BANKENES SIKRINGSFOND

THE NORWEGIAN BANKS' GUARANTEE FUND

Annual Report

2018


67,265.54
36,618.74
65,102.50

Contents

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Letter from the CEO

Most banks reported good results in 2018 as a result of higher margins, lower losses and good cost control. Strong banks have helped reduce the overall risk to the The Norwegian Banks' Guarantee Fund. At the same time, there has been considerable growth in consumer credit, resulting in a higher default ratio for banks in this market. These banks are mainly funded with guaranteed deposits in isolation, this has led to increased risk for the The Norwegian Banks' Guarantee Fund. It is assumed that the new rules on consumer credit and the introduction of debt registers will impact on future consumer credit expansion in Norway.

Member banks are closely monitored through quarterly accounting reviews, analyses and bank visits. If a member bank is to be placed under public administration, the Norwegian Banks' Guarantee Fund must repay guaranteed deposits within seven working days. The electronic payment solution was improved in 2018 with further enhancements to security and user-friendliness. Crisis management procedures and systems are tested regularly.

The Norwegian Banks' Guarantee Fund had equity of NOK 35.5 billion at the end of 2018, equivalent to 2.71 per cent of total guaranteed deposits. This is above the EU's minimum requirement of 1.8 per cent for deposit guarantee and Resolution Funds combined. The management of the Fund's capital is closely monitored to ensure compliance with its statutes and limits set by the Board. Limited risk and high liquidity are key criteria when deciding the Fund's investment strategy. The Fund's capital is invested in very safe and liquid fixed-income instruments issued by highly-rated sovereign states. The interest rate risk associated with the Fund's investments is considered to be low to moderate, and only substantial interest rate fluctuations in a short period of time are expected to have material impact on investment results. The Fund's investments returned NOK 278 million in 2018.

From 1 January 2019, the EU's Deposit Guarantee Schemes Directive (DGSD) and Bank Recovery and Resolution Directive (BRRD) have been implemented in Norwegian law through chapters 19 and 20 of the Financial Institutions Act and a new Act on the Norwegian Banks' Guarantee Fund. The new act has brought changes in the organisation of the Norwegian Banks' Guarantee Fund. A new Board was appointed by the Ministry of Finance with effect from 1 January 2019. The Board is now the Norwegian Banks' Guarantee Fund's supreme governing body and represents the Fund externally. The General Meeting, consisting of member banks, was discontinued from the same date. The Board has begun work on new administrative guidelines. The reorganisation is not yet complete.

The amendments to the Financial Institutions Act enhance the protection of depositors, primarily through unlimited cover for temporary high balances as a result of special life events such as marriage, divorce, insurance payouts and property sales. This new extended protection lasts for up to 12 months after the deposit is made. The standard cover for depositors at member banks is still NOK 2 million per customer per bank. From 1 January 2019, an upper limit of EUR 100,000 will apply to all customers who have deposits in Norwegian banks' operations in EEA countries, whether organised as a branch or as a cross-border service. The DGSD has not been incorporated into the EEA Agreement, and it is still uncertain whether the Norwegian guarantee eventually will be harmonised with the EU requirement of EUR 100,000 per customer per bank.

Under the new legislation, the Norwegian Banks' Guarantee Fund is responsible for the management and administration of a new Resolution Fund. The Resolution Fund will receive 55 per cent of the former Guarantee Fund's equity as at 31 December 2018. The remaining 45 per cent will be transferred to the new Guarantee Fund and make up the Norwegian Banks' Guarantee Fund's equity/own funds. The Norwegian Banks' Guarantee Fund may be asked to assist the Financial Supervisory Authority of Norway (FSA) with its duties as resolution authority, but the right of disposal of the Resolution Fund falls to FSA as resolution authority. The Norwegian Banks' Guarantee Fund will therefore be responsible for the management and administration of two different funds from 1 January 2019: the Deposit Guarantee Fund and the Resolution Fund.

From 2019, there will be two models for calculating contributions from banks: one for the Deposit Guarantee Fund and one for the Resolution Fund. Both models are to be risk-based.

The legislative changes from 1 January 2019 also introduce more extensive requirements for the Norwegian Banks' Guarantee Fund to establish procedures for liaising with FSA and Norges Bank, as well as with guarantee schemes and authorities in other countries.

Idar Kreutzer,
CEO

Report from the Board of Directors 2018

The Fund's objective and activities

The objective of the Norwegian Banks' Guarantee Fund is to contribute to financial stability by protecting depositors through deposit guarantee scheme. The deposit guarantee means that eligible deposits accepted by a member bank are repaid to depositors by the Norwegian Banks' Guarantee Fund if a member bank is placed under public administration. The Norwegian Banks' Guarantee Fund is also to ensure that the deposit guarantee scheme has a deposit Guarantee Fund and other financial means available for rapid repayment of deposits when a bank is placed under public administration, or for alternative measures for a member bank with serious financial problems.

The Norwegian Banks' Guarantee Fund was formed through the merger of the former Commercial Banks' Guarantee Fund and Savings Banks' Guarantee Fund under legislation entering into force on 1 July 2004. Until 31 December 2018, the Fund's activities were regulated by the Financial Institutions Act and the Norwegian Banks' Guarantee Fund's statutes. Further information on the reorganisation of the Fund from 1 January 2019 can be found in separate sections below.

From 1 January 2019, banks are members of the deposit guarantee scheme. Membership is no longer linked to the Norwegian Banks' Guarantee Fund as an organisation. The Ministry of Finance may decree that also other financial institutions headquartered in Norway and entitled to accept deposits, must be members of the deposit guarantee scheme. The deposit guarantee scheme had 127 members headquartered in Norway at 31 December 2018.

Credit institutions headquartered in other EEA member states but accepting deposits from the general public through branches in Norway may also become members if the deposit guarantee scheme in the branch's home country is not considered to give the branch's depositors the same degree of protection as that afforded under Norwegian law. Branch membership is subject to approval from the Financial Supervisory Authority of Norway (FSA). Where branch members have a home-country guarantee of EUR 100,000 per depositor, the guarantee scheme currently covers the excess amount up to NOK 2 million. The Norwegian deposit guarantee scheme had eight branch members as at 31 December 2018. These members are to pay a top-up contribution to the deposit guarantee scheme to cover the guarantee for deposits over EUR 100,000.

The Norwegian Banks' Guarantee Fund is an independent legal entity. None of its members own any part of the Guarantee Fund. Bankruptcy or composition proceedings cannot be brought against the Fund.

The deposit guarantee scheme is an important part of financial market regulation and contributes to depositor confidence and stable funding for banks. Guaranteed deposits totalled NOK 1,304 billion as at 30 September 2018.

The Guarantee Fund has built up considerable capital over time to enable it to manage potential crisis situations, both through annual contributions from member banks and through the return on its investments. At 31 December 2018, the Fund had equity of NOK 35.5 billion, equivalent to 2.71 per cent of total guaranteed deposits as at 30 September 2018. Under section 19-5 of the Financial Institutions Act as it stood until 31 December 2018, the Fund's own funds were at all times to be at least equal to the sum of 1.5 per cent of members' aggregate guaranteed deposits and 0.5 per cent of ordinary members' risk-weighted assets for capital adequacy purposes. Only guaranteed deposits were included in the calculation for branch members. The Fund exceeded the minimum statutory requirement by NOK 6.9 billion as at 31 December 2018.

The Guarantee Fund was organised into two units in 2018. The Unit for Analysis and Contingency Planning was responsible for developing and maintaining procedures for crisis management and implementing risk-reducing measures. This work included quarterly bank analyses/early warning reports, bank visits, crisis exercises and developing alternative payment solutions. The unit also worked on calculating and collecting contributions from members and providing information about the deposit guarantee.

The Unit for Control and Monitoring of Asset Management (middle office) was responsible for ensuring compliance with the Board's asset management strategy and instructions, monitoring external managers and custodian banks, and reporting on performance and compliance with applicable limits.

The Fund's performance in 2018

The annual financial statements have been prepared on a going-concern basis. The Board confirms that the Fund is a going concern.

The Fund's holdings of securities and financial contracts are treated as a trading portfolio and recognised in the financial statements at fair value.

The Fund generated a profit of NOK 1,589 million in 2018, of which membership fees accounted for NOK 1,355 million. This compares with a profit of NOK 1,401 million in 2017. The profit for the year has been transferred to equity.

Income from asset management activities before costs and fees amounted to NOK 278 million, equivalent to a time-weighted return of 0.79 per cent, up from 0.21 per cent in 2017.

Other operating revenue

Other operating revenue amounted to NOK 1.6 million, compared with NOK 2.4 million in 2017. This revenue consists primarily of interest on bank deposits and income from seminar and conference activities.

Operating expenses

Operating expenses totalled NOK 45.3 million, compared with NOK 39.8 million in 2017. There has been a gradual increase in the Fund's work on contingency planning in recent years, and additional resources have been allocated to this work. The Fund's methods for repaying deposits were further improved and streamlined in 2018. Adapting to the new legislation implementing the EU's Deposit Guarantee Schemes Directive (DGSD) and Bank Recovery and Resolution Directive (BRRD) also resulted in additional costs.

Liquidity

The Fund's cash position was satisfactory during the year, cf. the cash flow statement. The difference between the profit for the year and the change in cash and cash equivalents was due mainly to the reinvestment of investment returns.

Investment strategy

The Guarantee Fund invests in highly liquid low-risk assets so that it can meet the repayment deadline of seven working days. The Fund has chosen to invest solely in fixed-income instruments issued by highly-rated sovereign states. Most of the Fund is invested in government bonds with maturities of one to three years from issuers rated AA or above. The remainder is invested in a portfolio of highly liquid Norwegian treasury bills. The Fund's capital is managed by external managers.

Exposure to market, credit and liquidity risk

The Fund is exposed to market risk, credit risk and liquidity risk through its investments in foreign government bonds and Norwegian treasury bills. In line with the Fund's objective, the Board has set stringent requirements for the liquidity and credit quality of the securities holdings. The portfolio of foreign government bonds is 100 per cent hedged against currency fluctuations.

Crisis management and crisis prevention measures

The Norwegian Banks' Guarantee Fund was not involved in any crisis management activities in 2018.

The Fund has multiple roles and mandates. Its main role is to administer the deposit guarantee scheme by analysing and assessing banks' risks, calculating and collecting contributions, managing its assets, having procedures for rapid repayment of deposits, and providing information to the public. The Fund's staff have greatly improved the operational procedures relating to crisis management. Rapid technological advances mean that evaluation of alternative repayment methods will be a priority going forward.

To achieve these overall objectives, the Fund's staff have made changes in recent years in order to be compliant with the new laws and regulations that applies from 1 January 2019. This has included improving preparedness by enhancing the electronic repayment system and the communication procedures, and further developing and improving analytical and early warning tools. The Fund has also broadened its dialogue and collaboration with other Guarantee Funds and international institutions.

Together with the Norwegian Banks' Guarantee Fund, FSA again carried out an inspection in 2018 of selected banks' compliance with the Regulation on Requirements for Data Systems and Reporting to the Guarantee Fund. As a result of the Fund coming under new rules from 1 January 2019, there is a need to update this regulation.

In 2018, work on providing information to both the public and member banks was focused on the changes under the new legislation. A new version of the website was developed with clear and easily understood information about the deposit guarantee scheme and the Norwegian Banks' Guarantee Fund. A new animated film and a brochure on the deposit guarantee scheme were produced to reflect the new rules. A communications agency was engaged to help ensure an effective information campaign, which was carried out in January 2019. The aim of the campaign was to increase awareness of the deposit guarantee among the general public. An awareness survey will be carried out in connection with these information activities.

Membership changes

The deposit guarantee scheme had 135 members at the end of 2018, of which 127 were headquartered in Norway and eight were branch members. This is a net increase of four members from the end of 2017. Five new banks became ordinary members in 2018: Optin Bank ASA, Næringsbanken

ASA, Aprila Bank ASA, Kraft Bank ASA and BRA Bank ASA. yA Bank ASA merged with Resurs Bank AB and converted to branch membership under the name Resurs Bank AB, NUF. Bud, Fræna og Hustad Sparebank and Nesset Sparebank merged under the name Romsdal Sparebank.

Autumn Conference 2018

The annual Autumn Conference was held at Quality Hotel Expo at Fornebu on 20-21 September and attracted a total of 290 participants. This was the 55th conference in a row and had regulatory changes and the outlook for banks as its main topics.

New framework for the deposit guarantee scheme from 1 January 2019

New rules on the deposit guarantee scheme entered into force on 1 January 2019. The background to the changes is the implementation of the EU's Deposit Guarantee Schemes Directive (DGSD) in the deposit guarantee provisions of the Financial Institutions Act. The aim of the changes is to harmonise rules internationally and increase consumer protection. The Norwegian Banks' Guarantee Fund will continue to be responsible for the management and administration of Norway's deposit guarantee scheme.

The scheme is to have at its disposal a deposit Guarantee Fund and other capital in reasonable proportion to its guarantee commitments, cf. section 19-9 of the Financial Institutions Act. These guarantee commitments are determined by calculating the potential loss that the deposit Guarantee Fund might expect from member banks. The deposit Guarantee Fund is to be financed through contributions from member banks and the return on the capital in the fund. Under section 19-10 of the Financial Institutions Act, member banks are to make an annual contribution to the deposit Guarantee Fund corresponding to 0.08 per cent of total guaranteed deposits.
From 1 January 2019, the Norwegian Bank's Guarantee Fund has been subject to the Public Administration Act, the Freedom of Information Act, the Public Procurement Act and associated regulations, thus becoming more of a public body.

Norwegian banks' operations abroad – changes from 1 January 2019

The maximum amount guaranteed for bank customers who have deposits in Norwegian banks' branches in other EEA countries will still be EUR 100,000.

Some Norwegian banks have organised their foreign operations in the EU/EEA as cross-border services. In other words, their operations abroad are run by the Norwegian organisation. The maximum amount guaranteed for customers of these banks' foreign operations was NOK 2 million until the end of 2018. From 1 January 2019, an upper limit of EUR 100,000 will apply to all customers who have deposits with Norwegian banks' operations in EEA countries, whether organised as a branch or as a cross-border service.

Some Norwegian banks providing cross-border services in the EEA have offered fixed-rate deposits. These deposits will remain guaranteed up to NOK 2 million until the fixed-rate period expires.

New rules for the calculation of contributions from 1 January 2019

The Guarantee Fund is to set each individual member's contribution on the basis of that member's share of the deposit guarantee scheme's total guarantee commitments, cf. section 19-10 (3) of the Financial Institutions Act. Contributions are thus to reflect each bank's risk-taking and choice of business model. The act also requires the Guarantee Fund to use a well-documented, risk-based method to set contributions. In the preparatory work on the revised act, it was presupposed that the Fund could use European Banking Authority (EBA) guidelines as the starting point for setting contributions where deemed relevant and appropriate.

The Fund has found it appropriate to develop models for calculating contributions in two steps. In step 1, the Fund will use a model based on EBA guidelines with few modifications. In step 2, the Fund will use experience from the transition period and new data to develop a revised contribution model that is better suited to national conditions. Newly available data following the implementation of IFRS 9 and Norway's new ORBOF reporting system will be taken into account in step 2, along with any changes in legislation and guidelines as a result of the ongoing revision of the DGSD.

The contribution model for the deposit Guarantee Fund was approved by the Board of the Guarantee Fund on 25 January 2019. The method for calculating contributions largely corresponds to that sent out for consultation, but with a few adjustments following input from consultees. Section 19-10 (3) of the Financial Institutions Act also requires FSA to approve the model.

New rules for crisis management and resolution financing from 1 January 2019

The EU's Bank Recovery and Resolution Directive (BRRD) has been implemented in Norwegian law through changes to the Financial Institutions Act with effect from 1 January 2019. To be in a better position to deal with troubled institutions in future, the new rules provide for a resolution financing

arrangement. Under the new legislation, the Norwegian Banks' Guarantee Fund is responsible for the management and administration of the new Resolution Fund.
FSA has been appointed the resolution authority and holds the right of disposal of the capital in the Resolution Fund. The assets and liabilities managed by the Norwegian Banks' Guarantee Fund are to be transferred to a Deposit Guarantee Fund and a Resolution Fund, as set out in sections 19-9 and 20-50 respectively of the Financial Institutions Act. The Fund's assets and liabilities at 31 December 2018 are to be split such that 45 per cent is transferred to the Deposit Guarantee Fund and 55 per cent to the Resolution Fund, cf. Part IV (3) of the Act on the Amendment of the Financial Institutions Act etc. (Deposit Guarantee and Bank Resolution). Under section 4 of the regulation issued pursuant to the new Act on the Norwegian Banks' Guarantee Fund, the transfer is to be made by 30 June 2019 with effect for accounting purposes from 1 January 2019. After the split, the Deposit Guarantee Fund will amount to 1.22 per cent of guaranteed deposits (statutory minimum 0.8 per cent), and the Resolution Fund to 1.49 per cent of guaranteed deposits (statutory minimum 1.0 per cent).
Institutions' contributions to the new Resolution Fund will depend on their size, complexity and risk profile. The method for calculating contributions to the Resolution Fund is based on EU Regulation 2015/63. The annual contribution for each institution is derived from its share of total liabilities for all institutions less guaranteed deposits. This basic contribution is then risk-adjusted using various financial ratios. The total annual contribution to the Resolution Fund has been set at 0.1 per cent of institutions' total guaranteed deposits. The Ministry of Finance may decide that the contribution in specific years should be less than this.

The Norwegian Banks' Guarantee Fund as designated authority

The Norwegian Banks' Guarantee Fund is the designated authority for Norway for the purposes of the DGSD. This was reported to and approved by the EBA in February 2019.

Outlook for the Fund's capital

In 2019, the Guarantee Fund's capital will be invested in foreign government bonds with a high credit rating and a remaining maturity of up to three years, and a highly liquid portfolio of Norwegian treasury bills. The value of the Fund's capital will therefore depend on the return on these investments. Since the Fund hedges its investments in foreign government bonds against currency movements and invests in Norwegian treasury bills, Norwegian interest rates will play a role in the Fund's performance.

Contributions from member banks will have a positive effect on the Fund's capital.

Administrative matters

The Board of the Norwegian Banks' Guarantee Fund consisted of six men and one woman in 2018. The Fund's CEO is the CEO of Finance Norway, Idar Kreutzer. The Fund has its offices at Hansteens gate 2 in Oslo. The Fund had 15 employees at the end of the year, eight of whom were women. The Fund has an agreement on occupational health services. Sickness absence amounted to 2.64 per cent in 2018, up from 1.56 per cent in 2017.

From 1 January 2019, the board consists of five women and two men.

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

Oslo, 22 March 2019

Kari Olrud Moen Styreleder	Torbjørn Hægeland	Marie Meling	Lisbet Nærø
Trude Myklebust	Jøril Mæland	Odd Nordli	Idar Kreutzer Forretningsfører

Income statement

All figures in thousands of NOK

	NOTE	2018	2017
Revenue			
Membership fees	**1, 2**	1 355 485	1 370 260
Other operating revenue	**13**	1 590	2 372
Total revenue		1 357 074	1 372 632
Asset management			
Fixed-income portfolio			
Interest income		700 014	695 592
Other revenue/expenses	**10**	-731	-513
Gains and losses	**11**	-421 639	-626 924
Income from fixed-income investments		277 645	68 155
Share portfolios			
Dividends		46	178
Gains and losses	**12**	54	278
Income from share investments		100	456
Income from asset management		277 745	68 611
Operating expenses			
Operating expenses	**14**	-45 361	-39 752
Profit/loss for the year		1 589 458	1 401 492
Appropriation of profit/loss			
Transferred to equity		1 589 458	1 401 492

Balance sheet

All figures in thousands of NOK

	NOTE	31.12.2018	31.12.2017
ASSETS			
Bank deposits	3	141 282	210 770
Bonds and bills	4	34 886 234	33 097 709
Bonds and bills lent	4, 15	641 909	500 936
Financial derivatives	5	331 116	251 237
Unsettled trades		92 450	463 487
Property, plant and equipment	7	335	212
Net pension assets	9	3 331	3 382
Other receivables	6	12 507	34 447
Total assets		36 109 164	34 562 178
LIABILITIES AND EQUITY			
Equity	1	35 462 864	33 873 406
Financial derivatives	5	589 874	579 561
Unsettled trades		36 105	90 038
Other liabilities	8	8 563	8 208
Provisions for pension liabilities	9	11 758	10 965
Total liabilities		646 300	688 772
Total liabilities and equity		36 109 164	34 562 178

Oslo, 22 March 2019

Kari Olrud Moen
Styreleder

Torbjørn Hægeland

Marie Meling

Lisbet Nærø

Trude Myklebust

Jøril Mæland

Odd Nordli

Olaf Kreutzer
Forretningsfører

Cash flow statement

All figures in thousands of NOK

	2018	2017
Profit/loss for the year	1 589 458	1 401 492
Depreciation and amortisation	146	130
Cash flow from operating activities	1 589 604	1 401 621
Investments in property, plant and equipment	-269	-53
Decrease (increase) in holdings of bonds and bills	-1 978 087	-1 485 294
Decrease (increase) in accrued interest	48 588	38 818
Decrease (increase) in other receivables	392 977	-305 965
Change in financial derivatives	-69 565	373 699
Change in provisions for pension liabilities	844	-238
Increase (decrease) in other liabilities	-53 578	34 659
Net change in cash and cash equivalents	-69 487	57 248
Cash and cash equivalents at 1 January	210 770	153 522
Cash and cash equivalents at 31 December	141 282	210 770

Cash and cash equivalents comprise bank deposits and cash.

Notes to the financial statements for the year ended 31 December 2018

General

Banks headquartered in Norway must be members of the Norwegian Banks' Guarantee Fund. The Ministry of Finance may decree that credit institutions other than banks headquartered in Norway must be members. Credit institutions headquartered in other EEA member states but accepting deposits from the general public through branches in Norway may become members if the deposit guarantee scheme in the branch's home country is not deemed to give the branch's depositors the same degree of protection as that afforded under Norwegian law. The approval of the Financial Supervisory Authority of Norway (Finanstilsynet) is required before a branch can become a member of the Fund.

The financial statements for the Norwegian Banks' Guarantee Fund have been prepared in accordance with the Financial Institutions Act, the Fund's statutes, the Accounting Act and generally accepted accounting practice in Norway. The format has been adapted to the activities of the Fund.

Accounting policies for financial instruments

General

The Fund's holdings of securities and financial contracts are considered a trading portfolio and priced at fair value. The official closing price in each market will be used when available. The Fund's securities holdings are valued on a daily basis by BNY Mellon Asset Servicing, which is the Fund's external supplier of investment support services. The primary pricing sources are Interactive Data and SS&C Technologies. Secondary pricing sources are Bloomberg, Thomson Reuters and Statpro Canada. The main source of pricing for FX contracts is WM FX Rates. Holdings of Norwegian treasury bills are valued daily by the Fund's Middle Office based on transaction data from the asset manager and prices from Oslo Stock Exchange. The Fund performs regular checks on the pricing and valuations provided by its external suppliers.

Bonds/bills

Government bonds/bills are priced using the official closing price (bid price). Where this is not available, manual prices are obtained from recognised analyst and brokerage firms or suppliers specialising in providing prices for bonds and bills.

Foreign exchange contracts

Foreign exchange contracts are priced at fair value and presented on a gross basis.

Currency translation

Bonds, bills, cash and cash equivalents, receivables and liabilities are translated into NOK and valued on a daily basis. At period-end, items are translated using the exchange rate at the reporting date. The WM Reuters 4 pm London closing rate is used for both daily and period-end valuations.

Collateral

The Fund requires collateral in the form of cash and other securities when trading in financial derivatives. Where cash collateral received is not legally separate from other cash, it is recognised in the balance sheet as an asset with a corresponding liability to the provider of the collateral. Collateral received in the form of other securities is recognised if the collateral is sold or used as security for other counterparties or if the counterparty breaches the terms of the underlying contract. Collateral pledged to counterparties is derecognised applying the same principles as for collateral received. If the recipient of the collateral has the right to sell the collateral or re-pledge this as security, the asset is classified separately in the balance sheet as a lent asset.

Guarantee commitments

The object of the Fund is to secure the deposits of its members up to NOK 2 million per depositor per bank. The Fund will recognise a liability relating to this deposit guarantee when there is a specific event in which one or more banks are placed under public administration and the Fund has an established obligation.

Other accounting policies

Revenue recognition

Interest is recognised in the income statement as it is earned, in line with the general accounting principles in the Accounting Act. Prepaid revenue and expenses incurred but not paid are accrued and recognised as liabilities in the balance sheet. Revenue earned but not received is recognised in income and recorded as a receivable in the balance sheet. Dividends from shares are recognised in the income statement on the ex-dividend date and recorded as a receivable until payment, including withholding tax, is confirmed.

Pensions

The Fund has a defined-benefit pension scheme for staff taken on before 1 January 2013. In a defined-benefit scheme, the employer has an obligation to pay specified future pension benefits. This group pension scheme is administered by a life assurance company. The estimated accrued liability is compared with the value of funds paid in and earned. Where total assets exceed the estimated liability at the balance sheet date, the net value is recognised as an asset in the balance sheet. Where pension liabilities exceed pension assets, the net value is classified as a liability in the balance sheet. The pension liability is calculated as the present value of estimated future pension benefits considered for accounting purposes to have been earned at the balance sheet date. The pension cost is based on assumptions made at the start of the period. Estimates are used in the valuation of pension assets. The value is adjusted annually to reflect the actual return on these assets.

The Fund has a defined-contribution pension scheme for staff taken on after 1 January 2013. The employer has no obligations under this scheme beyond annual contributions.

The Fund also has unfunded pension obligations that are financed through its operations. The obligations under these agreements are recognised as a liability in the balance sheet. These liabilities are discussed in more detail in Note 9.

The Fund also has obligations under the AFP Early Retirement Subsidy Act. Financial contributions to this scheme are recognised in the income statement as a defined-contribution insurance scheme. Individual employers do not possess the information needed to calculate this liability at 31 December 2018, and so the scheme is treated as a defined-contribution scheme as required by generally accepted accounting practice. In practice, only the central administrator Fellesordningen for AFP has the data necessary to calculate the liability.

Net pension costs for the period are included in "Other operating expenses" in the income statement.

Pension costs and liabilities include employer contributions.

See also Note 9.

Property, plant and equipment

Property, plant and equipment are recognised in the financial statements at cost less accumulated depreciation. Depreciation for the year is charged to the year's operating expenses and is included in this item.

Tax

Under section 2-30 of the Tax Act, the Fund is exempt from tax.

All figures in the notes to the financial statements are stated in thousands of NOK unless otherwise specified.

Note 1

Own funds

Own funds from 1 January 2019

See Note 17 "Post balance sheet events" for information on the new requirements for the Guarantee Fund's own funds applying from 1 January 2019.

Own funds until 31 December 2018

The own funds requirements applying at 31 December 2018 were set out in section 19-5 of the previous Financial Institutions Act, which stated that the Guarantee Fund's own funds should at all times be at least equal to the sum of 1.5 per cent of aggregate guaranteed deposits held by members and 0.5 per cent of the sum of ordinary members' risk-weighted assets for capital adequacy purposes. Only guaranteed deposits were included in the calculation for branch members. Each year, members pay a fee to the Fund. If this is not sufficient to cover any shortfall, the members shall also furnish guarantees.

The minimum own funds calculated for 31 December 2018 will be the last under these rules.

Minimum own funds at 31 December 2018

The statutory minimum level of own funds at 31 December 2018 is based on guaranteed deposits and risk-weighted assets averaged across the last two quarters of 2017 and the first two quarters of 2018.

1.5 per cent of average guaranteed deposits	1 281 084 million	19 216 254
0.5 per cent of average risk-weighted assets	1 874 454 million	9 372 268
Minimum own funds		28 588 522
Equity at 31 December 2018		35 462 864
	Excess capital at 31 December 2018	6 874 342

Minimum own funds in 2018

The statutory minimum level of own funds in 2018 is based on guaranteed deposits and risk-weighted assets averaged across the last two quarters of 2016 and the first two quarters of 2017.

1.5 per cent of average guaranteed deposits	1 190 691 million	17 860 365
0.5 per cent of average risk-weighted assets	1 768 356 million	8 841 779
Minimum own funds		26 702 144
Equity at 31 December 2017		33 873 406
	Excess capital at 1 January 2018	7 171 262

The ordinary fee calculated and collected for 2018 was NOK 1,354.5 million.

Minimum own funds in 2017

The statutory minimum level of own funds in 2017 is based on guaranteed deposits and risk-weighted assets averaged across the last two quarters of 2015 and the first two quarters of 2016.

1.5 per cent of average guaranteed deposits	1 211 955 million	18 179 328
0.5 per cent of average risk-weighted assets	2 124 749 million	10 623 747
Minimum own funds		28 803 075
Equity at 31 December 2016		32 471 915
	Excess capital at 1 January 2017	3 668 839

Due to a membership change, with a major bank converting from ordinary membership to branch membership, the minimum level of own funds and fee fell considerably at the beginning of 2017. The ordinary fee calculated for 2017 was NOK 1,518.8 million. The ordinary fee billed for 2017 was NOK 1,369.8 million.

The fund's equity has moved as follows (figures in millions of NOK):

	2018	2017
Equity at 1 January	33 873	32 472
Profit/loss for the year	1 589	1 401
Equity at 31 December	35 463	33 873

Note 2

Membership fees

The membership fee for 2018 was calculated in accordance with the Financial Institutions Act and the Financial Institutions Regulation. The fee is calculated and collected annually. The ordinary fee is calculated as 0.1 per cent of guaranteed deposits plus 0.05 per cent of risk-weighted assets for capital adequacy purposes averaged across the end of the third and fourth quarters of 2016 and the first and second quarters of 2017. Members with a Tier 1 capital ratio in excess of 8.0 per cent at 31 December 2016 are granted a discount on the annual fee. The maximum discount is 35 per cent for a Tier 1 capital ratio of 16.75 per cent. Branch members pay only a percentage of guaranteed deposits. The regulation also requires a joining fee to be set.

Ordinary fees for 2018 came to NOK 1,354,511 thousand. In addition, joining fees totalling NOK 973 thousand were payable.

	2018	2017
Ordinary fee	1 354 511	1 369 756
Joining fee	973	504
Total	1 355 485	1 370 260

Note 3

Bank deposits

Tax withholding funds held in a separate account totalled NOK 1,199 thousand (NOK 1,096 thousand).
Of the Fund's bank deposits, NOK 11,301 thousand (NOK 4,187 thousand) was in foreign currency.

At 31 December 2018, cash and bank deposits (excluding current accounts) amounted to 0.1 per cent of assets managed by the Fund (net asset value), which is the same as at 31 December 2017.

Note 4

Bonds and bills

	2018			**2017**		
Debtor category	Cost *)	Fair value (incl. accrued interest)*)**)	Accrued interest *)	Cost *)	Fair value (incl. accrued interest) *) **)	Accrued interest *)
Government bills	3 010 292	3 016 056	-	2 962 339	2 965 934	-
Government bonds	31 459 685	32 512 087	237 997	30 190 255	30 632 710	286 585
Total	34 469 978	35 528 143	237 997	33 152 593	33 598 644	286 585

*) Including securities lent
**) Fair value of securities lent was NOK 641,909 thousand in 2018, against NOK 500,936 thousand in 2017. See also Note 15.

The fair value including accrued interest was NOK 1,058,165 thousand higher than cost at 31 December 2018. At 31 December 2017, the market value including accrued interest was NOK 446,051 thousand higher than cost.

The Fund sets requirements for the creditworthiness of issuers.

Bonds and bills by country:

Country	2018 Fair value (incl. accrued interest)	2017 Fair value (incl. accrued interest)
Australia	2 175 872	2 086 636
Canada	2 670 527	2 482 888
Finland	416 542	380 200
France	4 245 267	3 959 037
Netherlands	1 358 084	1 238 182
Norway	3 016 056	2 965 934
Singapore	532 218	476 916
UK	4 270 816	4 391 314
Switzerland	1 119 610	1 064 594
Sweden	899 188	813 375
Germany	6 056 467	5 524 061
US	8 082 088	7 599 705
Austria	685 408	615 802
Total	35 528 143	33 598 644

Accrued interest by country/issuer:

Country/issuer	2018	2017
Australia	13 300	15 823
Canada	9 919	9 834
Finland	4 948	3 963
France	34 624	37 751
Netherlands	15 644	15 728
Singapore	3 376	3 963
UK	40 066	46 569
Switzerland	12 802	15 244
Sweden	3 382	23 897
Germany	58 280	71 507
US	32 361	33 929
Austria	9 295	8 376
Total	237 997	286 585

Bonds and bills by issuer credit rating at 31 December 2018 (in thousands of NOK):

Credit rating agency	AAA or equivalent	AA+ or equivalent	AA or equivalent	Total
S&P	17 828 023	9 184 037	8 516 083	35 528 143
Moody's	25 910 111	1 101 949	8 516 083	35 528 143
Fitch	25 910 111	1 101 949	8 516 083	35 528 143

The credit ratings presented here are the local-currency long-term credit rating at 31 December 2018 (source: Bloomberg).

Note 5

Financial derivatives

	2018		2017	
	Asset	Liability	Asset	Liability
Foreign exchange derivatives	331 116	589 874	251 237	579 561
Total financial derivatives	331 116	589 874	251 237	579 561

Foreign exchange derivatives

The only type of financial derivatives owned by the Guarantee Fund are foreign exchange derivatives. These are used to hedge the portfolio's currency exposure. The fair value of foreign exchange derivatives is recorded as an unrealised gain/loss at the balance sheet date.

	2018		2017	
Derivative category	Cost	Fair value	Cost	Fair value
Foreign exchange derivatives	0	-258 758	0	-328 323
Total	0	-258 758	0	-328 323

Foreign exchange derivatives are used only for financial hedging of currency exposure in the bond portfolio.

Forward contracts by currency.

		2018		2017	
Purchased currency	Sold currency	Net nom. volume	Fair value	Net nom. volume	Fair value
NOK	AUD	2 219 692	47 529	2 018 992	-65 053
NOK	CAD	2 682 460	50 212	2 513 118	-52 506
NOK	CHF	1 103 262	-17 911	1 078 222	-7 194
NOK	EUR	12 580 488	-196 912	11 784 278	-100 458
NOK	GBP	4 252 360	-19 750	4 320 592	-72 504
NOK	SEK	873 964	-25 954	802 305	-11 767
NOK	SGD	521 824	-9 211	470 923	-5 478
NOK	USD	8 084 393	-86 761	7 683 770	-13 363
Totalt		32 318 443	-258 758	30 672 199	-328 323

Nominal volume denotes exposure in NOK. Exposure is allocated between the currency pairs in which the Fund hedges the portfolio.

Note 6

Other receivables

Summary	2018	2017
Coupons receivable – withholding tax receivable	9 899	31 974
Dividends receivable – withholding tax receivable	492	487
Prepayments	2 100	1 982
Sundry other receivables	17	4
Total	12 507	34 447

Withholding tax receivable on coupons mainly relates to current coupons on Swiss government bonds.
Withholding tax receivable on dividends relates to the share portfolio that was closed in 2013.

Note 7

Property, plant and equipment	2018 Tools, equipment and computer hardware	2017 Tools, equipment and computer hardware
Cost at 1 January	2 029	1 976
Additions	269	53
Cost at 31 December	2 298	2 029
Accumulated depreciation at 1 January	1 726	1 596
Depreciation for the year	146	130
Accumulated depreciation at 31 December	1 872	1 726
Accumulated impairment losses at 1 January	91	91
Year's impairment losses		
Accumulated impairment losses at 31 December	91	91
Carrying amount at 31 December	335	212
Total property, plant and equipment	335	212

The Fund's operating assets are depreciated on a straight-line basis at the following rate:

Computer and other electronic equipment	1/3 of cost
Fixtures and fittings	1/5 of cost

Note 8

Other liabilities

	2018	2017
Advance tax deductions, employer contributions	2 057	1 774
Trade payables	2 314	2 784
Other accrued expenses	2 448	2 135
Sundry other liabilities	1 745	1 515
Total	8 563	8 208

Note 9

Pension costs, pension liabilities and pension assets

The Fund has a defined-benefit pension scheme for employees and retired personnel, which is covered under an agreement with a life assurance company. The pension benefits provide a retirement pension and supplement the benefits paid under the Norwegian National Insurance Scheme. A full pension requires a minimum of 30 years of pensionable service and confers pension rights equivalent to the difference between 70 per cent of salary and estimated benefits from the Norwegian National Insurance Scheme. The scheme is compliant with the Occupational Pensions Act. This agreement is referred to in the following as funded benefits. The retirement age is 67.

From 1 January 2013, the defined-benefit scheme was closed to new employees. New employees are now included in a defined-contribution scheme where the annual premium represents the pension cost for the year. The contribution rates for the defined-contribution scheme are 5 per cent of salary up to 7.1 times the National Insurance basic amount (G) and 8 per cent of salary between 7.1 G and 12 G.

All employees are entitled to a disability pension. The premium is an insurance premium which is paid to an insurance company and there is no accumulation of capital. The annual premium is included in pension costs.

The Fund is obliged to operate an occupational pension scheme in accordance with the Mandatory Occupational Pensions Act, and its pension schemes satisfy the requirements of the act.

Pension entitlements for salaries above 12 times the National Insurance basic amount (G) are financed through operations. Disability pensions for salaries above 12 G are covered by insurance, with no capital accumulation. The annual premium is included in pension costs.

Pension agreements with no insurance coverage are referred to as unfunded pension liabilities and mainly consist of the following:
– Pension liabilities (except disability pensions) relating to salaries above 12 G are financed through operations.
– Accrued rights to early retirement pension from the age of 62 for the Fund's former investment manager.
– A former department manager has an agreement on compensation for losses in the group scheme in the period from 62 to 67 years.

The actuarial calculation is based on Norwegian Accounting Standard 6: Pension costs. The funded pension liability is calculated on the exact date of starting employment and covers all employees with pension rights through membership of the existing group pension agreement. The pension liability is calculated as the present value of total estimated future pension benefits earned at the balance sheet date based on specific economic and demographic assumptions (see table below). Estimates are used in the valuation of pension assets.

Changes in pension liabilities and assets due to changes in the underlying assumptions and other actuarial gains/losses are recognised in the income statement over the average expected remaining period of service for active personnel insofar as the gain or loss exceeds the higher of 10 per cent of pension assets and 10 per cent of pension liabilities. Actuarial gains and losses also include changes due to the withdrawal of members on leaving employment.

Pension costs and liabilities include employer National Insurance contributions.

Demographic assumptions of mortality based on the K2013BE standard are used to calculate the pension liability. Economic assumptions are based on the Norwegian Accounting Standards Board's guidance on pension assumptions.

The Guarantee Fund is covered by the new AFP scheme in the private sector pursuant to the AFP Early Retirement Subsidy Act that entered into force in 2010. The Fund has a financial liability under this scheme. Individual employers do not have the information needed to calculate this liability at 31 December 2018, and as required by generally accepted accounting practice the scheme is treated as a defined-contribution pension scheme. In practice, only the central administrator Fellesordningen for AFP has the data necessary to perform a calculation of the AFP liability.

Pension costs, pension liabilities and pension assets in the defined-benefit scheme

	2018	2017		2018	2017
Discount rate	2,60 %	2,30 %			
Expected return	4,30 %	4,00 %			
Expected wage growth	2,75 %	2,50 %			
Expected adjustment of basic amount (G)	2,50 %	2,25 %	No. of active members	7	7
Expected adjustment of pensions	0,80 %	0,40 %	No. of pensioners	9	10

Pension costs	**2018**			**2017**		
Recognised in income statement	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Present value of year's pension earnings (incl. employer NI)	1 704	610	2 314	1 433	504	1 937
Interest expenses on accrued liability	641	287	928	651	281	932
Expected return on pension assets	(735)	-	(735)	(598)	-	(598)
Pension costs before actuarial gains and losses	1 610	897	2 507	1 486	785	2 271
Amortisation of changes in estimates	228	21	249	90	-	90
Administration expenses	23	-	23	26	-	26
Net pension costs recognised for period	1 861	918	2 779	1 602	785	2 387
Premium, Fellesordningen for AFP	224		224	191		191
Defined-contribution pensions	378		378	347		347
Insurance premium for disability pensions*	361		361	42		42
Total pension costs and risk premiums	2 824	918	3 742	2 182	785	2 967

* In 2017, the insurance premium for disability pensions was included in defined-contribution pensions for employees in that scheme, and deducted from the premium reserve for members of the defined-benefit scheme.

Pension liabilities	2018			2017		
Balance sheet	**Sikret**	**Usikret**	**Sum**	**Sikret**	**Usikret**	**Sum**
Estimated accrued pension liability (incl. employer NI)	30 666	13 042	43 708	29 460	12 554	42 014
Estimated value of pension assets	25 836		25 836	25 759		25 759
Net pension liabilities	4 830	13 042	17 872	3 701	12 554	16 255
Actuarial gains and losses not recognised in income statement	(8 161)	(1 284)	(9 445)	(7 083)	(1 589)	(8 672)
Net pension liabilities (assets)	(3 331)	11 758	8 427	(3 382)	10 965	7 583
Recognised assets (net overfunding)	3 331			3 382		
Recognised liabilities		11 758			10 965	

Year's change in pension liabilities

Pension liabilities	2018	2017
Opening balance at 1 January	42 014	36 487
Rights earned during year	2 314	1 937
Year's interest expenses	928	932
Payments to retirees and payment of employer contributions on premiums	(1 847)	(1 951)
Actuarial gains and losses	299	4 609
Closing balance at 31 December	43 708	42 014

Year's change in pension assets

Pension assets	2018	2017
Estimated pension assets at 1 January	25 759	23 927
Actuarial gains and losses	(723)	585
Pension assets at 1 January plus actuarial gains and losses	25 036	24 512
Expected return on pension assets	735	598
Premiums paid in	1 586	2 171
Pensions paid out	(1 498)	(1 496)
Administration and management expenses	(23)	(26)
Estimated pension assets at 31 December	25 836	25 759
Actual gross return on fund assets	-	1 306

Note 10

Other revenue and expenses

	2018	2017
Interest income from bank deposits	742	140
Interest expenses from bank deposits	-363	-228
Interest income from cash collateral pledged by counterparties	276	166
Interest expenses from cash collateral pledged by counterparties	-1 385	-591
Total	-731	-513

Note 11

Income from fixed-income investments

	2018	2017
Realised gains/losses	-1 149 667	-1 066 052
Unrealised gains/losses	728 028	439 129
Gains and losses	-421 639	-626 924

Breakdown of realised gains/losses	2018	2017
Bonds/bills	-610 508	-578 250
Foreign exchange derivatives	-539 118	-488 037
Compensation under group lawsuits	76	391
Charges	-116	-157
	-1 149 667	-1 066 052

Breakdown of unrealised gains/losses	2018	2017
Bonds/bills	658 463	812 828
Foreign exchange derivatives	69 565	-373 699
	728 028	439 129

Note 12

Income from share investments

The share portfolio was closed in 2013, and gains/losses on shares relate to currency fluctuations and impairments in respect of tax claims, and payments from group lawsuits.

	2018	2017
Realised gains/losses	21	364
Unrealised gains/losses	33	-86
Gains/losses	54	278

Breakdown of realised gains/losses	2018	2017
Miscellaneous	17	282
Compensation under group lawsuits	3	82
	21	364

Breakdown of unrealised gains/losses	2018	2017
Miscellaneous	26	-161
Interest receivables	8	75
	33	-86

Note 13

Other operating revenue

	2018	2017
Interest on bank deposits	1 157	1 293
Compensation from group lawsuits	9	678
Foreign exchange gains	12	38
Net income from courses and seminars	411	362
Total	1 590	2 372

Note 14

Operating expenses	2018	2017
Salaries, fees and payroll costs	21 871	18 744
Administration and operating expenses	17 715	15 508
Costs, external asset managers	5 599	5 349
Depreciation and amortisation	146	130
Other financial expenses	31	21
	45 361	39 752

Details of employees and directors Number of employees at 31 December 2018: 15	2018	2017
Total salaries and fees	15 591	13 636
National Insurance contributions	2 603	2 301
Pension costs	3 468	2 609
Payroll costs	209	198
	21 871	18 744

The following are included in salaries	**2018**	**2017**
Chairman	50	50
Other board members	225	161
CEO	200	200

No special payments have been agreed in the event of termination or amendment of the terms of employment or office of the CEO or Chairman of the Board. The CEO does not receive benefits in the form of bonuses, profit-sharing or similar.

Transactions with related parties

The company considers Finance Norway to be a related party since Idar Kreutzer is CEO of both the Guarantee Fund and Finance Norway. The Guarantee Fund purchases services in the form of property rentals and other administrative services from Finance Norway.

The company's transactions with related parties:	**2018**	**2017**
Fees, CEO	200	200
Agreement on assistance from Finance Norway*	4 375	4 375
Rent and overheads	2 397	2 318
Total	6 972	6 893

*) Fixed agreement on administrative assistance from Finance Norway

Auditor's fees etc.	**2018**	**2017**
Fees paid to Ernst & Young as auditor	168	139
Other assurance services**	41	40
	209	179

**) Auditor's statement on internal controls.

Note 15

Risk management

Overarching guidelines for the investment strategy

Pursuant to the Fund's statutes, the Board of Directors determines the strategy and guidelines for the management of the Fund's assets with the intention of securing satisfactory management, necessary liquidity and ethical investment.

The Fund invests in low-risk government securities. The intention of this investment strategy is to have a liquid portfolio that holds its value well in a crisis situation where there may be a need for liquidity.

Investment strategy

In its investment strategy for 2018, the Board elected to allocate around 90 per cent of the capital to foreign government bonds and around 10 per cent to Norwegian treasury bills. The portfolio of foreign government bonds is managed externally by Legal & General Investment Management on an index-tracking basis. The portfolio of Norwegian treasury bills is managed by DNB Asset Management and Danske Capital.

The benchmark index for the Fund's government bond portfolio is tailored to the Fund's requirements for low risk and high liquidity. It consists of foreign government bonds of good credit quality and is hedged 100 per cent to NOK (monthly rebalancing). The benchmark for the Fund's treasury bill portfolio consists of Norwegian treasury bills.

Risk limits

Risk limits are determined by the Board of Directors. The Board sets upper limits for relative risk (tracking error), credit risk, counterparty risk and bank deposits.

Operational risk

A system of controls and procedures has been established in order to ensure an effective control environment that helps reduce operational risk. The management of the Fund's capital is monitored by the Unit for Control and Monitoring of Asset Management (Middle Office). All risk limits are incorporated into a compliance system both locally at the external asset managers and centrally in the Unit for Control and Monitoring of Asset Management. The Unit for Control and Monitoring of Asset Management follows up any breaches of limits, reports periodically to management and the Board, and obtains independent statements from the external auditor on procedures and control activities (ISAE 3402 and SOC 1).

BNYM is responsible for daily reporting, which includes financial statements, holdings and transactions for the Fund's government bond portfolio. The manager forwards the transaction data electronically to BNYM, which compiles and reports in a consolidated format. The manager and BNYM price securities independently, and these values are reconciled on a monthly basis. BNYM also reconciles all bank and custodian accounts. With the Fund's treasury bill portfolio, the Unit for Control and Monitoring of Asset Management receives reports on transactions, holdings and pricing of securities directly from the manager. These are reconciled by the Unit for Control and Monitoring of Asset Management against VPS Investorservice (transactions and holdings) and Oslo Stock Exchange (prices).

Foreign exchange risk

The Fund's government bond holdings are denominated and traded in foreign currency and are thus exposed to foreign exchange risk. Foreign exchange forwarsd and swaps are used to manage foreign exchange risk. The manager may only perform currency trades to hedge the Fund against foreign exchange risk. Exposure to all foreign currencies is monitored daily.

Foreign currenc exposure at
31 December 2018

	AUD	CAD	CHF	EUR	GBP	SEK	SGD	USD
Fixed income portfolio (excl. Currencey hedging)	356, 933	415,525	128,479	1,289,489	387, 269	920,659	83,775	945,217
Currency hedging	-356,620	-415,458	-127,455	1,289,163	-387, 329	-920,386	-83,652	-945,107
Net currency exposure	313	67	1,024	326	-60	273	123	110

Foreign currenc exposure at
31 December 2018

	AUD	CAD	CHF	EUR	GBP	SEK	SGD	USD
Fixed income portfolio (excl. Currencey hedging)	326,226	393,301	132,656	1,208,860	396, 880	831,834	77,927	941,693
Currency hedging	-326,053	-393,197	-129,149	-1,208,796	-396, 989	-814,054	-77,874	941,986
Net currency exposure	173	104	3,507	64	-109	17,780	53	-293

Counterparty risk and netting

The Fund enters into foreign exchange contracts with various counterparties, which results in counterparty risk. The Fund has entered into standardised international agreements with its counterparties (ISDA Master Agreement with Credit Support Annex). For example, when a pre-defined exposure limit for a counterparty has been exceeded, collateral is required. This collateral is provided in the form of cash and highly-rated bonds. The Fund regularly monitors the credit ratings/creditworthiness of its counterparties, and exposure to counterparties is monitored and controlled on a daily basis.

				Amounts that may not be presented net in the balance sheet but are subject to a netting agreement			
Amount in millions of NOK	Gross value	Amounts offset in balance sheet	Carrying amount	Financial instruments	Cash collateral	Securities pledged as collateral	Amounts after permitted netting
Assets							
Financial derivatives	261	-	261	249	0	0	12
Securities pledged as collatreal	642	-	642	282	0	0	360
Total assets	903	-	903	531	0	0	371
Liabilities							
Financial derivatives	531	-	531	249	-	282	0
Total liabilities	531	-	531	249	-	282	0

Interest rate risk

Duration is calculated for positions in the fixed-income market and is weighted according to market value at 31 December 2018 (source: MSCI BarraOne).
Duration shows the effective repayment period of a bond/bill and is a measure of sensitivity to interest rates. The Fund's duration was 1.7 in 2018, compared with 1.7 in 2017.

Taxation/withholding tax

The Fund is exempt from taxation in Norway but pays withholding tax on its investments abroad. The Fund's tax status in Norway means that it is not always covered by the tax agreements Norway has with other countries. The Fund must therefore assess and clarify its tax position before investing in new markets.

Note 16

Guarantee commitments

The object of the Guarantee Fund is to protect deposits with its member banks, whereby deposits of up to NOK 2 million per depositor per bank are guaranteed in the event that a member is unable to meet its commitments.

Under new rules on the deposit guarantee entering into force on 1 January 2019, the Fund is to repay lost deposits as soon as possible and no later than seven working days after:

1. The Financial Supervisory Authority of Norway (Finanstilsynet) decides that the institution is not in a position to honour deposits, and
2. the bank is placed under public administration.

This is a change from the repayment deadline of five working days that applied until 31 December 2018.

More detailed rules on settlement and deadline extensions are set out in the Financial Institutions Act.

The Fund's most important function is to manage 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 kept up-to-date. The Fund has entered into an agreement with Finance Norway on additional resources in the event of a crisis. One of the Fund's units is responsible for preventive work in the form of analyses of member banks and site visits.

There were no events where the Fund had to cover losses on deposits in 2018, and no liabilities were recognised relating to the guarantee. Nor have there been any such events since the balance sheet date.

Note 17

Post balance sheet events

A new Act on the Norwegian Banks' Guarantee Fund and amendments to the Financial Institutions Act concerning the deposit guarantee scheme and a new resolution fund entered into force on 1 January 2019. The consequences for the Guarantee Fund's future financial position are presented below.

Division of the deposit guarantee fund and introduction of a new resolution fund:

A new resolution financing arrangement is being introduced in Norway to fund future resolution measures. The resolution fund will be at the disposal of Finanstilsynet as the resolution authority, but the Guarantee Fund will be responsible for the management and administration of the resolution fund. At inception, the resolution fund will receive 55 per cent of the capital of the existing Guarantee Fund at 1 January 2019, based on its valuation at 31 December 2018. The resolution fund will thereafter be built up through contributions from banks and mortgage companies. Section 20-50 of the new Financial Institutions Act requires the resolution fund to amount to at least 1 per cent of total guaranteed deposits. The creation of the resolution fund and transfer of capital from the Guarantee Fund will take place by 30 June 2019.

The Guarantee Fund's own funds

From 1 January 2019, the Guarantee Fund's own funds are defined in section 4 of the new Act on the Norwegian Banks' Guarantee Fund as capital contributed to the deposit guarantee fund. Section 19-9 of the new Financial Institutions Act requires the deposit guarantee fund to amount to at least 0.8 per cent of total guaranteed deposits. As mentioned above, 55 per cent of the Guarantee Fund's capital at 1 January 2019 is to be transferred to a new resolution fund, based on its valuation at 31 December 2018. The remaining 45 per cent will make up the deposit guarantee fund.

Contributions to the deposit guarantee fund

Under section 19-10 of the new Financial Institutions Act, the total annual contribution to the deposit guarantee fund is to be 0.08 per cent of total guaranteed deposits (including branch members). For 2019, this is estimated to be NOK 1,024.9 million.

Contributions to the resolution fund

Under section 20-51 of the new Financial Institutions Act, the total annual contribution to the resolution fund is to be 0.1 per cent of total guaranteed deposits (excluding branches). For 2019, this is estimated to be NOK 1,242.4 million.

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Ministry of Finance

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bankenes Sikringsfond, which comprise the balance sheet as at 31 December 2018, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of Bankenes Sikringsfond as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of Bankenes Sikringsfond in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in Bankenes Sikringsfond's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Bankenes Sikringsfond's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate Bankenes Sikringsfond or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bankenes Sikringsfond's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bankenes Sikringsfond's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Bankenes Sikringsfond to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that Bankenes Sikringsfond 's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 22 March 2019
ERNST & YOUNG AS

Kjetil Rimstad
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Governing bodies at 31 December 2018

Organisation

Following elections at the General Meeting on 10 April 2018, and the election of the Chairman and Deputy Chairman on 16 April 2018, the Board comprised the following:

- Ottar Ertzeid, Vice President, DNB Bank ASA, Chairman
- Jan-Frode Janson, CEO, SpareBank 1 Nord-Norge, Deputy Chairman
- John A. Sætre, Head of Personal Banking, Nordea Bank ABp Norwegian Branch
- Odd Nordli, CEO, Aurskog Sparebank
- Pål Strand, CEO, Sparebanken Øst

Board members appointed by Norges Bank and Finanstilsynet:

- Kristin Gulbrandsen, Executive Director, Norges Bank
- Morten Baltzersen, Director General, Finanstilsynet

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

The following were elected as deputy members to be called on in numerical order:

1. Rolf Endre Delingsrud, CEO, Totens Sparebank
2. Frank Johannesen, CEO, Sparebanken Vest
3. Steinar Haugli, CEO, SpareBank 1 Ringerike Hadeland
4. Jan Kåre Eie, CEO, Flekkefjord Sparebank
5. Trond Mellingsæter, Country Manager, Danske Bank

   Deputy member no. 1 attends all Board meetings.

Deputy members appointed by Norges Bank and Finanstilsynet:

- Arild J. Lund, Director, Norges Bank
- Ann Viljugrein, Deputy Director General, Banking and Insurance Supervision, Finanstilsynet

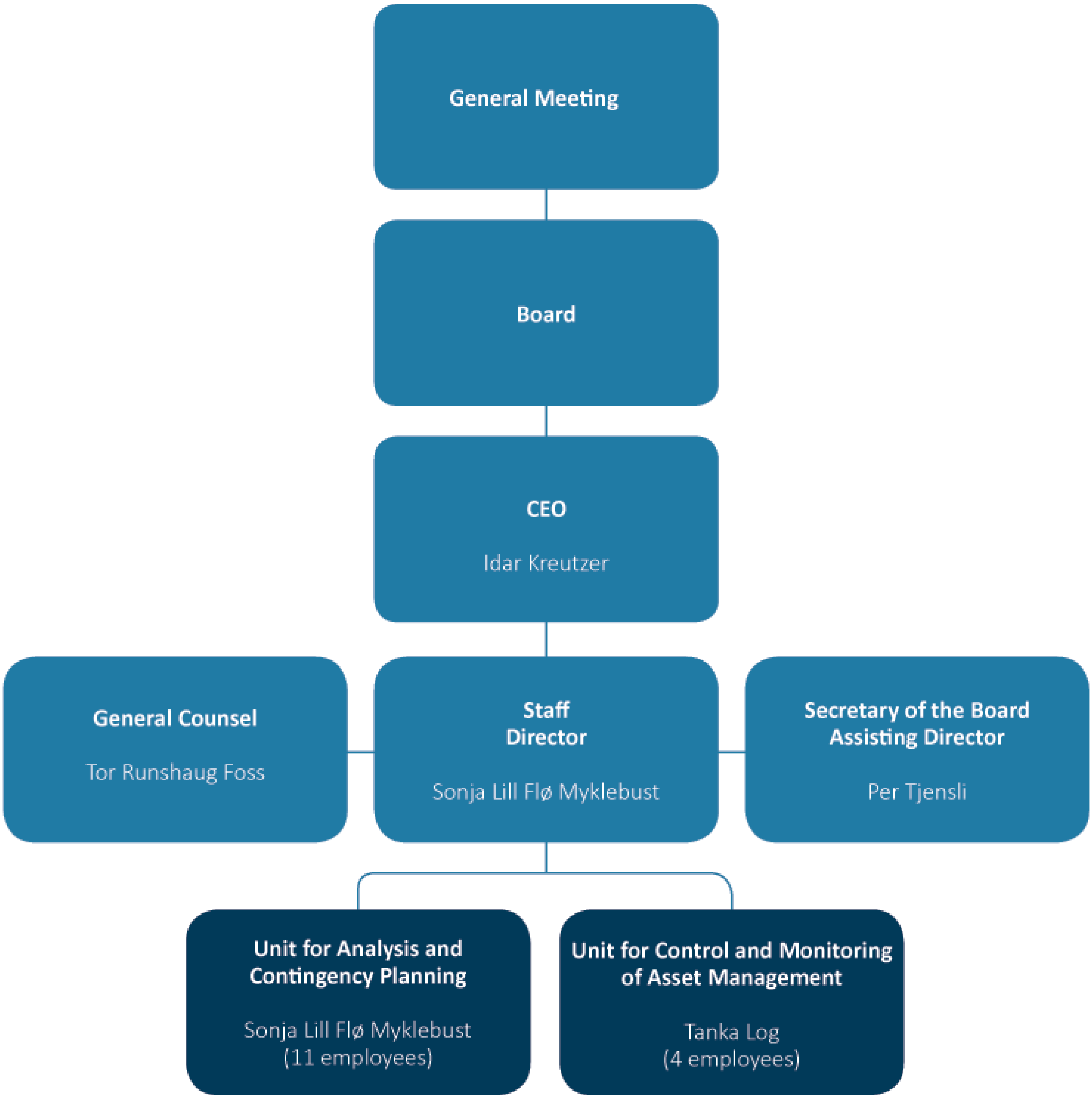
The following were elected members of the Nomination Committee:

- Dag Tjernsmo, CEO, Handelsbanken
- Kaj-Martin Georgsen, Senior Vice President, DNB Bank ASA
- Siri Berggreen, CEO, Lillestrøm Sparebank
- Ole Laurits Lønnum, CEO, Landkreditt Bank AS
- Bente Haraldson Syre, CEO, Haugesund Sparebank

Idar Kreutzer, CEO of Finance Norway, is the Guarantee Fund's CEO. The Fund also utilises personnel from Finance Norway where necessary under an agreement concluded between the two.

(Under section 1 (2) of the new Act on the Norwegian Banks' Guarantee Fund, the Ministry of Finance appointed a new Board for the Guarantee Fund with effect from 1 January 2019. The Board is now the Guarantee Fund's supreme governing body and represents the Fund externally. The full and deputy members of the Board and Nomination Committee listed above therefore completed their service on 31 December 2018.)

Organisation chart at 31 December 2018



Members at 31 December 2018

http://www.bankenessikringsfond.no/medlemsliste/category885.html

Members headquartered in Norway

A
Andebu Sparebank
Aprila Bank ASA
Arendal og Omegns Sparekasse
Askim og Spydeberg Sparebank
Aurland Sparebank
Aurskog Sparebank

B
BB Bank ASA
Bank Norwegian AS
Bank2 ASA
Berg Sparebank
Bien Sparebank ASA
Birkenes Sparebank
Bjugn Sparebank
Blaker Sparebank
BRA Bank ASA
BNbank ASA

C
Cultura Sparebank

D
DeBank ASA
DNB Bank ASA
Drangedal Sparebank

E
Easybank ASA
Eidsberg Sparebank
Eika Kredittbank AS
Etne Sparebank
Etnedal Sparebank
Evje og Hornnes Sparebank

F
Fana Sparebank
Flekkefjord Sparebank
Fornebu Sparebank

G
Gildeskål Sparebank
Gjensidige Bank ASA
Grong Sparebank
Grue Sparebank

H
Haltdalen Sparebank
Harstad Sparebank
Haugesund Sparebank
Hegra Sparebank
Helgeland Sparebank
Hemne Sparebank
Hjartdal og Gransherad Sparebank
Hjelmeland Sparebank
Høland og Setskog Sparebank
Hønefoss Sparebank

I
Indre Sogn Sparebank
Instabank ASA

J
Jernbanepersonalets Sparebank
Jæren Sparebank

K
KLP Banken AS
Klæbu Sparebank
Komplett Bank ASA
Kraft Bank ASA
Kvinesdal Sparebank

L
Landkreditt Bank AS
Larvikbanken – din personlige sparebank
Lillesands Sparebank
Lillestrøm Sparebank
Lofoten Sparebank
Luster Sparebank

M
Maritime & Merchant Bank ASA
Marker Sparebank
Melhus Sparebank
Monobank ASA
MyBank ASA

N
Netfonds Bank ASA
Næringsbanken ASA

O
OBOSBanken AS
Odal Sparebank
Ofoten Sparebank
Opdals Sparebank
Optin Bank ASA
Orkla Sparebank

P
Pareto Bank ASA

R
Rindal Sparebank
Romsdal Sparebank
Rørosbanken Røros Sparebank

S
Safe Deposit Bank of Norway AS
Sandnes Sparebank
Santander Consumer Bank AS
Sbanken ASA
Selbu Sparebank
Skagerrak Sparebank
Skudenes & Aakra Sparebank
Skue Sparebank
Soknedal Sparebank
SpareBank 1 BV
SpareBank 1 Gudbrandsdal
SpareBank 1 Hallingdal Valdres
SpareBank 1 Lom og Skjåk
SpareBank 1 Modum
SpareBank 1 Nord-Norge
SpareBank 1 NordVest
SpareBank 1 Ringerike Hadeland
SpareBank 1 SMN
SpareBank 1 SR-Bank ASA
SpareBank 1 Søre Sunnmøre
SpareBank 1 Østfold Akershus
SpareBank 1 Østlandet
Sparebanken DIN
Sparebanken Møre
Sparebanken Narvik
Sparebanken Sogn og Fjordane
Sparebanken Sør
Sparebanken Telemark
Sparebanken Vest
Sparebanken Øst
Spareskillingsbanken
Stadsbygd Sparebank
Storebrand Bank ASA
Strømmen Sparebank
Sunndal Sparebank
Surnadal Sparebank
Søgne og Greipstad Sparebank

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

V
Valdres Sparebank
Valle Sparebank
Vik Sparebank
Voss Sparebank
Voss Veksel- og Landmandsbank ASA

Ø
Ørland Sparebank
Ørskog Sparebank
Østre Agder Sparebank

Å
Åfjord Sparebank
Aasen Sparebank

Branch members (cf. section 19-2 of the Financial Institutions Act)
BlueStep Finans AB, Oslo branch
Danske Bank (Norwegian branch of Danske Bank A/S)
Handelsbanken (Norwegian branch of Svenska Handelsbanken AB)
Nordea Bank ABp, Norwegian Branch
Nordnet Bank, branch of Nordnet Bank AB
Resurs Bank AB, NUF
Skandinaviska Enskilda Banken AB, Oslo branch
Swedbank Norge, branch of Swedbank AB

Statutes at 31 December 2018

(Under section 1 (2) of the new Act on the Norwegian Banks' Guarantee Fund, from 1 January 2019 the Board is the Guarantee Fund's supreme governing body and represents the Fund externally. The Guarantee Fund's statutes as reproduced below therefore ceased to apply after 31 December 2018.)

Adopted at the first General Meeting of the Norwegian Banks' Guarantee Fund on 22 June 2004. Ratified by the Norwegian Ministry of Finance on 9 September 2004, and subsequently amended at the Annual General Meetings of 19 April 2005, 26 April 2006, 26 April 2007, 21 March 2013, 27 March 2014, and 30 March 2016. Ratified by the Ministry of Finance in letters dated 26 September 2006 and 16 May 2007, as well as by the Financial Supervisory Authority of Norway (on the delegated authority from the Ministry of Finance) in letters dated 24 June 2013, 28 May 2014, and 25 April 2016.

Ch. I Membership and objectives

§ 1 Establishment and membership

(1)The Norwegian Banks' Guarantee Fund (hereafter the "Guarantee Fund" or the "Fund") was established pursuant to the Act of 25 June 2004 on Amendments to the Bank Guarantees Act through the merger of the Commercial Banks' Guarantee Fund and the Savings Banks' Guarantee Fund. The amended legislation came into force on 1 July 2004. The new Financial Institutions Act came into force on 1 January 2016. The activities of the Guarantee Fund are now regulated by the Financial Institutions Act (hereafter the "Act").

(2) The Fund is headquartered in Oslo.

(3) Institutions entitled or required to join the Norwegian Banks' Guarantee Fund:

a. Banks headquartered in Norway must be members of the Guarantee Fund.
b. The Ministry of Finance (hereafter the "MoF") may, by means of statutory regulations, determine that other financial institutions headquartered in Norway shall become members of the Guarantee Fund, and may determine specific regulations covering such members.
c. 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 deemed to give the branch's depositors the same degree of protection as that afforded under Norwegian legislation.
d. The MoF may decide that branches of credit institutions headquartered in states outside the EEA are also required to join the deposit guarantee scheme.

(4) The MoF may issue statutory regulations regarding branches' membership of the Guarantee Fund, including regulations enabling the Fund to examine the branches' financial statements and audits, and assess their management practices, cf. Section 19-2(3) of the Act.

§ 2 Objectives of the Fund

(1) Through the deposit guarantee scheme, the Guarantee Fund shall secure its members' deposit liabilities by means of the deposit guarantee, cf. § 15.

(2) In order to ensure that a member as mentioned in § 1(3)(a)(b) can fulfil its obligations or continue its operations, and, if necessary, have the business transferred to another institution, the Fund can also provide support in accordance with the rules set out in §§ 17 and 18.

(3)The Fund is a separate legal entity. No member has a propriety right to any part of the Fund. The Fund cannot open bankruptcy or composition proceedings.

§ 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 Fund may examine members' financial statements and audit practice, and assess their management practices. To this end the Fund can demand that a member presents any documents or information that the Fund deems necessary.

Ch. II The Guarantee Fund's capital

§ 4 The Guarantee Fund's capital

(1) The Guarantee Fund's total capital must, at all times, equal no less than the sum of 1.5 per cent of the total amount of guaranteed deposits held by members, plus 0.5 per cent of the total basis for the calculation of members' capital adequacy (risk weighted assets), as stated in § 1(3)(a)(b). The Fund's capital is procured through levies and guarantees in accordance with §§ 5 and 6.

(2) Calculation of members' total guaranteed deposits, as mentioned in sentence 1 above, is based on an average of the members' deposits at the end of the third and fourth quarter of the calendar year two years before the payment year, and the first and second quarter of the calendar year one year before the payment year. The same method is used to calculate the total risk weighted assets.

§ 5 Membership levy

(1) Each year members pay a levy to the Guarantee Fund.

(2) The levy is calculated in accordance with Sections 19–6 and 19–8 of the Act and associated regulations.
3) The board must notify individual members of the size of the levy to be collected. The deadline for payment is to be determined by the board.

(4) The levy payable by any new members of the Fund that were operational before joining, is determined by the MoF on a case by case basis.

§ 6 Member guarantees

(1) To the extent that the Guarantee Fund's assets fall below the minimum required in § 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 set out in § 5. Calls for payments pursuant to guarantee liabilities in a single year may not exceed one-tenth of the Fund's aggregate capital, cf. §4.

(2) The Fund's board allocates the guarantee amounts and determines how the guarantee liability shall be secured. The allocation of guarantee amounts shall be recalculated if the board so decides and when the MoF so requires.

(3) The board determines the wording of guarantee declarations from the members and ensures that the declarations are obtained.

§ 7 Investment of the Guarantee Fund's assets

(1) Within the frameworks pursuant to the rules below, the board determines the strategy and guidelines for management of the Guarantee Fund's assets in order to ensure prudent management, necessary liquidity and ethical management.

(2) Investments must be made within the following parameters.

a. A minimum of two-thirds of the Fund's assets must be invested in Norwegian and foreign government and government-guaranteed bonds.
b. The Fund may not invest assets directly or indirectly in shares, equity certificates or other subordinated capital instruments issued by Norwegian banks or in a parent company of a financial group that includes Norwegian banks, unless such investments are a support measure pursuant to Section 19-11 of the Financial Institutions Act.

§ 8 Borrowings

(1) The board may decide that the Fund should borrow funds if this is deemed necessary to fulfil its objectives.

Ch. III The Guarantee Fund's governing bodies

§ 9. General Meeting

(1) The Fund's supreme authority is the General Meeting. Unless otherwise determined by the MoF, each member institution has one representative and one vote at the General Meeting. A member institution can appoint as its proxy a representative of another member institution entitled to attend the meeting.

(2) The General Meeting is held once a year, when possible by the end of June.

(3) The Annual General Meeting is convened by the board. Notice of the General Meeting is issued by means of a letter sent to the member institutions no later than 14 days before the meeting. The agenda of items to be considered by the General Meeting must be in the hands of the member institutions no later than one week before the meeting. The General Meeting may not make any final decision on items other than those included in the agenda.

(4) Any proposal which a member institution wishes to have considered by the General Meeting must be submitted in writing. Such proposals should be submitted long before the meeting is convened, and must be received by the Fund no later than three weeks before the General Meeting.

(5) An Extraordinary General Meeting is held when the board deems it necessary, or when at least ten member institutions or member institutions which together represent more than 10 per cent of the total assets which member institutions have under management so demand. Those requesting an Extraordinary General Meeting must indicate at the same time which issues they wish the meeting to consider. Notice of an Extraordinary General Meeting must be issued in writing, so that it can be expected to have been received by all member institutions no later than eight calendar days before the meeting takes place.

(6) The General Meeting is chaired by the board's chair, and in the absence of the board's chair by its deputy chair. Should both the above be absent, the General Meeting elects the meeting chair. The meeting chair is responsible for ensuring that minutes are kept of the General Meeting. The minutes must be approved and signed by the meeting chair and two other participants who are elected by the meeting.

(7) Unless otherwise expressly stated in the Statutes, the General Meeting passes resolutions with a simple majority. In the event of a tie, the meeting chair has the casting vote, except for votes where decisions are made by the drawing of lots.

(8) The General Meeting adopts the Guarantee Fund's Statutes, and can issue instructions to the board.

(9) The Annual General Meeting reviews:

a. The Report of the Board of Directors
b. The financial statements and the auditor's report
c. Establishment of remuneration paid to elected representatives and the auditor
d. Election of board members and deputy members
e. Election of members of the Nomination Committee
f. Other items that the board has tabled for consideration
g. Proposals from member institutions.

§ 10 Nomination Committee

(1) A Nomination Committee is elected at the General Meeting and prepares nominations for the next Annual General Meeting. Members of the Nomination Committee are proposed by elected board members.

(2) The Nomination Committee consists of five members, who are elected for a term of two years from among the representatives of member institutions. Members should preferably be re-elected only once.

The General Meeting appoints the committee's chair.

§ 11 Board of Directors

(1) The Board of Directors consists of seven members. Five members and five deputy members are elected in numbered sequence by the General Meeting, preferably from among the CEOs of member institutions. One member and deputy member are appointed by Norges Bank (central bank of Norway) and one member and deputy member by the Financial Supervisory Authority of Norway.

(2) Board members and deputy board members are elected for a term of two years. The election of members should reflect the need to achieve a balanced representation from member institutions of varying asset sizes and business models. A member should preferably be re-elected only twice.

(3) The board elects a chair and deputy chair from among its own members for one year at a time.

(4) Unless otherwise specified in § 15(5) or § 17(3) below, at least four board members must be present and unanimous in their decision for a board resolution to be adopted.

(5) Board meetings are held as often as the chair deems necessary or when at least two board members so request. Wherever possible board meetings should be convened in writing. Notice of the meeting must state the items to be deliberated. The Fund's business manager convenes the meeting on behalf of the board chair.

(6) If deemed necessary due to time restraints, the board chair can opt to submit a matter to the board for written consideration. Resolutions may nonetheless not be adopted with respect to matters considered in writing if a board member requests that the item be considered at a board meeting. Resolutions made with respect to matters considered in writing must be presented to and recorded in the minutes at the next board meeting.

(7) The Chair of the Board is responsible for ensuring that minutes are kept of the board's proceedings. Each board member may request to have his/her vote recorded in the minutes. The minutes are signed by two board members appointed by the board, and by the Fund's business manager. A copy of the minutes shall be sent to the board members.

(8) The board members receive remuneration for their work, as established by the General Meeting.

§ 12 The functions of the board

(1) The board manages the Guarantee Fund's activities.

(2) The board shall:

a. Convene Annual and Extraordinary General Meetings.
b. Make decisions on the collection of levies and obtaining of guarantee declarations etc. in accordance with §5(3)(4) and §6(2)(3) of the Statutes.
c. Establish the strategy and guidelines for management of the Guarantee Fund's assets in accordance with § 7 and make decisions on borrowings in accordance with § 8.
d. Employ a business manager for the Guarantee Fund, and issue instructions for the latter's conduct and remuneration.
e. Make decisions on the implementation of the deposit guarantee scheme or on support measures, in accordance with §§ 15, 16, 17 and 18 of the Statutes.

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

a. The Fund is bound by the signature of the board chair or at least two board members jointly.
b. The board may grant the business manager limited authority to act on behalf of the Fund.

§ 13 Audit

(1) The General Meeting elects a certified public accountant to perform auditing services. The auditor issues his report to the General Meeting.

§ 14 Duty of Confidentiality

(1) Elected representatives, public officials and the auditors of the Guarantee Fund shall issue a declaration on the duty of confidentiality regarding any matters of which these parties may become aware in their official capacities.

Ch. IV The Fund's deposit guarantee and support for member institutions

§ 15 The Deposit Guarantee

(1) The Fund has a duty to cover any losses that a depositor incurs with respect to deposits made with a member institution, unless otherwise stated in Section 19-9 of the Act. Here deposits are deemed to be each credit balance on named accounts, and liabilities in accordance with the deposit certificate of the named individual, with the exception of deposits from other financial institutions. In this context deposits are also deemed to include balances in connection with payment transfers or other normal bank services, and interest not yet due.

(2) If a depositor has total deposits that exceed NOK 2 million in the relevant member institution, the Fund is not obliged to cover losses on that part of the overall deposit that exceeds this amount.
If the member institution is permitted to offset deposits and liabilities, the depositor's total deposits are reduced by the amount of any liabilities, which have fallen due, that he or she may have in respect of other agreements. The MoF may issue statutory regulations allowing the ceiling for compulsory coverage of losses on certain special types of deposit or of deposits from specific depositors to be set at a higher level than that stipulated in this paragraph's first sentence.

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

a. deposits from mutual funds and other collective investment enterprises

b. deposits with an unusually high interest rate or other financial benefits when such benefits have contributed to a deterioration of the institutions' financial situation.

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

a. deposits from companies in the same group as the member institution
b. deposits comprising the proceeds of a criminal act for which a legally binding judgement has been handed down.

(5) To pass decisions to cover losses in excess of the amount the Guarantee Fund is obliged to cover in accordance with paragraphs 1 and 2 above, require the approval of at least five board members.

§ 16 Settlement under the Deposit Guarantee Scheme

(1) The Fund shall cover losses on deposits in accordance with Section 19-10 of the Act.

§ 17 Support measures

(1) In order to enable member institutions as stated in § 1(3)(a)(b) to fulfil their obligations or continue in operation, or, if necessary, have their business transferred to another institution, the Fund can grant support by:
a. issuing guarantees or providing other support in order to secure or cover losses on deposits that cannot be covered in accordance with § 15 above
b. providing liquidity support, providing loans or guarantees for borrowings or the fulfilment of other obligations
c. injecting equity or issuing equity guarantees in order to ensure that the business can continue or be wound up
d. covering losses incurred by all, or specific groups of, creditors as a result of inadequate liquidity or capital adequacy

(2) Support granted under Section 19-11 of the Act may, instead, be granted to the parent company of a financial group. In such cases the parent company must immediately pass on the support to the member institution.
(3) Resolutions with respect to support can only be made within the parameters established under § 19. In assessing whether support should be granted, the board must place particular emphasis on maintaining public confidence in the banking system, and to the Fund's finances. This includes comparing the costs of using support measures with the costs that would have been incurred if the matter were to end in public administration and settlement in accordance with the deposit guarantee scheme. To pass a decision of support requires the approval of at least five board members, where the reasons for approval must be documented in the Fund's board minutes.

§ 18 Conditions for support

(1) The Fund's board decides whether and to what extent a member institution is granted support as stated in § 17 above, and the manner in which this is extended.
(2) A member institution which has received support or guarantees from the Fund shall implement the instructions issued by the Fund's board in order to secure against losses. The member institution shall provide regular reports to the Fund's board with respect to the member's position and operations, as specifically determined by the Fund's board.

(3) The Fund's board may require a member institution receiving support from the Fund to enter into negotiations on a merger with another member institution or other financial institution, or that amendments be made to the member institution's management or business.

§ 19 Maximum limit for the Guarantee Fund's total liabilities

(1) The board may not pass a decision in accordance with § 17 and § 18 unless the Fund's residual capital after the support measure along with future receipts of the annual levy and guarantee capital, as well as other available capital, are deemed to be sufficient to meet the Fund's liabilities under the deposit guarantee scheme.
(2) Pursuant to Section 19-11(7) of the Act, the Guarantee Fund may not, without the consent of the MoF, issue any guarantee or incur other liabilities in connection with the deposit guarantee or support measures that, taken together, make up more than twice the Fund's minimum capital, as set out in § 4.

Ch. V Report from the Board of Directors and financial statements

§ Report from the Board of Directors

(1) The Report from the Board of Directors on the activities of the Guarantee Fund is presented to the General Meeting by the board. It should be enclosed with the notice convening the General Meeting. The Report form the Board of Directors is signed by the entire board and initialled by the Fund's business manager.

§ 21 Financial statements

(1) The Guarantee Fund's financial statements are prepared for the calendar year. Any surplus is added to the Fund's capital.

(2) The business manager shall submit a draft of the audited financial statements to the board before the end of March.

(3) The financial statements shall be signed by the entire board and initialled by the business manager.

(4) The financial statements are enclosed with the notice convening the Annual General Meeting.

Ch. VI Amendment of the Statutes etc.

§ 22 Statutes

(1) A decision to amend the Statutes require two-thirds of the votes cast. The decision may not be implemented until it has been approved by the MoF.


BANKENES
SIKRINGSFOND
THE NORWEGIAN BANKS' GUARANTEE FUND
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