assistance during 2007. Scope is provided for calculation, sorting and allocation to groups on the basis of the registered quarterly accounting figures.

Inspection visits

Identifying banks that may be trouble has always formed an important part of the work of the Department for Analysis. The value of a bank that is trading normally can not in any way be compared with the value of a bank that has been placed under administration.

The financial strength of most banks as at 30 September 2007 was good and none of the well-established banks were operating at a loss. Average return on equity was 14.8 per cent, and 93 per cent of the banks in terms of number recorded a return on equity of over 5.0 per cent. The strong growth in lending by banks continued in 2007, restated on a 12-month basis this growth corresponded to the average return on equity. Defaulted and exposed loans continued to fall in 2007, although the figures registered as at 30 September indicate that overall values are in the process of turning around and we are expecting some increase for the final quarter and the start of 2008. As in previous years, 2007 was a good year for the banks in terms of losses, with virtually 0 per cent losses being registered by most banks. Moderate losses are expected in 2008, although in the future the new IFRS-based accounting rules will make for greater variation in book losses.

Eight banks were visited in 2007. The equivalent figure for 2006 was nine banks. In 2007 as in previous years, the supervisory activities of the Department for

Analysis focused on small and medium-sized banks. The selection criteria for inspection were those applied in previous years, with an emphasis on key indicators of financial strength. However, growth, losses and operating expenses were also important factors in the selection of banks for inspection visits.

It has been decided in consultation with the Board and the Manager that resources should not be expended on inspecting the large and medium-sized banks (over NOK 3 billion), since the inspection procedures of The Financial Supervisory Authority (FSA) focus particular attention on the major banks.

Information activities and courses

The annual autumn conference was held at the Rica Hell Hotel near Trondheim between 16 and 18 September and attracted a total of 187 attendees and speakers.

The main theme of the year's conference was Basel II, with a particular emphasis on risk profile and calculating ICAAP. FSA provided information on its role as regulatory authority, including guidelines on the regulatory process. Norges Bank spoke on the subject of macroeconomic factors that influence the exposed commitments of the banks. As in previous years, the sessions on Day 2 covered current issues and were given by prominent professionals within the financial services industry. The speakers were drawn from FSA, Norges Bank, the Norwegian Savings Banks Association, the Norwegian Financial Services Association (FNH), Sparebanken Midt-Norge, Klæbu Sparebank, Haugesund Sparebank and the Department for Analysis.

As in previous years, courses on the annual financial statement, aimed at auditors and bank personnel responsible for preparing financial statements were held in Oslo (2), Kristiansand and Trondheim. The majority of banks and their external auditors are represented on these courses and in 2007 just over 250 participants took part. Speakers are provided by the Department for Analysis as well as by FSA, individual banks and auditing firms. The courses are organised in collaboration with Spama. The Department for Analysis has also provided speakers on courses for company directors and courses for members of audit committees.

As well as arranging courses, the Department for Analysis regularly fields questions from members on accounting and auditing issues and participates on internal and external committees on:

- accounting issues – the Accounting Act and associated regulations, and accounting standards,
- auditing issues – matters of particular importance to the financial services sector,
- tax issues – those areas of corporate taxation that apply only to the financial services sector.

Input is also provided in consultative processes in which the experience of the Department for Analysis is of importance to the banking sector. Examples include parts of new regulations governing capital requirements and regulations on major commitments, the internal control regulations and regulations governing the audit committees of banks. This work also gives the Department for Analysis valuable insight into the framework conditions governing the operations of the banks which are of significance as regards inspection visits and bank analyses. Auditors' organisations and associations with ties to the financial services sector are seen as important forums for dialogue with representatives of the industry.

Calculating and collecting the levy

According to the Guarantee Schemes Act, members are required to pay an annual fee until the Guarantee Fund has reached a minimum size. Until this is the case, member banks are also required to furnish guarantees. The terms applicable to new members upon entry are determined by the Ministry of Finance.

The banking statistics submitted by the members include overviews of deposits apportioned according to size. The Department for Analysis has received schedules from FSA detailing guarantee deposits and the measurement base for capital adequacy for the member banks, and this information will provide the basis for calculating the minimum size of the Guarantee Fund in 2008.

Where applicable, the entry fee payable by new member banks, including branches with topping up cover, are calculated and forwarded to FSA/the Ministry of Finance for approval before collection. Reference is also made to the section headed "Guarantee Fund levy for 2008".

Cooperation at international level

The Norwegian Banks' Guarantee Fund is a member of the European Forum of Deposit Insurers (EFDI). The organisation is incorporated as a company under Belgian law. The object of the Forum is to contribute to the stability of the financial system by promoting European cooperation between deposit guarantee schemes and by initiating discussions and exchanging expertise and information on subjects of common interest and importance. The forum has no permanent secretariat. At present, secretariat functions are performed by the Italian deposit guarantee scheme since the Chairman of the EFDI is the CEO of the Italian scheme.

The EFDI works closely with the European Commission. At the request of the Commission, the EFDI has undertaken to conduct a number of investigations. These will cover the definition of guaranteed deposits, topping up arrangements for branch members, the exchange of information between deposit guarantee schemes, proposals for the best practice in the area of deposit guarantee schemes, information for bank customers and proposals for changes in payment times. Most of these reports are expected to be completed in 2008.

The Agreement between the Guarantee Fund, the Norwegian Financial Services Association and the Norwegian Savings Banks Association

In order to ensure that the Guarantee Fund has sufficient resources available should a situation arise in which one or more banks encounter problems, the Fund has concluded an agreement with the Norwegian Financial Services Association and the Norwegian Savings Banks Association under which the Fund may draw on the resources of these two organizations. This is to cover the Fund's needs for administrative and technical resources in connection with the Fund's ordinary and day-to-day operations, reporting functions and functions that will arise should a banking crisis occur. The Savings Bank Association and the Financial Services Association have undertaken to take due account of these requirements both in a normal situation and in a crisis situation when organizing their own activities.

Following on from this Agreement, the Manager has held meetings with the persons concerned to review the underlying assumptions and responsibilities provided for in the Agreement.

Bankbranch – 1960.

Topping-up agreements with branches of foreign credit institutions

Under Section 2-2 of the Guarantee Schemes Act, a bank or credit institution headquartered in another EEA state with a branch in Norway is entitled to become a member of the Norwegian deposit guarantee scheme. The precondition for membership is that the deposit guarantee scheme in the home country of the branch is not considered to provide depositors in the branch with cover that is on a par with the statutory cover afforded in Norway. The King may decree that conditions shall attach to such membership.

Nordnet Bank AB applied for branch membership of the deposit guarantee scheme in September 2005. At its meeting on 14 March 2006, the Board accepted Nordnet Bank AB's membership application, subject to the condition that the necessary bilateral agreements were concluded between the two deposit guarantee schemes and that The Financial Supervisory Authority (FSA) granted its approval. Nordnet Bank AB's membership was approved by FSA in a letter in March 2007.

Fokus Bank applied to change its membership status in May of 2006. The application was occasioned by the change in the bank's situation: from a Norwegian company to a branch of Danske Bank in Norway. As Fokus Bank was already a member of the Guarantee Fund, no additional fee was payable for continued membership. As a consequence of the change in its status Fokus Bank's capital base requirement has been reduced by NOK 550 million. This is related to the fact that the Danish deposit guarantee scheme covers deposits of up to 300 000 Danish kroner, and that the 0.05 per cent measurement base requirement for capital ratio ceased to apply. As regards the deposits held by the Danske Bank branch in Norway the authorities decided that an entrance fee of NOK 451 000 would be payable. In a letter dated 6 March 2007, FSA consented to the bank's membership of the Fund and with effect from 1 April 2007 the bank's membership status changed from a subsidiary to a branch of Danske Bank.

Kaupthing Bank hf NUF applied for branch membership of the Guarantee Fund in a letter dated 14 December 2006. The bank is domiciled in Iceland and opened its branch in Norway in 2007. At a meeting on 7 June 2007, the Board of the Guarantee Fund decided that Kaupthing Bank hf NUF could be accepted as a member of the Guarantee Fund on the basis of an agreement between the regulatory authorities in Norway and Iceland and an agreement between the deposit guarantee funds in the two countries. Formally, the bank became a member of the Fund on 19 July 2007.

Thus the Guarantee Fund has concluded agreements on topping up arrangements with branches of credit institutions in Sweden, Denmark and Iceland.

The bodies of the Guarantee Fund

The organisation
Following elections at the General Meeting on 26 April 2007 and the elections of chairman and deputy chairman at the subsequent initial Board meeting, the structure of the Board was as follows:

- Finn Haugan, CEO SpareBank 1 Midt-Norge, Chairman (up for re-election in 2009)
- Tom Grøndahl, Deputy CEO DnB NOR Bank ASA, Deputy Chairman (up for re election in 2008)
- Jan Arveschoug, CEO Voss Veksel- og Landmandsbank ASA (up for re-election in 2009)
- Geir-Tore Nielsen, CEO Lillestrøm Sparebank (up for re-election in 2008)
- Gunn Wærsted, CEO Nordea Bank Norge ASA (up for re-election in 2009)
- Kristin Gulbrandsen, Director The Central Bank of Norway
- Bjørn Skogstad Aamo, Director The Financial Supervisory Authority

The offices of Chairman and Deputy Chairman are elected for one year at a time.

The following deputy members were elected for two-year terms of office (listed in numerical order):

1. Kate Henriksen, Divisional Director, Sparebanken Vest (up for re-election in 2009)
2. Thomas Borgen, CEO Fokus Bank (ASA) (up for re-election in 2008)
3. Arild Hagen, CEO Rørosbanken Røros Sparebank (up for re-election in 2008)
4. Thorbjørn Vik, CEO Bank 1 Oslo AS (up for re-election in 2008)
5. Åsmund Kåre Rørvik, CEO Kvinnherad Sparebank (up for re-election in 2009)

Deputy Member No. 1 is convened to all Board meetings

The Board also includes the following publicly-appointed members:
- Svein-Henning Kjelsrud, Deputy Director General The Financial Supervisory Authority
- Birger Vikøren, Director The Central Bank of Norway

The General Meeting elected the following Election Committee:

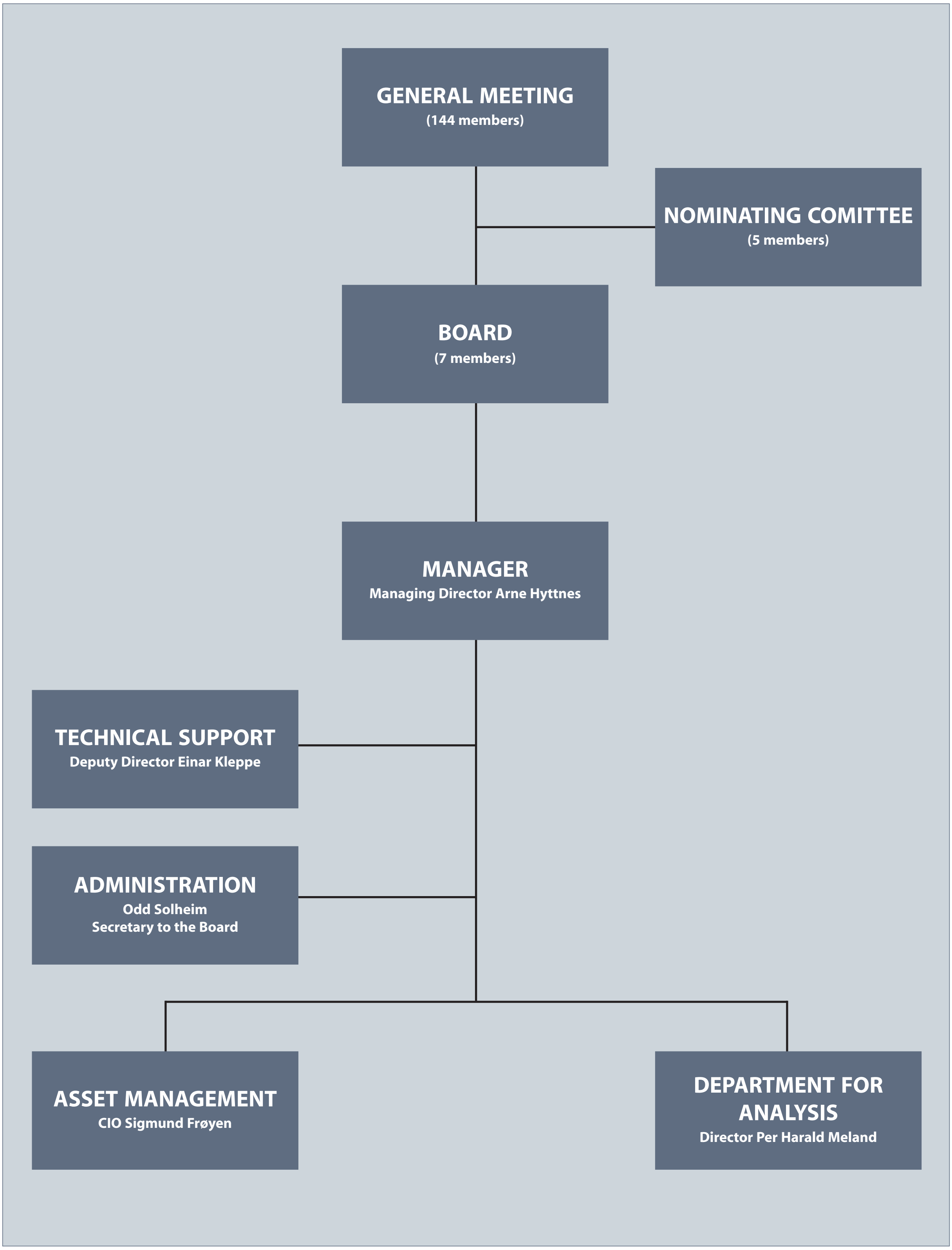
- Arvid Andenæs, CEO Sparebanken Sogn og Fjordane, Chair (up for re- election in 2009)
- Thomas Borgen, CEO Fokus Bank ASA (up for re-election in 2009)
- Roar Hoff, Manager DnB NOR ASA (up for re-election in 2009)
- Oddvar Nordnes, CEO Landkreditt Bank AS (up for re-election in 2008)
- Herbjørn Steinsvik, CEO Totens Sparebank (up for re-election in 2008)

Managing Director Arne Hyttnes of the Norwegian Savings Banks Association took over the office of Manager of the Guarantee Fund with effect from 1 July 2007.

Chief Investment Officer Sigmund Frøyen heads the Asset Management which has eight employees. Director Per Harald Meland heads the Department for Analysis, which has six employees. Director Odd Solheim is head secretary.

In addition, the Banks' Guarantee Fund is able to draw on the resources of the Financial Services Association (FNH) and the Savings Banks Association if the workload of the Fund so necessitates.

Organogram


GENERAL MEETING
(144 members)
NOMINATING COMITTEE
(5 members)
BOARD
(7 members)
MANAGER
Managing Director Arne Hyttnes
TECHNICAL SUPPORT
Deputy Director Einar Kleppe
ADMINISTRATION
Odd Solheim
Secretary to the Board
ASSET MANAGEMENT
CIO Sigmund Frøyen
DEPARTMENT FOR ANALYSIS
Director Per Harald Meland

List of members of The Norwegian Banks' Guarantee Fund as at 31.12.07

A
Andebu Sparebank
Arendal og Omegns Sparekasse
Askim Sparebank
Aurland Sparebank
Aurskog Sparebank

B
Bamble og Langesund Sparebank
Bank 1 Oslo A/S
Bank Norwegian AS
Bank2 ASA
Berg Sparebank
Birkenes Sparebank
Bjugn Sparebank
Blaker Sparebank
Bolig- og Næringsbanken ASA
Bud, Fræna og Hustad Sparebank
Bø Sparebank

C
Cultura Sparebank

D
DnB NOR Bank ASA
Drangedal og Tørdal Sparebank

E
Eidsberg Sparebank
Etne Sparebank
Etnedal Sparebank
Evje og Hornnes Sparebank

F
Fana Sparebank
Fjaler Sparebank
Flekkefjord Sparebank
Fornebu Sparebank
Fron Sparebank

G
Gildeskål Sparebank
Gjensidige Bank ASA
Gjerstad Sparebank
Glitnir Bank ASA
Gran Sparebank
Grong Sparebank
Grue Sparebank

H
Halden Sparebank
Haltdalen Sparebank
Harstad Sparebank
Haugesund Sparebank
Hegra Sparebank
Helgeland Sparebank
Hjartdal og Gransherad Sparebank
Hjelmeland Sparebank
Hol Sparebank
Holla og Lunde Sparebank
Høland Sparebank
Hønefoss Sparebank

I
Indre Sogn Sparebank

J
Jernbanepersonalets Sparebank

K
Klepp Sparebank
Klæbu Sparebank
Kragerø Sparebank
Kvinesdal Sparebank
Kvinnherad Sparebank

L
Landkreditt Bank AS
Larvikbanken Brunlanes Sparebank
Lillesands Sparebank
Lillestrøm Sparebank
Lofoten Sparebank
Lom og Skjåk Sparebank
Luster Sparebank

M
Marker Sparebank
Meldal Sparebank
Melhus Sparebank
Modum Sparebank

N
Nes Prestegjelds Sparebank
Nesset Sparebank
Netfonds Bank ASA
Nordea Bank Norge ASA
Nordlandsbanken ASA
Nøtterø Sparebank

O
OBOS
Odal Sparebank
Ofoten Sparebank
Opdals Sparebank
Orkdal Sparebank

P
Pareto Bank ASA (fra 02.01.08)

R
Rindal Sparebank
Ringerike Sparebank
Rygge-Vaaler Sparebank
Rørosbanken Røros Sparebank

S
Sandnes Sparebank
Sandsvær Sparebank
Santander Consumer Bank AS
Sauda Sparebank
SEB Privatbanken ASA
Selbu Sparebank
Seljord Sparebank
Setskog Sparebank
Skudenes & Aakra Sparebank
Soknedal Sparebank
SpareBank 1 Hallingdal
SpareBank 1 SR-Bank
Sparebanken Bien
Sparebanken Grenland
Sparebanken Hardanger
Sparebanken Hedmark
Sparebanken Hemne
Sparebanken Jevnaker Lunner
Sparebanken Midt-Norge
Sparebanken Møre
Sparebanken Narvik
Sparebanken Nord-Norge
Sparebanken Nordvest
Sparebanken Pluss
Sparebanken Sogn og Fjordane
Sparebanken Sør
Sparebanken Telemark
Sparebanken Vest
Sparebanken Vestfold
Sparebanken Volda Ørsta
Sparebanken Øst
Spareskillingsbanken
Spydeberg Sparebank
Stadsbygd Sparebank
Storebrand Bank ASA
Strømmen Sparebank
Sunndal Sparebank
Surnadal Sparebank
Søgne og Greipstad Sparebank

T
Time Sparebank
Tingvoll Sparebank
Tinn Sparebank
Tolga- Os Sparebank
Totens Sparebank
Trøgstad Sparebank
Tysnes Sparebank

V
Valle Sparebank
Vang Sparebank
Vegårshei Sparebank
Verdibanken ASA
Vestre Slidre Sparebank
Vik Sparebank
Voss Sparebank
Voss Veksel- og Landmandsbank ASA

Y
yA Bank ASA

Ø
Ørland Sparebank
Ørskog Sparebank
Øystre Slidre Sparebank

Å
Åfjord Sparebank
Aasen Sparebank

Topping up membership (law § 2-2)

Fokus Bank branch of Danske Bank
Kaupthing Bank branch of
Kaupthing Bank hf NUF
Nordnet Bank branch of Nordnet Bank AB

Statutes of the Norwegian Banks' Guarantee Fund

Adopted at the first general meeting of the Norwegian Banks' Guarantee Fund on 22 June 2004 and affirmed by the Ministry of Finance on 9 September 2004. Amended at the general meeting of 19 April 2005, 26 April 2006 and 27 April 2007. Affirmed by the Ministry of Finance on 26 September 2006, and on 15 May 2007.

Chapter I Membership and purpose

Section 1 Establishment and membership

(1) The Norwegian Banks' Guarantee Fund (hereafter called the Guarantee Fund) was established by Act of 25 June 2004 on Amendments to the Guarantee Schemes Act through the merger of the Savings Banks' Guarantee Fund and the Commercial Banks' Guarantee Fund. The amending act enters into force on 1 July 2004. The activities of the Fund are regulated by the Act on Guarantee Schemes for Banks and Public Administration etc., of Financial Institutions (Act no. 75 of 6 December 1996), hereafter called the Act.

(2) The Fund's registered office is in Oslo.

(3) Institutions entitled or obliged to be members of the Norwegian Banks' Guarantee Fund:

a. Saving banks and commercial banks with their head office in Norway shall be members of the Guarantee Fund.
b. The King may decide that other credit institutions with their head office in Norway shall be members of the Guarantee Fund.
c. Credit institutions with their head office in another EEA state which take deposits from the public through a branch in Norway are entitled to become members of the deposit-guarantee scheme if the deposit-guarantee scheme in the branch's home country cannot be considered to give the branch's depositors protection equal to that provided under the Act.
d. The King may decide that branches of credit institutions with their head office in a non-EEA state shall be members of the deposit-guarantee scheme.

(4) The King may lay down further rules concerning membership for branches of foreign credit institutions, cf. the Act section 2-2 third paragraph.

(5) The Guarantee Fund is a legal entity in its own right. No member has a proprietary right to any part of the Guarantee Fund.

Section 2 Purpose

(1) The purpose of the Guarantee Fund is to secure the deposit liabilities of its members, pursuant to section 15.

(2) In order to ensure that a member as mentioned in section 1, subsection (3) a and b, can fulfil its obligations or continue its activities, or have its activities transferred to another institution, the Fund may also grant support under the rules of section 17 and section 18.

Section 3 Right to inspect members

(1) The Guarantee Fund may impose on members such reporting obligation as is necessary to enable the Fund to calculate annual membership levy.

(2) The Guarantee Fund may investigate members' accounts and audit practice and appraise their conduct of business. In that connection the Fund may require a member to present any documents and information deemed necessary by the Fund.

Chapter II Capital of the Guarantee Fund

Section 4 The Guarantee Fund's capital

(1) The Guarantee Fund's aggregate capital shall at all times at least equal the sum of 1.5 per cent of total guaranteed deposits with the members plus 0.5 per cent of the sum of denominators of the capital adequacy requirements for members as mentioned in section 1, subsection (3) a and b. The capital shall be acquired through membership levy and guarantees as provided in sections 5 and 6. Derogation from these requirements may be done by regulation from the Ministry, unless otherwise regulated by law or regulations.

(2) For the purpose of calculating the guaranteed deposits with members pursuant to subsection 1, a basis shall be taken in an average of the members' deposits at the end of the third and fourth quarter of the calendar year two years prior to the year of payment and at the end of the first and second quarter of the calendar year prior to the year of payment. The sum of denominators of the capital adequacy requirements shall be calculated in the same way.

Section 5 Members' levy

(1) The members shall each year pay a levy to the Fund unless the Fund's equity according to the last annual accounts exceeds the minimum requirement under section 4. Derogation from these requirements may be done by regulation from the Ministry, unless otherwise regulated by law or regulations.

(2) The levy shall be calculated in accordance with the provisions of section 2-7 and section 2-9 of the Act with appurtenant regulations.

(3) The board shall by 1 May each year notify each member of the size of the levy to be paid. The deadline for remittance shall be established by the board.

(4) New members of the Fund that have carried on business prior to joining shall pay a levy in accordance with a special decision made by the Ministry of Finance.

Section 6 Members' guarantee

(1) To the extent that the Guarantee Fund's assets fall below the minimum required under section 4, the shortfall shall be covered by guarantees from its members. The amount guaranteed by each member shall be calculated on a pro rata basis in the same way as the levy payable under section 5. Calls for payments pursuant to guarantee liabilities in a single year may not exceed one-tenth of the Guarantee Fund's aggregate capital pursuant to section 4.

(2) The board undertakes distribution of the guarantee amounts. The distribution of the guarantee amounts shall be recalculated each year concurrently with the calculation of the Fund's aggregate capital pursuant to section 4.

(3) The board decides how the guarantee declarations furnished by the members shall be formulated and sees to it that the declarations are obtained.

(4) The board stipulates whether and how the guarantee liabilities shall be secured.

Section 7 Investment of the Guarantee Fund's assets

(1) The board shall, within the framework set out by the rules below, establish a strategy and guidelines for management of the Guarantee Fund's assets based on prudent management, satisfactory return on investments, necessary liquidity and ethical asset management.

(2) Investment is subject to the following conditions:

a) At least one-third of the Fund's assets to be invested in Norwegian and foreign government and government-guaranteed bonds.
b) The Fund may not invest assets directly or indirectly in shares, primary capital certificates or other capital issued by any Norwegian bank or parent company of a financial group which includes a Norwegian bank, unless such investment is a support measure pursuant to section 2-12 of the Act.

Section 8 Borrowing

(1) The board may decide that the Fund shall raise loans if this is necessary for fulfilment of the Fund's purpose

Chapter III The Guarantee Fund's bodies

Section 9 General meeting

(1) The Guarantee Fund's highest authority is the general meeting. Except as otherwise decided by the King, each member of the Fund has one representative and one vote at the general meeting. A member institution may ask a representative who is entitled to attend on behalf of another member, to serve as a proxy.

(2) The ordinary general meeting is held once every year, and shall if possible be held by the end of June.

(3) The general meeting is convened by the board. Notice of the ordinary general meeting shall be given by letter sent to the members at least two weeks in advance of the meeting. The agenda for the general meeting shall be sent to the members at least one week in advance of the meeting. The general meeting may not make a final decision in matters other than those listed in the circulated agenda.

(4) Any proposal that a member wishes to be dealt with at the ordinary general meeting must be submitted in writing. Such proposals should be sent in good time before notice of the meeting is dispatched, and must have been received by the Fund three weeks in advance of the general meeting.

(5) An extraordinary general meeting shall be convened when decided by the board, or when at least ten members or members altogether representing more than 10 per cent of the members' aggregate total assets request such a meeting and specify the business they wish to be dealt with. Notice of an extraordinary general meeting shall be in writing, such that the notice can be expected to reach all members no later than one week in advance of the general meeting.

(6) The chairman of the board or, in his absence, the vice-chairman shall chair the general meeting. If neither is able to attend, an ad hoc chairman shall be elected by the general meeting. Minutes of the proceedings shall be kept for which the chairman shall be responsible. The minutes shall be approved and signed by the chairman and two other participants to be elected at the meeting.

(7) Unless otherwise specifically provided by these statutes, the general meeting adopts decisions by simple majority. In the event of a tied vote the chairman has the casting vote, except at elections where the decision is reached by drawing lots.

(8) The general meeting adopts statutes for the Guarantee Fund and may establish instructions for the board.

(9) The following items shall be dealt with at the ordinary general meeting:

a. Annual report.
b. Accounts and auditor's report.
c. Fixing of remuneration to the elected officers and auditor.
d. Election of board members with alternates.
e. Election of members of the election committee.
f. Other items to be dealt as listed by the board.
g. Members' proposals.

Section 10 Election committee

(1) At the general meeting an election committee shall be elected which shall prepare the elections to be held at the next ordinary general meeting. The board's elected members nominate members to the election committee.

(2) The election committee shall have five members who shall be elected for two years from among representatives of the member institutions. A member should preferably not be re-elected more than once. The general meeting nominates the chairman of the committee.

Section 11 The board

(1) The board has seven members. Five members and five alternates in numerical sequence are elected by the general meeting, preferably from among the chief executives of the member institutions. One member with an alternate shall be nominated by Norges Bank and one member with an alternate shall be nominated by Kredittilsynet (The Financial Supervisory Authority of Norway).

(2) The elected members and alternates are appointed for two years. When elections are held, importance shall be attached to achieving a balanced representation from member institutions of differing size and character. A member should preferably not be re-elected more than twice.

(3) The board appoints from among its members the chairman and deputy chairman for one year at a time.

(4) For a board decision to be valid at least four members must be present and in favour of the decision, unless otherwise provided by section 15 subsection (5), or section 17 subsection (3), below.

(5) Board meetings shall be held as often as the chairman deems necessary or when at least two board members so request. Notice of board meetings shall as far as possible be given in writing. The notice shall state the matters to be dealt with. The business manager shall circulate notice of board meetings on behalf of the board chairman.

(6) If deemed necessary for reasons of time, the board chairman may choose to submit a matter to the board on the basis of written procedure. However, a decision cannot be made on this basis if a board member demands that the matter be dealt with at a board meeting. Decisions made on the basis of written procedure shall be presented and entered in the minutes at the first upcoming board meeting.

(7) Minutes, for which the chairman is responsible, shall be kept of the board's proceedings. Each member may request to have his vote recorded in the minutes. The minutes shall be signed by two board members and the business manager. A copy of the minutes shall be sent to the board members.

(8) The members of the board are entitled to remuneration for their work. The remuneration shall be fixed by the general meeting.

Section 12 The board's duties

(1) The board is in charge of the activities of the Guarantee Fund.

(2) The board shall inter alia:

a. Give notice of ordinary and extraordinary general meetings.
b. Make decisions regarding collection of levy and obtaining guarantee declarations etc in pursuance of section 5 subsections (3) and (4) and section 6 subsections (2), (3) and (4), of these statutes.
c. Establish a strategy and guidelines for management of the Guarantee Fund's assets in accordance with section 7 and make decisions regarding borrowing in accordance with section 8.
d. Engage a business manager for the Guarantee Fund, and establish the latter's instructions and remuneration.
e. Make decisions regarding implementation of the deposit guarantee or regarding support measures pursuant to sections 15, 16, 17 and 18 of these statutes.

(3) The board's power to commit the Guarantee Fund

a. The board chairman or at least two board members jointly may sign on behalf of the Fund.

b. The board may give the business manager limited authority to act on behalf of the Fund.

Section 13 Audit

(1) The general meeting shall appoint a state authorised auditor to perform the audit. The auditor shall present his report to the general meeting.

Section 14 Duty of confidentiality

(1) The Guarantee Fund's elected officers, employees and auditors shall sign a declaration of confidentiality in respect of information which comes to their knowledge in the course of their duties.

Chapter IV The Fund's deposit guarantee and support to member institutions

Section 15 Deposit guarantee

(1) The Guarantee Fund is bound to cover losses incurred by a depositor on deposits with a member institution. In these statutes deposit shall mean any credit balance on a nominative account, and any debt evidenced by a certificate of deposit issued to a named person, except deposits from other financial institutions. In these statutes deposits shall also include credit balances deriving from payment transfer orders or other ordinary banking services, as well as interest not fallen due.

(2) If a depositor's total deposits with the member institution in question exceed NOK 2 million, the Fund is not obliged to cover losses on that part of the total deposits that exceeds this amount. Whenever the member institution is authorised to set off deposits against liabilities, an individual depositor's total deposits shall be reduced by liabilities that have fallen due pursuant to other agreements. The King may decide by regulations that the limit on compulsory cover may be set at a level higher than NOK 2 million in the case of certain special types of deposit or in the case of deposits from particular depositors.

(3) The Fund is not bound to cover losses on:

a) deposits from mutual funds and other collective-investment undertakings,
b) deposits carrying an unusually high rate of interest or other financial advantages when such advantages have contributed to aggravating the institution's financial situation.

(4) The Fund is not entitled to cover losses on:

a) deposits from companies in the same group as the member institution,
b) deposits consisting of the proceeds of a punishable act in respect of which a final and enforceable judgment has been handed down.

(5) Decisions to cover losses over and above the amount the guarantee fund is obliged to pay pursuant to subsections (2) and (3) require support from at least five board members.

Section 16 Settlement under the deposit guarantee

(1) The Fund shall cover losses on deposits pursuant to section 2-11 of the Act.

Section 17 Support measures

(1) In order to ensure that a member institution as mentioned in section 1 subsection (3) a and b can fulfil its obligations or continue its business, or in the event have its business transferred to another institution, the Fund may grant support by:

a) providing a guarantee or other support to secure deposits or cover losses that are not covered pursuant to section 15 above,
b) providing liquidity support, loans or guarantees for loans or fulfilment of other commitments,
c) supplying equity or providing an equity guarantee to enable the business to continue or be wound up,
d) covering losses incurred by creditors or certain groups of creditors as a result of a liquidity deficit or capital inadequacy.

(2) Support to a member institution may instead be given to the parent company of a financial group. The parent company shall in such case forward the support directly to the member institution.

(3) Decisions regarding support may only be made within the limits set out in section 19. When considering whether support shall be provided, the board shall attach particular weight to consideration of public confidence in the banking system and to

consideration of the Fund's financial position. The board shall also weigh the costs that would be associated with support measures against the costs that may accrue if the matter were to end in public administration and disbursement under the deposit guarantee. Any decision to grant support requires the backing of at least five board members, and the justification shall made clear in the minutes of the board of the Fund.

Section 18 Conditions for support

(1) The board decides whether and to what extent a member institution shall be given support as mentioned in section 17 above, and by what means.

(2) A member institution in receipt of support from the Fund shall implement such decisions and conditions as the Fund lays down to protect against losses. Such member institution shall make regular reports to the board of the Fund regarding the member institution's position and business in accordance with further rules laid down by the board of the Guarantee Fund.

(3) The board of the Fund may instruct a member institution in receipt of support from the Fund to initiate negotiations with a view to merging with another member institution or other financial institution, or to make changes in the member institution's management or its activities.

Section 19 Maximum limit for the Guarantee Fund's overall obligations

(1) The board may not make decisions pursuant to section 17 or section 18 unless the Fund's remaining capital subsequent to the support measure together with future receipts of annual levy and guarantee capital plus other supply of capital is assumed to be sufficient to cover the Fund's obligations under the deposit-guarantee scheme.

(2) As provided in section 2-12 subsection 6 of the Act, the Guarantee Fund may not, except when authorised by the Ministry of Finance, provide a guarantee or assume other commitments in connection with a deposit guarantee or support measure which in aggregate amount to more than twice the Fund's minimum capital pursuant to section 4.

Chapter V Annual report and accounts

Section 20 Annual report

(1) The annual report on the Guarantee Fund's activities shall be submitted to the general meeting by the board. It shall accompany the notice of the general meeting. The annual report shall be signed by each board member and countersigned by the Fund's business manager.

Section 21 Accounts

(1) The Guarantee Fund's accounts shall be presented for the calendar year. The net profit shall be added to the capital.

(2) The business manager shall submit draft audited annual accounts to the board by the end of March.

(3) The accounts shall be signed by each board member and countersigned by the Fund's business manager.

(4) The accounts shall accompany the notice of the ordinary general meeting.

Chapter VI Changes to the statutes etc.

Section 22 Statutes

(1) Any decision regarding changes to the statutes requires two-thirds of the votes cast. Such decision may not be implemented until it has been approved by the King.