Norwegian Banks' Guarantee Fund

Annual Report 2008

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The Norwegian Banks' Guarantee Fund – objects and activities

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

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

Credit institutions headquartered in other EEA states but receiving deposits from the general public through branches in Norway, may become members of the deposit guarantee scheme if the deposit guarantee scheme in the branch's home country is not considered to provide the branch's depositors with protection equal to that afforded under the Act. Membership requires the approval of The Financial Supervisory Authority of Norway (FSA).

The purpose of the Guarantee Fund is to secure the deposit liabilities of its members in such a way that deposits of up to NOK 2 million per depositor per bank are guaranteed, should a member be unable to meet its commitments. All banks domiciled in EEA states have equivalent arrangements. The rules in force in the European Union provide for a guarantee of at least € 20,000. In December of 2008 the European Parliament enacted amendments to the deposit guarantee legislation, increasing the minimum limit for the deposit guarantee from € 20,000 to € 50,000 from 30 June 2009. A maximum limit of € 100,000 will apply effective from 1 January 2011. For further details, see the article on page 59. Thus if the proposal is adopted, the current Norwegian scheme offering a deposit guarantee of NOK 2,000,000 could be cut by more than 50 per cent.

The Guarantee 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 maintained and exercises are conducted. The usefulness of these contingency plans was demonstrated in full in the autumn of 2008.

The Norwegian Banks' Guarantee Fund does not have sufficient personnel resources to handle crisis situations unaided. Accordingly, binding agreements have been concluded with the Norwegian Financial Services Association (FNH) and the Norwegian Savings Bank Association, under which access to additional resources can be provided should a crisis arise. These agreements came into their own in connection with the crisis encountered by the two Icelandic banks Glitnir Bank ASA and Kaupthing Bank hf NUF in the autumn of 2008. This situation also necessitated an extensive expenditure of resources on the part of both FSA and The Central Bank. Close cooperation between the parties concerned produced effective solutions to the situations.

The Guarantee Fund has accumulated considerable funds over time for use in the event of a crisis and as at 31 December 2008 the equity capital of the Guarantee Fund stood at NOK 15.3 billion. In addition, an ordinary levy of NOK 1.5 billion will be called up from members in 2009. Moreover, members have furnished guarantees of NOK 2.3 billion, bringing the aggregate capital base of the Fund up to NOK 19.1 billion. At yearend 2007, the equity capital stood at NOK 17.2 billion and the aggregate capital base at NOK 17.7 billion.

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

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

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

Leader

2008 was a dramatic year for the world's financial services industry. The situation came to a head in mid September with the bankruptcy of US investment bank Lehman Brothers. Norwegian banks have held their own, notwithstanding a difficult funding situation, particularly in early October, before the authorities put in place a package of measures under which government securities could be exchanged for covered bonds, subject to certain conditions.

2008 confirmed the importance of a robust deposit guarantee scheme. Many nations upgraded their deposit guarantee cover substantially over the course of the year. The European Union has now enacted a total harmonisation directive under which all states will be required to have a deposit guarantee scheme of € 100,000 in place from 1 January 2011 onwards. It is essential that we secure an exemption from this directive so that we can maintain our existing limit. It would be paradoxical if in a period when financial strength and faith in the banking industry are of such primary importance we were to lower the guarantee limit. We need to look no further than the example of Kaupthing Bank, which became a member of the Fund without having to pay an entrance fee and burdened us with a risk of some NOK 800 million, for confirmation that our repeated requests over the years for permission to increase the entrance fee were and continue to be entirely justified. The lesson from 2008 must therefore surely be that the regulations need to be changed in a number of respects.

The most serious effects of the financial unrest were felt by the Fund in mid October when the Norwegian subsidiary of the Icelandic bank Glitnir Bank ASA and the Norwegian branch of Kaupthing Bank hf NUF found themselves with insufficient funds to meet their commitments. The Guarantee Fund furnished a liquidity facility of a maximum of NOK 5 billion to Glitnir Bank ASA while the bank was sold on the orders of its parent bank in Iceland. After the Kaupthing branch had been placed under public administration, the Fund covered virtually all deposits of up to NOK 2 million per customer in the space of just a few weeks. The credit extended to Glitnir was furnished against sound security and at the time of writing it also seems likely that the Fund's disbursements to Kaupthing customers will also be covered. Accordingly, it is unlikely that the Fund will have sustained losses on its members in 2008. There are a number of reasons for this: Iceland was determined to meet these obligations, skilled personnel at the Fund and in the industry organisations did what they were supposed to do, interaction with the Norwegian authorities proceeded smoothly and last but not least the employees and officers of the two banks in Norway acted responsibly and efficiently. This case also serves to emphasise the importance to the Fund of having access to liquidity in a critical situation.

Managing the Fund's assets in 2008 was no easy task in the face of, for example, a 54 per cent fall on Oslo Stock Exchange. A return of minus 13.3 per cent, significantly below the benchmark rate, cannot in any way be said to be satisfactory. We can perhaps take some small comfort from the fact that our assets were managed in accordance with the adopted strategy. The growth of the banks and the poor return on investments mean that a full levy will be payable in 2009. It is regrettable that this scheme functions procyclically. During the prosperous pre-2007 years the banks paid no levy, whereas now, when the economy is less buoyant, they must pay the full amount.

At the outset of 2009 the outlook for the world economy is highly uncertain. Policy rates of interest are being cut and crisis management measures are being adopted in very many countries. Nobody knows how deep this downturn will be. The Norwegian banking industry recorded acceptable results in 2008 and is well capitalised. Moreover, with their liquidity package in October 2008 and the hybrid capital/covered bond package in February 2009, the authorities have made a substantial contribution towards helping the banks to operate normally. Accordingly, the foundations are good, but 2009 will still be a demanding year for the industry.

Oslo 16 February 2009

Arne Hyttnes

Arne Hyttnes
Managing Director

Directors' Report 2008

As at yearend 2008, the Norwegian Banks' Guarantee Fund had 141 members. One new ordinary member, Pareto Bank ASA, and one new branch member, Swedbank branch Norway, joined during the course of the year. One of the Fund's branch members, Kaupthing Bank hf NUF, was placed under public administration in 2008. There were three mergers in 2008: Bolig- og Næringsbanken ASA merged with Glitnir Bank ASA, taking the name Glitnir Bank ASA, which was subsequently changed to BNbank ASA in January 2009; Grenland Sparebank and Sparebanken Telemark took the name SpareBank 1 Telemark; and Sparebanken Vestfold and Sandsvær Sparebank took the name SpareBank 1 Buskerud – Vestfold.

The Fund was involved in two rescue operations in 2008: Kaupthing Bank hf's branch in Norway was placed under public administration and Glitnir Bank ASA, a subsidiary of Glitnir Bank, encountered cash flow problems and was sold to a consortium comprising SpareBank 1 banks.

Kaupthing Bank hf NUF

The Norwegian branch of Icelandic Kaupthing Bank hf suspended payments to its customers on 9 October 2008 and the bank and FSA confirmed that "that bank is unable at the present time to repay deposits and will not be in a position to do so in the future". In order to protect the interests of the Fund, the assets of Kaupthing Bank hf in Norway were attached. On Sunday 12 October 2008, the branch was placed under public administration by the Ministry of Finance, following the enactment of new regulations earlier that day. The Guarantee Fund guaranteed deposits from € 20,887 to NOK 2 million, i.e. up to NOK 1,825,301 per customer. The first NOK 174,699 was guaranteed by the Icelandic deposit guarantee scheme. However, in light of the major difficulties that Iceland was encountering, the Norwegian Ministry of Finance agreed to advance these deposits. The Guarantee Fund was requested to arrange all disbursements. The total amount guaranteed was NOK 1,180 million, of which the Guarantee Fund's liability constituted NOK 799 million. The liability of the Icelandic deposit guarantee scheme totalled NOK 381 million. Letters with statements of accounts were sent out to customers and disbursements to depositors commenced on Monday 27 October 2008. The NOK 799 million paid out to depositors is recorded in the Guarantee Fund's accounts for 2008 as a receivable. A claim for the amount has been lodged with the administration board of the estate and will be refunded in its entirety. For further information please refer to the article on this subject in the Guarantee Fund's annual report.

Glitnir Bank ASA

On 7 October 2008, FSA reported to the Fund that Glitnir Bank AS was encountering liquidity problems, caused primarily by the situation of the parent bank in Iceland. To ensure that the bank had sufficient funds to continue trading as normal while a sale was arranged, the Fund made a well secured credit facility of NOK 5 billion available to the bank.

An outside firm was retained by the bank to conduct the sale. By the end of this process one binding offer had been received to purchase the entire bank. This offer, which was made by a consortium of SpareBank 1 banks, was accepted. For the Fund it was essential that the sales process should be handled 100 per cent correctly, not only to safeguard the needs of the vendor, but also because it was possible that several of the Fund's members would be competing to purchase the bank. On 4 December, the consortium was granted a licence to acquire the bank.

The results reported by the members in 2008

Provisional accounting figures show that, not unexpectedly, the international financial crisis has affected the results reported by the members. The financial strength of the members remains good, but 2009 will nevertheless be a difficult year for many banks because of the increased losses they are expected to sustain on lending, particularly to business and industry. As forecast, the changes to the accounting rules governing the valuation of loans enacted in 2005 will have negative and material consequences in both 2008 and 2009. The second half of 2008 saw a relatively sharp growth in defaulted and exposed loans, although, overall, levels remain acceptable.

Low interest rates, the definition of defaults and unemployment figures that remain limited mean that defaults on housing loans will remain low in the first half of 2009. Losses on securities were heavy in 2008 and as a consequence the annual results reported by a number of banks have been weak – several banks will also report negative results for 2008. For most members, ordinary operations – that is to say net interest income plus net commission income less operating expenses – are developing soundly and evenly. Growth in volume is receding and this will have a negative effect on the cost ratios of the banks, unless the cost increases can be brought down to a level that reflects the growth in volume. In 2009 as in previous years, the cost of and access to liquidity will be an important area of focus for the banks. We know from past experience and from events in 2008 that a lack of liquidity can trigger a crisis. The State's injection of liquidity in the autumn of 2008 and the financial package in February 2009 are expected to reduce the negative consequences of the international financial crisis for Norwegian banks.

The results recorded by the Guarantee Fund in 2008

The international financial crisis that erupted in 2007 in the wake of the US sub-prime mortgage crisis, went from bad to worse in 2008. It gradually became apparent that the international banking system was facing problems that could not be resolved without central government involvement. Major monetary and fiscal rescue actions and interventions were implemented, first in the United States and later in Europe and the rest of the world. The Lehman Brothers' bankruptcy in September set off a landslide which swept virtually all risky assets before it, including equities and corporate bonds, in which the Fund holds major positions. As a result, the Fund recorded a major deficit due to losses on its asset management last year.

A loss of NOK 1,855 million was recorded in 2008, as against a profit of NOK 679 million in 2007. It is proposed that the loss be charged to equity.

The result of asset management before costs and fees was a loss of NOK 2,288 million. This represents a rate of return of minus 13.3 per cent. The Fund recorded a return that was 5.7 percentage points lower than it's index, equivalent to NOK 967 million. Losses on equities accounted for the greatest proportion of the negative result in absolute terms, while losses on corporate bonds contributed worst in relative terms.

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

The contributions made by the various asset categories

The Fund lost NOK 2,558 million on equities in 2008, which, as we have already seen, represented the greatest negative contribution by far. Absolute management, which includes the management of credit bonds, made a contribution of minus NOK 741 million, while bonds and money markets made contributions of NOK 827 million and NOK 185 million, respectively. Relative to index, only bonds made a positive contribution. Absolute management made a negative relative contribution of NOK 711 million after major losses on corporate bonds, most of which are unrealised. The loss relative to index can be attributed to the fact that the credit indices were replaced by a government bond index, as decided by the Board, whereas the bonds could not be sold in a bond market that was highly illiquid due to an escalating financial crisis. It was decided to define bonds as a tactical position, while awaiting the normalisation of the market. The table below shows results before management fees. Because the portfolios are grouped differently, the table is not entirely comparable with the profit and loss account.

Return on money market investments totalled 5.2 per cent, compared with an index return of 7.3 per cent.

31.12.2008	Absolute		Relative to index		Relative to index (witch credit indices)	
Asset categories	**Return (MNOK)**	**Return (%)**	**Excess return (MNOK)**	**Excess return (%)**	**Excess return (MNOK)**	**Excess return (%)**
Money market	185	5,2%	-71	-2,1%	-71	-2,1%
Bonds	827	10,7%	45	0,5%	45	0,5%
Equities	-2 558	-45,5%	-230	-3,7%	-230	-3,7%
Absolute management	-741	-24,5%	-711	-28,0%	-311	-12,2%
Total portfolio	**-2 288**	**-13,3%**	**-967**	**-5,7%**	**-567**	**-3,3%**

Higher-than-index credit exposure accounts for some of the relative loss, but the primary explanation was the loss on active interest rate positions.

The return on bonds was 10.7 per cent, as against an index rate of return of 10.2 per cent. A strong nominal government bond market made a healthy contribution last year, while inflation-adjusted bonds made a negative contribution. Relative to index, two new managers, one in inflation-adjusted bonds and one in nominal government bonds, contributed positively and more than counter-acted the negative performances of the other managers.

Equities recorded a return of minus 45.5 per cent, as compared with a return on index of minus 41.8 per cent. All regions reported poor results. Relative to index, losses in emerging markets in particular served to reduce the overall performance, although the Nordic equities portfolio also made a negative contribution. As a consequence of, inter alia, poor results, exposure to emerging markets was converted to global exposure in January 2009.

Absolute management recorded a return of minus 25.5 per cent as compared with an index return of 3.5 per cent. After the index adjustment in March, in which the long credit indices were replaced with a government bond index, long corporate bonds were concentrated in this class of assets. Exposure was defined as a tactical position for phasing out, while waiting for the market to normalise. This has not happened and increased credit premiums generally and losses on US investment banks in particular caused the Fund a loss of some NOK 510 million relative to index. The remaining loss of approximately NOK 200 million can primarily be attributed to losses on active fixed income positions. In retrospect it is clear that the credit exposure was too high for the tactical risk limit. Without the restructuring of the indices the shortfall would have been NOK 400 million lower. The Fund still holds this exposure, but has restructured its fixed income management as a consequence of these results.

The performance of the asset managers

The managers contributed negatively last year with an underperformance of no less than NOK 967 million or minus 5.7 per cent. The table below shows the breakdown between Internal Management and External Management. It shows that value creation by Internal Management was negative and that the same applied to External Management, although by a lesser amount.

Within Internal Management the tactical allocation did most to reduce the overall performance following major losses on corporate bonds. However, equities managers and fixed income managers also made negative contributions. Within External Management the foreign managers of equities in emerging markets were the greatest source of disappointment. A number of new managers were introduced last year within both equities and bonds. Leaving apart emerging markets, the contribution by the remainder was positive. Expectations of the new and broader management base are high for 2009.

Other operating revenues

Other operating revenues totalled NOK 16.3 million in 2008, of which income relating to loans assumed from Ålesund og Giske Tunnel- og bruselskap amounted to NOK 14.9 million, dividends (claims, primarily Enron) totalled NOK 1.1 million and the remainder, NOK 0.3 million, related to income from training courses.

Operating expenses

Operating expenses for 2008 totalled NOK 47.1 million. The corresponding figure for 2007 was NOK 39.8 million. Higher wage and social costs and increased expenses for outside operating services account for most of the increase.

Total asset management costs amounted to NOK 33.7 million, of which NOK 11.3 million related to external management costs. This made for a cost percentage for asset management of 0.21 in 2008. The corresponding figure for 2007 was 0.16. No funds have been allocated for bonuses for 2008.

Managers	Result	Result %	Excess return NOK	Excess return %
Internal Management	-1599	-21,7%	-869	-8,9%
External Management	-689	-7,1%	-98	-2,1%
Total	**-2288**	**-13,3%**	**-967**	**-5,7%**

Financial position

At yearend, 46.2 per cent of the assets of the Fund were invested in government and government guaranteed certificates and bonds. The table below shows actual managed capital allocated according to asset category (excluding operating assets) and the equivalent allocation for the strategic index.

At the start of the new year the Fund's exposure to equities and government bonds was more or less neutral, although it was positioned for falling credit premiums versus short government bond yields. At yearend, Value at Risk (at 95 per cent confidence level) stood at 11.3 per cent and Tracking Error at 2.7 per cent, which was within the maximum limits.

Section 2-6 of the Guarantee Schemes Act requires the aggregate capital base of the Fund at all times to as a minimum equal the sum of 1.5 per cent of aggregate guaranteed deposits lodged with the members and 0.5 per cent of the sum of the measurement basis for the capital adequacy requirements. The minimum capital base requirement for 2009 is estimated to be NOK 19.1 billion. The equity capital of the Fund totalled NOK 15.3 billion. Thus at year-end, the Fund was undercapitalised by NOK 3.8 million. It has been decided that the full membership fee will be called up in 2009: NOK 1,455 million. In addition, the members will be required to furnish a guarantee for the remaining shortfall of NOK 2,326 million.

Changes in investment strategy in 2008

Liquidity and risk considerations lay behind the decision taken by the Board in 2007 to reduce future exposure to corporate bonds in general and bank shares in particular. Implementing this decision in 2008 proved to be extremely difficult in the face of a very illiquid bond market. The result was that the index was changed, although the corporate bonds were retained as a tactical position while awaiting the normalisation of the situation. As regards the exclusion of bank shares, the Board opted to await the normalisation of the situation. Other changes proceeded as planned: the Norwegian equities portfolio was converted to a Nordic portfolio, and at the same time equities funds in emerging markets were purchased. The management universe was expanded for both bonds and equities, at the same time as which a more active management strategy was cultivated.

When in the autumn the volatility of the market virtually exploded, a possible overrun of the VaR limit was indicated. The Board therefore resolved that the limit should be increased from 10 per cent to 15 per cent and that the proportion of equities should be dropped from 30 per cent to 23.5 per cent, in line with developments in value. Accordingly, the Board decided against actively selling off equities or corporate bonds in what was a very restless market. The corporate bond exposure is an active position relative to index, and accordingly it was decided that the TE limit should be expanded from 3 per cent to 4.5 per cent to take account of this.

31.12.2008	**Market value (NOK million)**			**Veighting (%)**		
Asset category	**Guarantee Fund**	**Ref. index**	**Diff.**	**Guarantee Fund**	**Ref. index**	**Diff.**
Money market	373	3 740	-3 366	2,6%	25,8%	-23,2%
Bonds	6 651	7 247	-596	45,9%	50,0%	-4,1%
Equities	3 316	3 406	-90	22,9%	23,5%	-0,6%
Absolute management	4 154	101	4 052	28,7%	0,7%	28,0%
Total portfolio	**14 494**	**14 494**	**0**	**100%**	**100%**	**0%**

Investment strategy for 2009

The investment strategy for 2009 was reviewed while the financial crisis was coming to a head. At the same time, two member banks encountered problems. Payments under the deposit guarantee scheme were required in the case of one of these banks. In other words, the Fund experienced the worst possible scenario, i.e. a fall in asset values coinciding with claims for disbursements. The benefit of holding government bonds was demonstrated in full, as was the disadvantage of holding equities and corporate bonds when a crisis occurs.

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

The Board adopted a decision to convert the holding of equities in emerging markets to a global exposure. This decision was motivated both by doubts about the basis for the investments and by the poor performance of the managers. The decision was also taken to convert the Nordic equities holding to a global equity holding, with the aim of achieving enhanced liquidity and risk properties. The total proportion of equities was increased from 23.5 per cent to 25 per cent for 2009. The proportion of government bonds will remain at 50 per cent and the proportion of money market holdings has been set at 25 per cent.

Based on the negative effects of the ongoing financial crisis, the Board resolved to introduce a model for dynamic asset allocation in 2009. The need for balanced risk- taking indicates that steps should be taken to protect the downside, either by reducing the proportion of equities or by introducing a more dynamic strategy where, for example, a risk premium requirement is imposed: When this is satisfactory, investment in equities will be appropriate. When the risk premium is too low, the equities proportion will need to be reduced. The Board is of the view that the risk premium fluctuates over time and wishes to adopt an active stance in relation to these fluctuations rather than taking a passive and static approach. The TE limit for 2009 was extended to 6 per cent to take account of the effects of dynamic asset allocation.

Outlook

At the start of the new year market sentiment has been one of pessimism, and with good reason. The financial crisis has become a credit crisis, which in turn has become a crisis of the real economy. A hard landing seems unavoidable with all regions being affected. The credit crisis will need to be resolved before there can be any prospect of an improvement. The hope is that the extensive monetary and financial stimuli, that are now being put in place in many countries will work as intended and bring about the required reversal of the situation.

Nevertheless, the way in which this crisis has developed does not justify hopes of a reversal in the short term. The period of economic expansion that has lasted for so long has too far been debt funded. Each downturn has been averted and each upturn stimulated by low rates of interest and rising debt. For too long consumers in the industrialised world have consumed more than they have created, stimulated by falling interest rates and rising asset values (i.e. housing prices). A combination of negative saving, falling wealth and fears of unemployment could potentially send the world economy into a long-lasting depression. Consumers will in all probability have to increase their savings over the coming years, which will entail a structural reduction in demand. Falling demand could to some extent be cushioned by an increase in public sector demand, at least in the short term. This, however, will require financing and will later need to be repaid in the form of higher taxes. Sustainable growth will have to come from elsewhere, and it is to be hoped that emerging economies will lead the way and provide a better balance in consumption and production between the regions.

The ongoing financial crisis probably represents a hundred-year wave which will mark a necessary sea change for the financial system and economic policy. Tighter and more homogenous regulation of the financial markets in general and a strengthened capital base for the banks in particular are unavoidable. Similarly, monetary policy mandates and the exercise of monetary policy will need to be examined in a critical light. Neither has been able to dampen or prevent the emergence of asset bubbles. Nevertheless, extensive political stimuli are essential in the current situation in order to avoid the complete collapse of the economy. It will be equally important to keep a tight reign on the upturn when the reversal comes. There is a clear danger of overstimulation, since it is unlikely that precisely the right dose can be administered in the heat of battle.

At the outset of 2009, expectations vary widely and care must be exercised with regard to both predictions and risk in a situation of this nature. What can be said with some degree of certainty is that growth in 2009 will be negative in the industrialised world, that unemployment and other spare production capacity will increase and that inflation will fall. Central banks will need to keep interest rates at a very low level, probably throughout the whole of the year. Nevertheless, the most likely forecast is that the turbulence in the markets will continue in the short term, characterised by fluctuations in market psychology and widely varying news on the state of the real economy.

In the slightly longer term there are grounds for believing that the price of financial assets will be normalised and that the willingness to take risk will return. If so, both equities and corporate bonds will make attractive investments from the perspective of returns, rather than long government bonds, which have been a safe haven in the storm. It is a long time since risk premiums have been more attractive, but the precondition here is that the international banking system is once more able to fulfil its primary role of making capital available.

In Norway the effects of the international crisis are increasingly being felt, and there is a high degree of preparedness and activity in terms of both financial and monetary policy. As have other central banks, The Central Bank has cut the interest rate drastically and further cuts are expected. The Government's liquidity package for the banks last autumn, the crisis package in January of this year, which was directed primarily at increasing public sector measures, and the financial package in February aimed at strengthening the capital base of the banks and the bond market, are all examples of active measures aimed at mitigating the negative effects for the Norwegian economy.

The banks are reporting extensive write-downs on loans and losses on equities last year and from the perspective of the Fund this gives grounds for some concern. Nevertheless, the Board is of the view that the industry will avoid a banking crisis of the type experienced in other countries, although to do so the economy must not seize up entirely and the Government must choose the right remedies.

The Government's package of financial measures

In October, the Ministry of Finance and The Central Bank took steps to improve the availability of liquidity to the banks. One measure provides access to government bonds to a value of up to NOK 350 billion. In order to gain access to these bonds, the banks must swap residential mortgage-backed securities issued by credit institutions (Norwegian covered bonds, OMF). The price payable by the banks for the swap agreements will be determined by auction. The swap agreements may have a maturity of up to three years. In order to compensate the Norwegian State for the risk, a general limit will be set on the difference between the yield on the treasury bills and the yield on the covered bonds exchanged by the banks. This limit will apply throughout the life of the arrangement. It will also serve as an incentive to discontinue the scheme when market conditions become more normal. Thus, contrary to a widely held belief, the swap arrangement does not constitute financial support. In the period leading up to the end of the year, four auctions were conducted under the swap arrangement, with the banks receiving an injection of NOK 42 billion.

On Sunday 8 February the Norwegian Government tabled a proposal to establish the State Finance Fund and the State Bond Fund. Each fund will be allocated a capital of NOK 50 billion. The Finance Fund will be set up with the aim of strengthening the core capital of the banks to enable them to withstand an economic downturn and to strengthen their competitiveness, while the State Bond Fund will be established with a view to helping companies to find funding, not solely from the banks, but also from an expanded bond market.

Policy for supporting banks in crisis

At the Board meeting of 25 November 2008 the Fund's policy for supporting banks in crisis was adopted. The Board also decided that the policy of the Fund will be published on the Guarantee Fund's website and in its annual report for 2008.

In the aforementioned policy the Board concludes as follows:

It is important that the market should not form the impression that in a crisis the Guarantee Fund will cover the claims of all creditors and, accordingly, that public administration is a viable alternative. One aim of the Fund's strategy for supporting banks in crisis is to encourage greater vigilance on the part of the creditors of banks so that the banks do not expand on the basis of the Guarantee Fund's guarantee cover.

In order to ensure that the Guarantee Fund does not undermine discipline in the market, it is important that

- support should be considered only if this is considered to be less costly than all other appropriate measures, including public administration,
- equity capital support from the Fund must be predicated on the writing down of owner's capital and of any other subordinated capital
- if a decision on support needs to be adopted quickly, the decision may be made conditional upon writing down of this nature based on a revised status report,
- liquidity must be made subject to guarantees and, if applicable, the requirement that a sale be effected,
- if possible, attempts must be made to reach a voluntary solution under which other creditors also contribute to the resolution of the crisis.

The Fund's policy for support/continued trading versus winding up and settlement (by public administration) also has direct effects on the disposal of the Fund's assets, and it is essential to have a clear understanding of how wide-reaching support measures and/ disbursements following a process of public administration can be funded.

The primary task of the Fund is to safeguard the deposit commitments of its members. Support measures must therefore be dimensioned in such a way that the remaining capital will at all times be regarded as sufficient. This indicates that the Fund must take care not to provide excessive support, particularly where there are prospects of extensive disbursements to other banks.

The management of banks in crisis. Progress in following up the report

Over the course of 2008, a number of meetings were held between the Guarantee Fund and the data processing exchanges of one of the banks with a view to putting in place measures for rapidly repaying guaranteed deposits. This process did not succeed and it has been concluded that the data procedures will have to be based on requirements laid down by the FSA. Of the other 15 points raised in the aforementioned report only a few minor matters remain unresolved.

New members and the entrance fee

The Guarantee Fund, the Norwegian Financial Services Association (FNH), the Norwegian Savings Banks Association and FSA have presented a joint proposal to the Ministry of Finance for amendments to be made to the Guarantee Fund Act requiring new members to pay a levy for the first years of trading, irrespective of whether the Fund is fully capitalised or not. In a letter to FSA dated 27 June2008, the Ministry of Finance discussed the need for amendments to the regulations and information activities on this issue, and expressed its concern that the means applied must not have a discriminatory effect on newly-started banks and/or banks under foreign ownership. On this point, the letter referenced Norway's obligations under the EEA Agreement and the need for active competition. Against this backdrop, FSA was instructed to assess various aspects of the scheme with a particular emphasis on issues relating to branch membership. It was also noted that better information needs to be provided to depositors with branch members on which deposits are covered and by whom. FSA was instructed to consider this issue in consultation with, amongst other, the Guarantee Fund.

In a separate letter to the Ministry, The Central Bank outlined its views on the above matter.

The Guarantee Fund has had difficulties determining the entrance fee payable by new branch members. In the case of Nordnet Bank AB and Kaupthing Bank hf NUF, the Guarantee Fund fee was set at NOK 0.-.
In the case of Swedbank's Norwegian branch, which became a member in 2008, the old rules were applied and the entrance fee was calculated in the usual way.

In a letter dated 22 December 2008 to the Ministry of Finance, FSA proposed the inclusion of a new fourth paragraph in Section 5 of the Regulations concerning the payment of a levy to the Norwegian Banks' Guarantee Fund, to read as follows:

Branches which upon application for membership hold a portfolio of deposits shall pay an entrance fee based on the amount that the Guarantee Fund levy would have constituted over the last five trading years had a full levy been charged for these years.

The above change in the regulations will effect Handelsbanken and Skandiabanken. Both Handelsbanken and Skandiabanken appealed against the decision by FSA. In a letter dated 6 February 2009 Skandiabanken stated that the bank now wishes to join the Fund on the proposed terms, and Skandiabanken is accordingly now a member of the Guarantee Fund.

Assuming that the proposed new fourth paragraph of Section 5 of the Regulations concerning the payment of a levy to the Norwegian Banks' Guarantee Fund is adopted, it would now appear that the proposals for changes to the regulations made in relation to foreign branches will far and away resolve the legal issues that have been discussed within the Fund with regard to banks that have traded in Norway previously.

Administrative issues

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

The Fund's Managing Director is Arne Hyttnes, Managing Director of the Norwegian Savings Banks Association. The offices of the Guarantee Fund are located at Universitetsgaten 8 in Oslo. The administrative staff of the Fund comprises 14 employees, four of whom are women. The Fund has a corporate health service agreement. Absence due to illness in 2008 totalled 59 days or 1.9 per cent.

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

Oslo, 27 February 2009

Finn Haugan
Chairman

Ottar Ertzeid
Deputy Chairman

Jan Arveschoug

Kristin Gulbrandsen

Geir-Tore Nielsen

Gunn Wærsted

Bjørn Skogstad Aamo

Arne Hyttnes,
Managing Director

Profit and loss account

	NOTE	2008	2007
Levy received from members	11	459 919 495	1 083 875
Net income, support measures	16	1 197 520	
Result of asset management activities			
Interest on bank deposits		11 821 299	9 020 118
Result, fixed income instruments	12	419 805 363	335 238 709
Result, equities	13	-2 717 124 416	356 941 962
Net result of asset management		-2 285 497 754	701 200 789
Other operating revenues	14	16 296 047	16 126 495
Other operating expenses	15	-47 090 632	-39 775 323
Profit for financial year		-1 855 175 324	678 635 836
Appropriation of result			
Transferred from/to the Guarantee Fund's equity		-1 855 175 324	678 635 836

Balance sheet

	NOTE	31.12.2008	31.12.2007
ASSETS			
Bank deposits	2	899 210 836	243 573 112
Loans	3	10 087 112	19 478 812
Bonds and certificates	4	14 537 054 472	12 457 516 359
Shares	5	3 606 404 855	4 962 730 319
Tangible fixed assets	6	402 000	651 572
Other receivables	7	240 789 520	75 274 553
Accrued interest not due	8	180 828 031	136 006 362
Claim on bankruptcy estate, Kaupthing Bank	16	798 930 360	
Total assets		20 273 707 186	17 895 231 089
LIABILITIES AND EQUITY			
Other liabilities	9	4 912 703 609	679 235 974
Provision for commitments	10	13 218 192	10 869 549
Total liabilities		4 925 921 801	690 105 523
Equity of Guarantee Fund	1	15 347 785 385	17 205 125 566
Total liabilities and equity		20 273 707 186	17 895 231 089

Oslo, 27 February 2009
31 December 2008

Finn Haugan
Chairman

Ottar Ertzeid
Deputy Chairman

Jan Arveschoug

Kristin Gulbrandsen

Geir-Tore Nielsen

Gunn Wærsted

Bjørn Skogstad Aamo

Arne Hyttnes
Managing Director

Notes to the accounts as at 31 December 2008

General comments

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

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

Principles applied in valuing financial instruments

General comments

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

Equities

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

Bonds/certificates

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

Financial derivatives

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

Stock options

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

Stock futures/interest rate futures

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

Interest rate swaps

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

FRAs

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

Forward foreign exchange contracts

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

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

Miscellaneous valuation principles

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

Pensions
Pension costs are calculated on the basis of the year's accrued pension rights less the return on funds allocated to cover pensions. Pension commitments managed through life assurance companies are assessed against the pension fund assets in the scheme. The Guarantee Fund's pension commitments exceed the pension fund assets and the net commitment is classified in the Balance Sheet as debt.

Pension commitments not managed through life assurance companies is recorded in the Balance Sheet as debt.

The pension commitment is calculated as the present value of those estimated future pension benefits that have been earned as at the Balance Sheet date. Actuarial and economic assumptions are made for the purpose of calculating pension commitments, including assumptions about life expectancy, growth in pay and early retirement. The economic assumptions are based on Norwegian accounting standard guidance on pension assumptions as at 31 December 2008.

The Guarantee Fund's accounting principles for recording estimate variances were amended during 2008. Previously estimate variances were recognised in the Profit and Loss Accounts in their entirety. With effect from 2008 onwards, estimate changes will be recognised in the accounts over the average remaining earnings period insofar as the variances exceed the higher of 10% of the pension fund assets and 10% of the pension commitment. The P & L Account and Balance Sheet for 2007 have not been restated in accordance with the principle on amortising over the average remaining earnings period as described above. The effect of the change in principle is charged directly to equity capital in 2008 and measured at the time of the opening Balance Sheet.

The economic consequences of changes in pension rights are classified as personnel costs in the accounts. Pension costs and pension commitments include Employer's National Insurance contributions.

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

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

Note 0
Effects of the change in the principle governing the evaluation of pensions
In connection with the change in the accounting principle relating to pensions, the change in the principle thereby entailed has been charged directly to equity in 2008 and measured at the time of the opening balance sheet. The profit and loss account and balance sheet for 2007 have not been restated in accordance with the principle concerning the amortising of estimate changes over the average remaining earnings period. The restatement of the profit and loss account for 2007 would require actuarial calculations backwards in time. See the note on accounting principles and Note 10 Pensions. The effects of the change are as follows:

Equity 31.12.2007		17 205 125 566
Change "Secured scheme" (actuarial gain carried back)	-2 791 495	
Change "Unsecured scheme" (actuarial loss carried back)	626 638	- 2 164 857
Equity 01.01.2008		17 202 960 709

Note 1
The capital base of the Guarantee Fund
The size or aggregate capital base of the Guarantee Fund is defined in Section 2-6 of the Guarantee Schemes Act and shall at all times at least equal the sum of 1.5 per cent of aggregate guaranteed deposits with the members plus 0.5 per cent of the sum of the measurement basis for the capital adequacy requirements for member institutions. In the case of topping-up members the calculation includes only guaranteed deposits. Members pay an annual fee to the Guarantee Fund, unless the equity capital of the Fund as stated in the most recent annual accounts exceeds the minimum requirement. If this is not sufficient to cover any shortfall, the members shall also furnish guarantees.

Minimum size of the capital base in 2009
The statutory capital base in 2009 is calculated on the basis of the average of guaranteed deposits and average measurement base for the two last quarters of 2007 and the two first quarters of 2008.

1.5% of average guaranteed deposits	715 227 mill	10 728 399 746
0.5% of average measurement base	1 680 229 mill	8 401 142 956
Minimum size of capital base		19 129 542 703
Equity capital Banks' Guarantee Fund at 31.12.2008		15 347 785 385
	Shortfall at 01.01.2009	-3 781 757 318

The full fee will be called up in 2009 totalling NOK 1 455 343 968. In addition the members will furnish guarantees in the amount of NOK 2 326 413 350.

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

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

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

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

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

	2008	2007	2006	2005	2004
Equity capital 01.01.	17 203	16 526	15 368	14 036	12 303
Change in equity capital during period	-1 855	679	1 158	1 332	1 733
Equity capital 31.12.	15 348	17 205	16 526	15 368	14 036

Principal change pension (see Note 0)		2
Equity capital 01.01.08		17 203

Note 2
Bank deposits
Tax withholding funds deposited in a dedicated account total NOK 719 093. Of the bank deposits, NOK 732 070 179 is in foreign currency. Foreign currency holdings were converted at the rate of exchange as at 31.12.2008 and break down into the following currencies:

USD	550 814 606
GBP	185 487 425
NOK	167 140 657
EUR	44 997 498
AUD	5 782 276
CAD	5 206 967
CHF	834 219
PLN	385 885
HKD	220 833
NZD	219 845
MXP	51 270
CRK	8
DKK	-2 364 053
SEK	-14 069 963
JPY	-45 456 638
Total	899 210 836

Note 3
Loans
Loans to Ålesund og Giske Tunnel og Bruselskap (ÅGTB) were assumed by the Commercial Banks' Guarantee Fund in connection with the banking crisis. The loan agreements between ÅGTB and other creditors provide that interest and instalments on the loans are to be serviced by means of toll revenues from the tunnels. The Ministry of Transport decided in 1998 that the period during which tolls could be levied would come to an end in 2009. Because the toll revenues are not sufficient to cover both interest and instalments, a write-down plan has been drawn up for the remaining balance of the loans, according to which the balances of the loans will be written down to zero in 2008. In 2008, NOK 24 319 038 was paid in, of which NOK 9 391 700 has reduced the amount outstanding under the write-down plan and the remaining NOK 14 927 338 has been recognized as income under Other income in the accounts, see Note 14 Other Operating Income.

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

	31.12.2008	**31.12.2007**
Shares in ÅGTB	1	1
Loan to Ålesund og Giske Tunnel og Bruselskap	324 799 382	324 799 382
Writing down of loan	-314 712 271	-305 320 571
Net loan tunnel project ÅGTB	10 087 112	19 478 812

Note 4
Bonds and commercial papers

Debtor category	Original cost	Market value
Global fixed income funds	79 321 454	84 193 751
Public sector		
Bonds	6 600 153 902	7 896 337 809
Commercial papers	218 601 726	236 467 020
Other issuers		
Bonds	5 712 461 824	6 275 095 508
Commercial papers	44 960 385	44 960 385
	12 655 499 291	14 537 054 472

In total, the market value/book value is 1 881 555 182 higher than cost price.

Bonds and commercial papers are held in the following currencies (figures in NOK '000)

EUR	7 049 614
USD	4 750 924
NOK	1 382 072
GBP	528 992
CAD	428 092
DKK	236 131
SEK	83 021
AUD	40 333
SGD	24 189
PLN	13 685
Total	14 537 054

Debtor category	Modified duration
Public sector	6.04
Bonds	6.21
Commercial papers	0.32
Other issuers	3.20
Bonds	3.22
Commercial papers	0.17

Note 5
Shares

Summary	Purchase price	Market value
Norwegian shares listed on Oslo Børs	238 128 459	169 592 891
Unlisted shares	5 670 000	7 560
Foreign shares listed on Oslo Børs	79 407 532	49 394 312
Foreign shares listed on foreign stock exchanges	3 240 479 040	2 882 351 718
Global equity funds	853 348 330	505 058 374
Total	4 417 033 361	3 606 404 855

In total, the market value/book value is NOK 810 628 505 lower than the purchase price of the shares.

Holdings of shares/equity funds at 31.12.2008

	Number	Stake	Purchase price	Market value
Norwegian shares listed on Oslo Børs				
Yara International	120 150	0,04 %	26 813 255	17 872 313
Orkla	382 400	0,04 %	27 474 124	17 380 080
Telenor	358 400	0,02 %	18 042 541	16 593 920
Songa Offshore	1 200 000	2,02 %	22 836 550	15 840 000
Statoilhydro	133 900	0,00 %	15 896 353	15 251 210
Fred Olsen Energy	79 700	0,12 %	16 357 836	14 664 800
Petroleum Geo Services	515 771	0,29 %	33 223 399	14 261 068
Wavefield Inseis	900 000	0,70 %	11 580 126	13 500 000
Tgs Nopec Geophysical	382 000	0,37 %	20 770 362	13 236 300
Subsea 7	241 800	0,16 %	9 637 042	9 792 900
Odim	152 100	0,32 %	10 563 512	4 395 690
Norsk Hydro	156 100	0,01 %	3 881 779	4 339 580
Wega Mining	30 000 000	0,83 %	4 127 764	3 900 000
Electromagnetic	760 900	0,83 %	5 161 078	2 663 150
Prosafe	85 800	0,04 %	2 909 737	2 230 800
Atea	118 800	0,12 %	2 076 967	1 972 080
Agr Group	48 800	0,07 %	1 947 201	732 000
Edb Business Partner	50 000	0,06 %	664 595	670 000
Reservoir Exploration	66 000	0,13 %	4 164 237	297 000
Total			238 128 459	169 592 891

Unlisted shares				
Safetel	1 890	0,05 %	5 670 000	7 560
Total			5 670 000	7 560

	Number	Stake	Purchase price	Market value
Foreign shares listed on Oslo Børs				
Acergy	404 050	0,21 %	29 252 645	15 757 950
Stolt-Nielsen	188 400	0,32 %	12 394 845	13 282 200
Seadrill	137 800	0,03 %	10 735 958	7 592 780
Deep Sea Supply	759 000	0,58 %	8 159 878	5 343 360
Usgamma Gamma Medica	119 470	1,63 %	7 034 860	4 539 860

Pa Resources	156 200	0,11 %	6 679 752	1 593 240
Jinhui Shipping	143 800	0,17 %	4 520 256	1 026 732
Pa Resources Retter	156 200	0,00 %	131 095	117 150
Crew Gold	300 000	0,06 %	132 095	114 000
Crew Gold Retter	1 634 000	0,00 %	349 652	16 340
Bw Gas	1 000	0,00 %	16 495	10 700
Total			79 407 532	49 394 312

	Currency	Purchase price	Market value
Foreign shares listed on foreign stock exchanges with a market value in excess of NOK 13 million.			
Highest ownership stake is 2.32 per cent; two companies with ownership stakes in excess of 1 per cent.			
Nokia	EUR	286 843 313	191 048 594
Novo-Nordisk	DKK	83 407 990	86 126 209
Hennes & Mauritz	SEK	80 447 727	79 946 187
Ericsson B	SEK	63 466 939	63 529 106
Nestle	CHF	55 543 039	60 681 423
Sampo A	EUR	42 188 284	40 404 784
Teliasonera	SEK	43 125 038	38 305 657
Exxon Mobil	USD	30 625 207	37 975 264
Skf B	SEK	38 276 382	36 811 745
Bayer	EUR	39 002 081	36 776 908
Atlas Copco A	SEK	43 316 458	34 524 560
At&T	USD	31 898 670	34 320 303
Fortum	EUR	45 006 227	32 368 592
Ap Moller-Maersk	DKK	46 999 031	32 045 561
Danaher	USD	30 534 907	29 230 112
Upm-Kymmene	EUR	28 171 309	26 802 623
E.On	EUR	28 447 295	26 796 169
Bhp Billiton	GBP	23 869 550	26 411 164
Lonza Group	CHF	29 738 632	25 783 259
Johnson & Com	USD	24 213 587	25 041 878
Investor B	SEK	28 402 426	24 884 176
Securitas B	SEK	23 242 766	24 783 878
Novozymes B	DKK	21 054 216	24 724 032
Procter & Gamble	USD	23 576 460	24 651 503
Kone B	EUR	26 057 604	24 445 826
Sandvik	SEK	44 064 742	24 262 058
Tesco	GBP	24 138 909	22 263 094
Assa Abloy B	SEK	21 595 157	21 871 726
Alfa Laval	SEK	23 915 562	21 194 124
Orion Corporation	EUR	17 651 698	21 133 698
Occidental Petroleum	USD	17 569 675	19 641 818
Royal Dutch Shell B	GBP	19 135 349	19 298 078
Vestas Wind Systems	DKK	27 666 732	19 083 036
Elisa	EUR	17 582 981	18 234 315
Berkley(W.R.)	USD	9 462 385	17 864 458
Grainger(W.W.)	USD	16 066 436	17 659 938
Svenska Cellulosa	SEK	23 712 053	17 590 720
Becton Dickinson & Co	USD	17 915 595	17 555 986
Canon	JPY	18 629 418	16 239 851
Exelon	USD	15 195 529	16 143 976
Northern Trust	USD	20 511 742	15 897 092
Bg Group	GBP	17 273 063	15 616 458

Abbott Laboratories	USD	13 805 607	15 552 359
Betsson B	SEK	14 602 414	15 514 284
Ostasiatiske Kompagni	DKK	19 372 786	15 364 583
Lundbeck(H)	DKK	13 226 342	15 332 411
Roche Hldg	CHF	13 317 878	15 330 148
Stora Enso	EUR	15 668 672	14 946 173
Nike B	USD	14 693 640	14 818 159
Walgreen	USD	15 799 396	14 598 583
Shin-Etsu Chemical	JPY	12 745 974	13 927 034
Skanska B	SEK	17 353 311	13 621 552
Amazon	USD	16 626 465	13 295 558
East Japan Railway	JPY	10 732 870	13 092 266
Miscellaneous (239 stk.)	(Misc.)	1 492 991 521	1 296 988 671
Total		3 240 479 040	2 882 351 718

Global equity funds			
T Rowe Price Global	USD	396 372 900	240 820 622
Charlemagne Emerging	USD	396 752 715	220 086 074
Skagen Kon-Tiki	NOK	50 000 030	37 356 230
Om Xact Fonder Ab	SEK	5 715 717	4 178 456
Proshares Trust Ultra S&P	USD	4 506 968	2 616 993
Total		853 348 330	505 058 374

Gross foreign exchange exposure on foreign shares and units of all types breaks down as follows:

	Translated to NOK '000
USD	1 321 597
EUR	635 415
SEK	568 722
DKK	244 320
GBP	210 908
CHF	131 884
JPY	123 413
NOK	49 394
AUD	38 611
CAD	37 430
HKD	31 677
SGD	6 075
	3 399 448

Note 6
Tangible fixed assets

	2008		2007	
	Vehicles	Tools and equipment Computer equipment	Vehicles	Tools and equipment Computer equipment
Purchase price 01.01	371 743	781 309	347 000	781 309
Purchases	0	0	371 743	0
Disposals	0	0	171 500	0
Gains on sales	0	0	17 500	0
Depreciation carried back	0	0	193 000	0
Purchase price 31.12	371 743	781 309	371 743	781 309
Accum. depreciation 01.01	13 940	487 540	154 000	293 770
Year's depreciation	55 803	193 769	52 940	193 770
Depreciation carried back	0	0	193 000	0
Accum. depreciation 31.12	69 743	681 309	13 940	487 540
Book value 31.12.	302 000	100 000	357 803	293 769
Total tangible fixed assets	402 000		651 572	

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

Vehicles	15 % of purchase price
Renovation	20 % of purchase price
Tools and equipment, computer equipment	1/3 of purchase price

Note 7
Other receivables

	31.12.2008	31.12.207
Dividend	2 333 494	2 991 886
Refundable withholding tax	4 374 087	2 474 545
Other receivables	224 060 308	3 682 721
Currency derivatives, market value	0	66 125 401
Share derivatives, market value	9 825 759	0
Swedbank	195 871	0
Total	240 789 520	75 274 553

Stock derivatives

	Market value
Financial futures	9 825 759
	9 825 759

Financial futures
Interest rate and share index futures are used to take up active positions in the market.

Note 8
Accrued interest not yet due
Accrued interest not yet due in the amount of NOK 180 828 031 as at 31.12.2008 relates to Norwegian and foreign commercial papers and bonds.

Note 9
Other liabilities

	31.12.2008	31.12.2007
Unsettled trades, asset management	3 283 728 203 (*)	2 915 586
Advance deduction, Employer's National Insurance contribution	1 321 813	1 256 664
Bonus	0	722 000
Miscellaneous other debt/accrued expenses	16 573 556	5 801 814
Stock derivatives, market value	0	936 500
Interest rate derivatives, market value	683 462 337	3 048 895
Currency derivatives	640 941 149	0
Short positions	286 676 550	664 554 515
	4 912 703 609	679 235 974

(*)«Unsettled trades, asset management» are primarily REPOS that are also shown on the asset side of the Balance Sheet under «Bonds and certificates» (gross reporting of Repos)

Currency derivatives

	Market value
Currency swap agreements	-3 198 967
Currency options, Call	-596 612
Currency options, Put	169 628
Spot contracts	1 023 844
Forward contracts	-638 339 043
	-640 941 149

Forward currency contracts

	Net nominal volume	Market value
MXN	58 177 536	-1 422 295
NZD	26 784 767	2 872 453
CLP	1 125 239	18 948
MYR	367 061	-42 399
ILS	341 119	-15 955
TWD	-20 015	20 015
CZK	-483 302	-22 839
KRW	-1 479 555	-79 180
CNY	-3 103 678	3 073 680
HKD	-12 367 782	130 804
SGD	-20 941 215	-1 223 824
AUD	-22 976 462	-83 220
PLN	-53 604 335	416 164
CHF	-72 860 610	-8 471 277
JPY	-245 941 005	-3 223 610
CAD	-329 087 021	5 152 342
GBP	-407 067 558	23 741 368
DKK	-425 454 821	-41 241 951
SEK	-515 455 961	4 473 329
USD	-4 337 690 026	-16 682 881
EUR	-6 462 478 758	-605 728 713
Total	12 824 116 383	-638 339 043

Interest rate derivatives

	Market value
Financial futures	
Interest	18 786 694
Bonds	-901 713
Credit derivatives	-11 242
Options	
Interest rates	6 912 719
Bond index	927 100
Interest rate swaps	-709 175 894
	-683 462 337

Short positions

	Market value
Equities	-281 748 363
Fixed income papers	-4 928 186
	-286 676 550

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

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

Financial futures
Interest rate and share index futures are used to take up active positions in the market.

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

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

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

Note 10
Pension costs, pension commitments and pension fund assets
The Guarantee Fund has a defined benefit pension scheme for employees and retired personnel which is covered under an agreement with a life assurance company. The pension benefits cover retirement pension, disability pension, spouses and children's pension and supplements the benefits paid under the Norwegian National Insurance Scheme. A full pension requires an earnings period of 30 years and grants pension rights equivalent to the difference between 70% of pay and the benefits paid under the Norwegian National Insurance Scheme. The arrangement follows the Occupational Pensions Act. This agreement is referred to in the following as secured benefits.

Pension rights for pay of over 12 G (G = the basic National Insurance amount) are funded from the operations of the Guarantee Fund for the purpose of retirement pension, children's pension and surviving spouses' pension. Disability pension for pay in excess of 12 G is secured by means of risk premium payments to an insurance company, but with no capital development. The annual premium makes up part of the pension cost.

Pension agreements for which insurance cover has not been taken out are referred to as unsecured pension commitments and cover the following:

- Pension commitments (except disability pensions) relating to pay of over 12 G will be covered under an administrative pension scheme.
- Provision in the accounts in connection with expected CPA take-up tendency. The earnings period for the CPA commitment is calculated from the time of employment.
- Current pensions - agreed take-up of CPA early retirement with severance package
- Early retirement at age 62 for the two heads of department of the Banks' Guarantee Fund. When early retirement pensions are taken up, employees are withdrawn from the company pension scheme but are compensated for the reduction in their earnings from the start of their ordinary retirement age.
- Supplementary pensions for retired personnel. These benefits are only covered in part by the collective agreement and the commitments relating to the unsecured benefits are included in the pension commitment.

The pension commitment as at 31 December 2008 is calculated as the present value of those parts of future pension benefits that have been earned as at the balance sheet date. Estimated values are used for the purpose of valuing pension fund assets as at 31 December 2008.

The Balance Sheet shows the difference between pension commitments and pension fund assets. With effect from 2008, changes in the pension commitment and pension funds assets that come about as a result of changes in and deviations from the underlying assumptions (estimate variances) are recognised in the Profit and Loss Account over the average remaining earnings period insofar as the variance exceeds the higher of 10% of the pension fund assets and 10% of the pension commitments. In previous years estimate changes were recognised in the profit and loss account on a continuous basis as calculated pension costs. The Profit and Loss Account and Balance Sheet figures for 2007 have not been restated in accordance with the principle of amortising estimate variances over the average remaining earnings time. Restatement of the Profit and Loss Account figures for 2007 would require actuarial calculations backwards in period. The effects of the change in principle are charged directly to equity capital in 2008 and measured at the time of the opening Balance Sheet.

Pension cost and commitments include Employer's National Insurance contribution.

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

The NAS Guidelines on pension assumptions as at 31.12. have been applied for the purpose of determining the economic assumptions underlying the pension commitments. The calculations are based on the following economic and demographic data:

Pension costs, pension commitments and pension fund assets

	2008	2007		2008	2007
Discount rate	3.80%	4.80%	Expected growth in pay	4.00%	4.50%
Expected return	5.80%	5.80%	Expected adjustment, G value	3.75%	4.25%
Take-up tendency CPA (on all age stages during the CPA period)	70%	70%	Expected reg. of pensions	1.50%	2.00%
Demographic assumptions regarding mortality	K2005	K2005			
Number of occupationally active personnel	15	15	Number of retired personnel	6	6

Pension cost	**2008**			**2007**		
Profit and Loss Account	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Present value of year's pension earnings (incl. ENIc)	2 102 159	1 101 106	3 203 265	2 289 297	673 318	2 962 615
Interest expense on accrued commitment	997 488	497 342	1 494 830	1 114 065	303 431	1 417 496
Expected return on pension fund assets	-1 287 261	0	-1 287 261	-1 069 686	0	-1 069 686
Plan change	0	0	0	-1 668 758	2 565 459	896 701
Pension cost before actuarial variances	1 812 386	1 598 448	3 410 834	664 918	3 542 208	4 207 126
Amortising of estimate variances not recorded in P & L Account	-44 773	0	-44 773	-2 791 495	626 638	-2 164 857
Administration costs *)	152 655	13 135	165 790	0	0	0
Total	1 920 268	1 611 583	3 531 851	-2 126 577	4 168 846	2 042 269
Accrued pension premium carried back	-75 000	0	-75 000	-75 000	0	-75 000
Net pension cost recorded in P&L Account in period	1 845 268	1 611 583	3 456 851	-2 201 577	4 168 846	1 967 269

*) In 2007 administration costs were included in the calculation of present value of pension earnings.

Pension commitment	**2008**			**2007**		
Balance Sheet	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Estimated accrued pension commitment (incl. ENIc)	26 827 990	11 845 707	38 673 697	21 646 685	10 597 864	32 244 549
Estimated value of pension fund assets	-22 377 000	0	-22 377 000	-21 550 000	0	-21 550 000
Net pension commitments	4 450 990	11 845 707	16 296 697	96 685	10 597 864	10 694 549
Actuarial gain/loss not recorded in P&L Account *	-2 429 319	-749 186	-3 178 505	0	0	0
Book net pension commitments	2 021 671	11 096 521	13 118 192	96 685	10 597 864	10 694 549
Allocated pension premium			100 000			175 000
Total			13 218 192			10 869 549

Change in principle			
Book net pension commitments	96 685	10 597 864	10 694 549
Change in principle - net effect charged to equity capital	2 791 495	-626 638	2 164 857
Estimated pension commitment 01.01.08	2 888 180	9 971 226	12 859 406

* In 2007 the actuarial gain/loss was recognised in the Profit and Loss Account in full.

Year's change in pension commitments

Pension commitments	**2008**	**2007**
Opening balance at 01.01.	32 244 549	32 276 704
Year's earnings	3 203 265	2 962 615
Year's interest expense	1 494 830	1 417 496
Payments to retirees and payment of ENIc on premium	-1 818 970	-1 704 683
Plan change	0	-1 592 127
Actuarial gain/loss (net)	3 550 023	-1 115 456
Closing balance at 31.12.	38 673 697	32 244 549

The structure of the pension fund assets

Pension fund assets	2008	2007
Estimated pension fund assets at 01.01.	21 550 000	21 261 000
Actuarial gain/loss	-1 748 566	1 049 401
Actual pension fund assets at 01.01.	19 801 434	22 310 401
Forecast return on pension fund assets	1 287 261	1 069 686
Premiums paid	2 442 399	1 651 032
Pensions paid out	-1 001 439	-992 291
Admin. expenses group scheme *)	-152 655	-
Plan change	0	-2 488 828
Estimated fund assets at 31.12	22 377 000	21 550 000

*) In 2007 admin. expenses were included in the present value of the year's pension earnings.

Note 11
Levy received from member banks
The annual levy for 2008 is calculated in accordance with the provision of the Guarantee Schemes Act and the Regulations on the calculation of the fee payable to the Norwegian Banks' Guarantee Fund. Briefly stated, the annual levy is calculated on the basis of the average of guaranteed deposits (0.1%) and the measurement basis for capital ratio (0.05%) as at the end of the third and fourth quarter 2006 and first and second quarter 2007. Members with a tier 1 capital ratio in excess of 8.0% as at 31 December 2006 are granted a discount on their annual fee. The maximum discount is 35% for a tier 1 capital ratio of 16.75%. Topping-up members pay only for guaranteed deposits.

In 2008, 1/3 of the full ordinary levy was called up from the members.

The levy paid in 2008 also included newly-formed banks, which according to the regulations are required to pay a full ordinary levy for a minimum of 12 months and, if applicable, the entry fee fixed by the Ministry of Finance.

1/3 part of ordinary levy		458 583 624
Pareto Bank ASA	Levy for 12 months	1 140 000
Swedbank	Entry fee plus 7 months' levy	195 871
Total		459 919 495

Note 12
Result portfolios of fixed income securities

	2008	2007
Interest received bonds/certificates	582 369 326	552 409 503
Return on funds	2 144 694	0
Realised capital gains/losses	-1 313 548 918	108 058 278
Unrealised capital gains/losses	1 148 840 261	-325 229 071
	419 805 363	335 238 709

Note 13
Result equities portfolios

	2008	2007
Share dividends	110 512 270	102 169 521
Realised capital gains/losses	-1 665 428 166	617 644 423
Unrealised capital gains-	1 162 208 520	-362 871 982
	-2 717 124 416	356 941 962

Note 14
Other operating income

	2008	2007
Refund, withholding tax pre-2004	0	86 330
Claims, compensations Asset Management (*)	1 114 026	0
Net income Ålesund og Giske Tunnel og Bruselskap (see note 3)	14 927 338	15 705 308
Net income from courses	254 683	334 857
	16 296 047	16 126 495

(*) of which NOK 1 060 274 relating to Enron

Note 15
Other operating costs

	2008	2007
Salaries, fees and social costs	16 707 137	14 348 607
Administration and operating costs	18 869 993	14 466 467
Costs external managers	11 263 930	10 713 539
Ordinary depreciation	249 572	246 710
	47 090 632	39 775 323

Information on employees and officers

Total number of employees as at 31 Dec. 2008: 14			**2008**	**2007**
Salaries, fees in total			11 226 098	9 795 318
of which paid out in 2008:	Chairman	28 000		
	Other board members	109 500		
	Manager	201 204		
Bonus, Asset Management			0	722 000
National Insurance contributions			2 003 578	1 792 661
Pension costs			3 054 003	1 675 206
Social costs			423 458	363 422
			16 707 137	14 348 607

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

Auditor's fee etc.	**2008**	**2007**
Remuneration for statutory audit incl. VAT	226 034	176 816
Remuneration for tax advisory services incl. VAT	481 176	114 768

Note 16
Net income support measures
(reference is also made to the broad discussion of this issue in the Guarantee Fund's report and the annual report for 2008.

The Norwegian branch of Kaupthing Bank hf ceased payments to depositors. The branch was placed under public administration and the Norwegian Banks' Guarantee Fund was required to pay out guaranteed deposits to the depositors of the branch. The Guarantee Fund guaranteed from € 20 887 to NOK 2 million, translated to between NOK 174 689.87 and NOK 2 000 000. Deposits of up to NOK 174 598.87 were guaranteed by the Icelandic Guarantee Fund. The Ministry of Finance, acting on behalf of the Norwegian Government, undertook to advance the guarantee and requested the Banks' Guarantee Fund to pay out the guarantee on behalf of the Ministry of Finance, which had advanced the total claim. The Guarantee Fund's share of the guarantees has been paid out with the exception of NOK 44 772.43 and our total claim has been registered with the bankruptcy estate. Amounts paid out and costs incurred in connection thereto will be refunded in their entirety by the estate of the branch and have for this reason been recorded in the accounts of the Guarantee Fund for 2008 as a receivable. In connection with the disbursements to depositors a loan was initially raised from J.P. Morgan to cover payments. This loan was subsequently redeemed in connection with the payments of membership levies members and sales of securities from the Guarantee Fund's portfolio.

Paid out to depositors of Kaupthing Bank hf NUF branch Norway	798 505 272
Costs in connection with winding up/disbursement	425 088
Claim against the estate of Kaupthing Bank (will be refunded as per agreement)	**798 930 360**
Interest incurred in connection with loan on J.P. Morgan	4 512 935

Glitnir Bank ASA encountered cash flow problems in October. In order to ensure that the bank had sufficient liquid funds to restructure, the Guarantee Fund took part in a liquidity rescue action. In this regard, the Guarantee Fund was entitled to interest and margin on the liquidity support rendered, which was provided in part through Norges Bank, J.P.Morgan and directly by the Guarantee Fund. The liquidity support was wound up with effect from 18 December 2008, but the consortium which purchased the bank is entitled to continued liquidity aid until the end of 2009 to a maximum limit of NOK 3 billion subject to specific conditions.

Interest received - margin on liquidity loans to Glitnir	5 710 455

Interest income - margin on liquidity loan to Glitnir	5 710 455
Interest expense in connection with loan, J.P.Morgan	4 512 935
Net income support measures	**1 197 520**

Cash Flow Statement

	2008	2007
Profit for year	-1 855 175 324	678 635 836
Change in equity capital 01.01.08	-2 164 857	0
Gain on sale of tangible fixed assets	0	-17 500
Ordinary depreciation	249 572	246 710
Contributed from year's activities	-1 857 090 609	678 865 046
Investment in tangible fixed assets	0	-371 743
Sale of tangible fixed assets	0	171 500
Increase in holding of bonds and papers	-2 079 538 113	-648 106 189
Reduction (-) / Increase (+) shareholdings	1 356 325 464	-566 858 000
Increase (-) / Reduction (+)accrued interest not yet due	-44 821 669	7 384 473
Increase other receivables(incl. Kaupthing)	-964 445 327	-26 255 834
Reduction in loans	9 391 700	8 696 000
Increase (+) /Reduction (-) in provisions for commitments	2 348 843	-396 155
Increase other liabilities	4 233 467 635	635 725 457
Net change in cash	655 637 724	88 854 555
Cash balance at 01.01	243 573 112	154 718 557
Cash balance at 31.12.	899 210 836	243 573 112

Cash balance encompasses bank deposits and cash

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To the Annual Shareholders' Meeting of Bankenes sikringsfond

Auditor's report for 2008

We have audited the annual financial statements of Bankenes sikringsfond as of December 31, 2008, showing a loss of NOK 1 855 175 324. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information given in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Oslo, February 27, 2009
PricewaterhouseCoopers AS

Petra Liset
State Authorised Public Accountant (Norway)

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

Kontorer: Arendal Bergen Drammen Fredrikstad Førde Hamar Kristiansand Mo i Rana Molde Måløy Narvik Oslo Stavanger Stryn Tromsø Trondheim Tønsberg Ålesund
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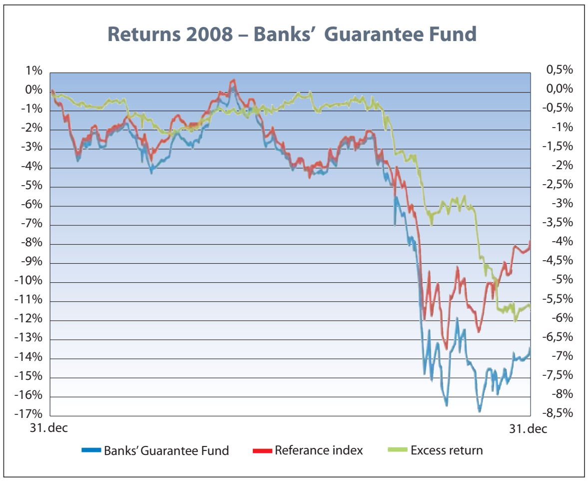
Result of asset management in 2007

In both absolute and relative terms, the result of asset management last year was very poor. In the following, a presentation is provided of the results achieved at asset class level. The figures for 2006 and 2007 are also shown.

Results relative to index and required rate of return in 2008

The Fund reported a result of minus NOK 2, 288 million or minus 13.3 per cent. This was NOK 967 million or 5.7 per cent lower than the strategic index.

This result conceals a turbulent year with wide fluctuations in most classes of assets. The figure below illustrates developments in the financial result of the Fund over the course of the year, both in absolute terms (left-hand axis) and relative to index (right-hand axis).

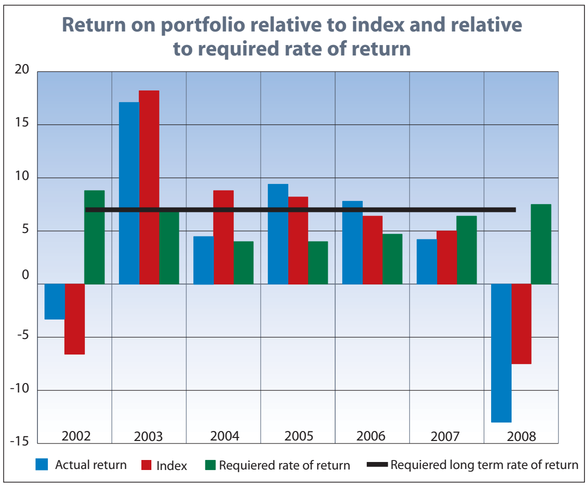


Returns 2008 – Banks' Guarantee Fund

The downturn in both absolute and relative terms started last autumn, more or less concurrently with the Lehman Brothers' bankruptcy. After that, shock-waves caused the collaps of more or less all risky assets. The Fund registered that the return on all asset classes, with the exception of bonds, was below index and, accordingly, the outcome was a bad year for active management.

Historical perspective

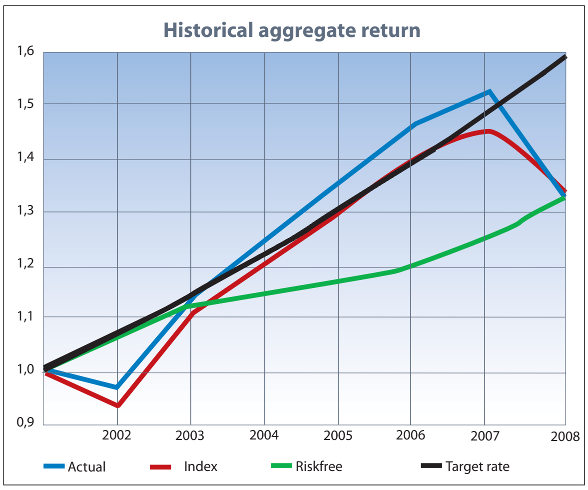
The figure below shows last year's performance in context by illustrating the equivalent figures for the last seven years. The figure illustrates actual returns (blue) relative to index (red) and relative to a continuous required rate of return (green) defined as risk-free return plus two percentage points and a long term rate of return (black) defined as a neutral rate of interest plus a premium of two percentage points.



Return on portfolio relative to index and relative to required rate of return

Of the seven years shown, three years underperformed relative to index. In four out of the seven years, returns were higher than the required rates, whereas the portfolio and index generated lower returns than the long-term required rate of return in four of the seven years.

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



Historical aggregate return

rate of return. It shows that the Fund lost its entire lead both over the long-term target rate of return and it's index, and more. In fact, it is difficult to justify risk in excess of government certificates during this period. A dramatic conclusion following a dreadful year.

Results recorded by Internal and External asset managers

Result and excess return are measured for the various asset managers and were distributed as follows between Internal and External asset management:

Managers	Result	Ret %	Excess ret. NOK	Excess ret. %
Internal	-1599	-21,7%	-869	-8,9%
External	-689	-7,1%	-98	-2,1%
Total	**-2288**	**-13,3%**	**-967**	**-5,7%**

Internal asset managers underperformed by no less than NOK 869 million or 8.9 per cent last year. This very poor contribution was the result of weak results in the management of fixed income securities equities and losses on corporate bonds in the tactical asset allocation. Corporate bonds were taken over as a tactical position in March when the credit indexes were replaced with a government bond index. The loss on this position account for some NOK 510 million of the underperformance. Without the change in index the figure for underperformance would have been some NOK 400 million lower.

External asset management underperformed by NOK 97.6 million. The negative contribution was made by equity management where emerging markets and Nordic equities performed particularly poorly. Global fixed income management made a positive contribution where the manager of inflation-linked bonds in particular performed well.

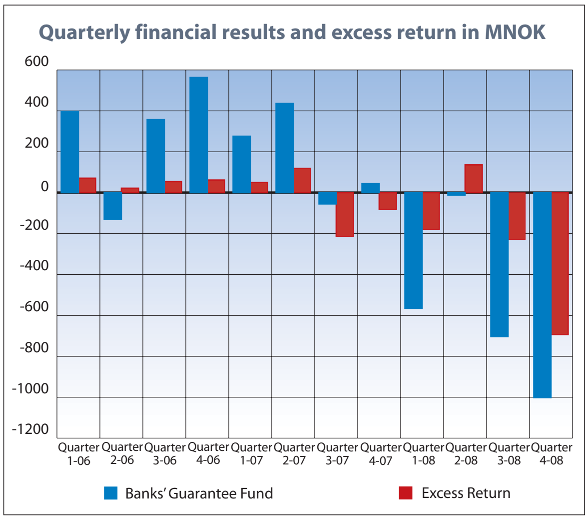
Asset management costs

The asset management costs in the table below specify both direct and indirect costs as well as performance-related bonuses. (in NOK '000):

The cost percentage for 2008 was 0.21. The equivalent figure for 2007 was 0.16.

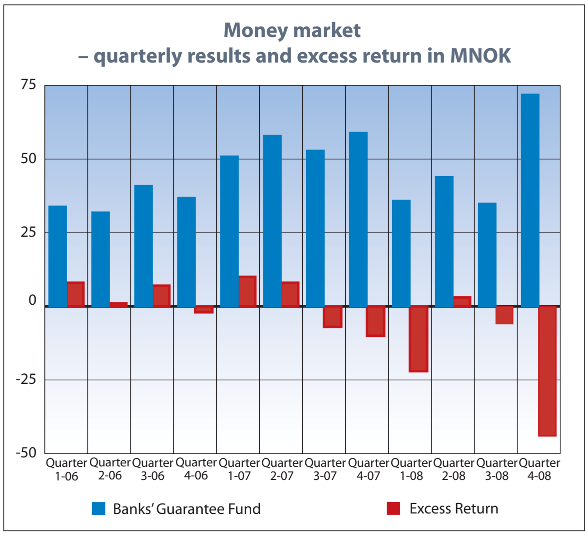
The performances of the various asset categories over the course of the year

The performance of the Fund as a whole over the course of the year was poor in both nominal and relative terms. Performance in Q4 was very poor. Only in Q2 was an excess return reported. The figure below shows quarterly results for the last three years.

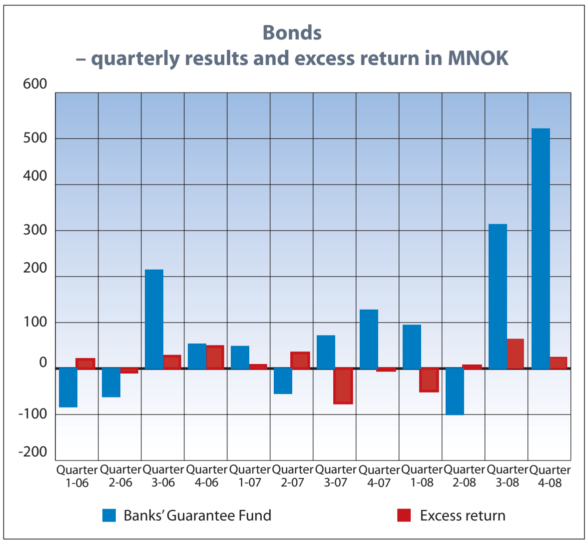


Managers	Direct costs	Indirect costs	Total ordinary	Bonuses	Sum costs	Cost %
Internal	17 198	2 275	19 473		19 473	0,26%
External	11 264	2 983	14 247		14 247	0,16%
Total costs	**28 462**	**5 258**	**33 720**	**0**	**33 720**	**0 ,21%**

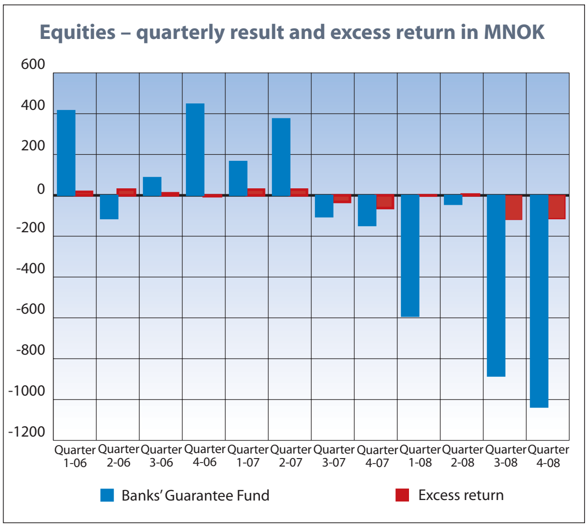
The Money Market asset class comprises a portfolio of short-term corporate bonds with high creditworthiness. The result relative to index was negative in Q1 following losses on increased credit premiums. The loss in Q4 was primarily the consequence of active rate positions where duration was underweighted on the back of a rapidly falling interest rate. The quarterly results over the last three years are as shown in the following figure:



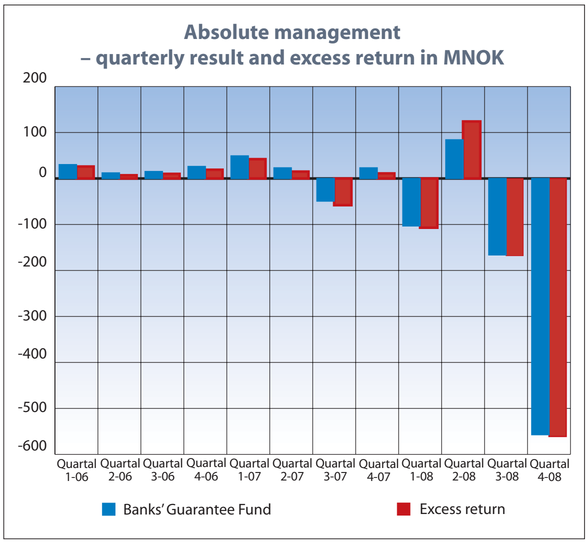
The Bond asset class comprises four portfolios. Three of the portfolios are nominal government bonds, while the fourth comprises inflation-shielded government bonds. The results clearly reflected an aversion to risk and lowered expectations with regard to growth and inflation, resulting in a sharp reduction in interest rates, particularly in the second half of the year. The underperformance in Q1 was the result of losses on corporate bonds. Solid performances by two of the managers meant that, overall, bonds performed well relative to index. The figure below shows quarterly results over the last three years:



The Equities category of assets comprises six portfolios: One for Nordic equities, one for emerging markets and four for global equities. The results reflected a very weak equities market with significant fluctuations over the course of the year. The shortfall came in Q3 and Q4, and derived primarily from emerging markets and Nordic equities. The figure below shows quarterly results over the last three years:



The Absolute Management asset class comprises absolutely managed portfolios within tactical asset allocation, fixed income and equities. The asset category typically embodies a higher level of active risk than is the case for the three other asset categories. In terms of performance, the year was a disaster, primarily as a consequence of the takeover by tactical asset allocation of all long-term credit exposure for phasing out after the index restructuring in March. Losses on corporate bonds undermined the performance of this category by some NOK 510 million last year, while the remaining portfolios generated a loss of the order of NOK 200 million, mainly from active interest rate positions. Q4 saw the highest losses when credit premiums increased dramatically following the Lehman Brother's bankruptcy. The figure below shows quarterly results over the last three years.



The two results columns will be more or less equal in size for this category since there is virtually no capital in the index.

The market in 2008 and the outlook for 2009

2008 will go down in history as the most dramatic year for the world's financial markets since the Second World War. Before the year end, a number of major banks and financial institutions had been nationalised, declared bankrupt or bought at bargain prices, include the United States' biggest mortgage institutions, Freddie Mac and Fannie Mae, the world's one-time largest insurance company AIG, and three of the five US investment banks. Who could have foreseen this inferno after such a long period of prosperity?

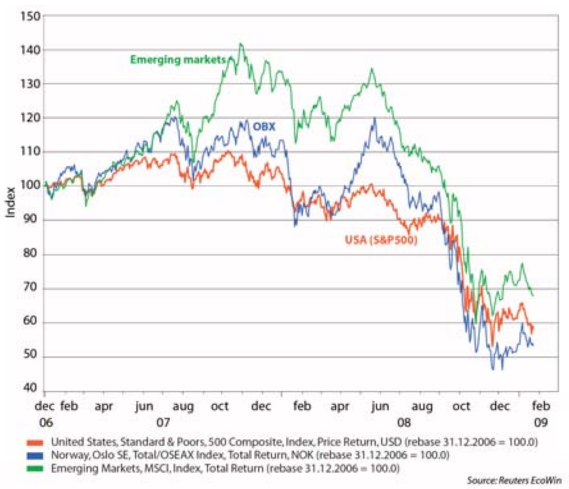
The year started with the escalation of the credit crisis that had started in the summer of 2007, with sharp falls in stock and credit markets and corresponding falls in yields on government bonds. The first quarter culm inated in J.P. Morgan's takeover of investment bank Bear Stearns, well supported by the US Federal Reserve. Many observers took this to be the turning point in the crisis. Optimism returned in the second quarter, accompanied by rising share prices and falling credit premiums. Demand and growth appeared to be high, with rises in food and energy prices in particular. The fear of inflation returned and the market anticipated significant increases in interest rates by central banks. And in fact, ECB raised its interest rate in July. Markets remained relatively quiet throughout the summer months. This turned out to be the calm before the autumn storm. The nightmare started when the US authorities declined to rescue Lehman Brothers, which filed for bankruptcy protection on 15 September. The financial house of cards started to teeter, and without the subsequent intervention of the authorities the entire financial system would have crumbled. The bottom fell out of stock and credit markets worldwide. Credit premiums reached levels not seen since the Great Depression of the 1930s.

The effects on the real economy became increasingly apparent. The fourth quarter last year was the worst for global growth since the Second World War. For example, annualised global industrial output fell by 18%, while US retail sales fell by 28%. The setback is global and synchronised. All leading industrial nations are in recession and growth in emerging markets is falling sharply. The financial crisis is feeding the crisis in the real economy by creating heavy friction in the supply of capital. Even healthy companies risk going bancrupt if their funding dries up due to a malfuncioning banking system. However, the authorities in most countries have acknowledged the seriousness of the situation and are using all available means to stimulate the economy: Massive interest rate cuts, highly stimulative fiscal policy and even quantitative easing. The prevailing view is that no measure must be left untried. The question is, however, what will be the consequences of this policy for the longer term?

The stock markets in 2008

The fall in the stock markets in the first quarter of 2008, viewed as dramatic at the time, seemed in retrospect like smooth waters when compared with the autumn months of September through November. During the course of these months, the S&P 500, MSCI emerging markets and OSEBX fell by 30 per cent, 45 per cent and 48 per cent, respectively. For the year as a whole, these three markets fell by the equivalent of 40 per cent, 55 per cent and 55 per cent, whereas MSCI World ended the year down by 43.5 per cent. All regions fell by 30 per cent or more over the course of last year.

Share indices in the US, Norway and emerging markets

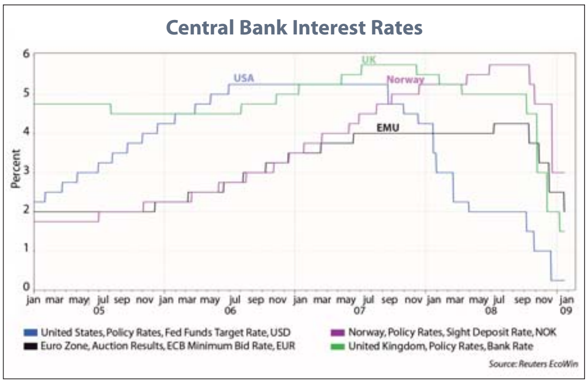


Unsurprisingly, the financial sector was the worst performing sector, as it had been in 2007, with a return of minus 55 per cent. Cyclical sectors such as industrials, technology and cyclical consumption were among the weakest performers, while the defensive sectors health care, telecoms and utilities had the smallest setbacks.

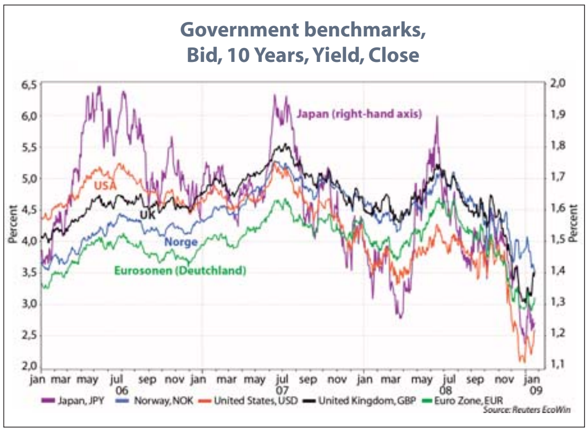
Energy	-35,7 %
Industrials	-46,3 %
Consumer Discretionary	-45,1 %
Health Care	-24,0 %
Financials	-54,7 %
Telecomm Services	-33,5 %
InformationTechnology	-47,4 %
Utilities	-31,7 %

Central bank rates heading towards zero

The US Federal Reserve quickly cut interest rates to 2 per cent in the course of the first half of 2008. During the spring, the consensus view that we had put the worst of the financial crisis behind us. Global growth remained buoyant, the upward pressure on commodities' prices continued, and inflation rose sharply. However, the fear of inflation was rapidly overtaken by the credit crisis, and before the year end the Federal reserve's policy rate had, to all intents and purposes, been slashed to zero. All other central banks had also cut their rates significantly. Over the course of just a few months in the autumn, the fear of inflation had been replaced by fear of deflation.

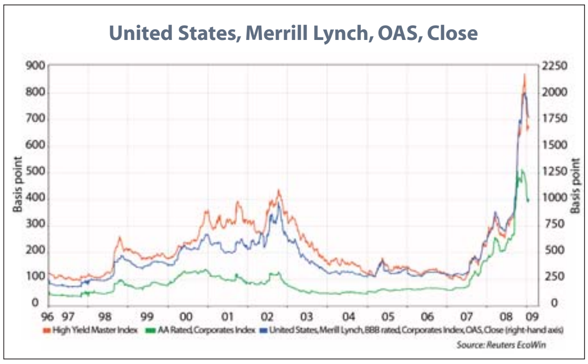


10-year government bond yields fell to a level that few if anyone could have foreseen at the start of the year, with US yields close to 2 per cent and European yields of less that 3 per cent. There were three major movements over the course of the year: a sharp fall in interest rates in the first quarter, an even sharper rise in the second quarter and then an unprecedented drop in the fourth quarter. At its lowest level in December, the 30-year yield in the United States was 2.5%. The return in 2008 on this bond was a staggering 45%!



Credit premiums at historical levels

The graph below shows interest rate differentials between credit bonds of various qualities and government bond yields in the USA. These premiums rose to levels not seen since the Great Depression in the 1930s. In order to lose out on a "hold to maturity" strategy at current levels, bankruptcy rates would have to exceed 1930s levels. This seems unlikey given the monetarty and fiscal stimulus that are being put in place.



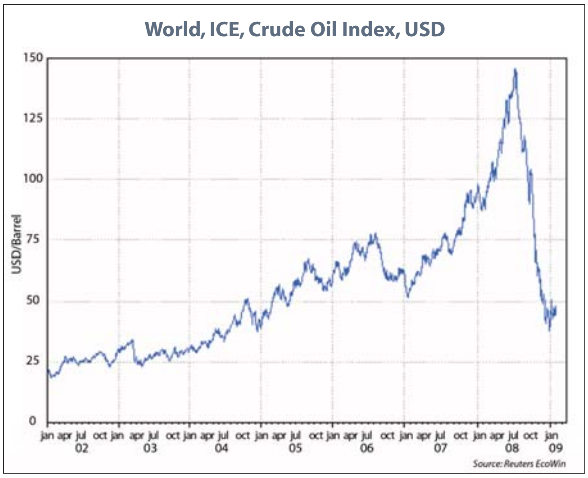
Extreme movements in currencies

The financial crisis also generated extreme movements in currency rates in 2008. The US dollar recovered during the course of the year and strengthened against all currencies, except the Japanese yen and the Swiss franc. Trade weighted, the US dollar strengthened by some 10 per cent over the course of last year. The strengthening of the yen must be seen as a reversal of the biggest "carry trade" in history, where the acquisition of risk-laden assets was largely funded in, precisely, the yen. At the other end of the scale, the commodity currencies - Canadian dollar, Australian dollar, New Zealand dollar and Norwegian krone - all fell sharply.

However, the British pound fared worst of all, falling by no less than 40 per cent against the yen. The downturn has continued in 2009 on the back of a very gloomy outlook for the UK economy.

Raw materials soared and then crumbled
In July of 2008, the oil price climbed to almost USD 150 a barrel only to drop to below USD 40 a barrel by the end of the year, as illustrated below. The oil price reached new heights due to repeated supply side disappointments, healthy growth in demand and (in all likelihood) speculation. The subsequent dramatic drop in price reflects both falling demand and the prospect of significantly lower growth.

Industrial metals suffered the same fate as oil, falling by almost 50% over the course of last year. Agricultural products fell by over 20 per cent, having risen in the first six months of the year.



Outlook for 2009
In last years' we claimed that the uncertainty for the financial market in 2008 was unusually high. The reality turned out to be even graver than our "worst case scenario". We underestimated both the amount by which stock and credit markets could fall and the level to which government bond yield could descend.

Markets are now characterised by a widespread mood of pessimism, and with good reason. Nevertheless, it is precisely when the situation looks darkest that markets will turn around. It will not take many rays of light for the psychology of the market to change. A critical factor in this regard is the credit market, which must function if companies are to survive. The hope is that the stimuli that have been put in place will all combine to trigger a demand for risk-laden assets. This could potentially happen quickly and could break the negative feedback loop betwen the financial sector and the real economy.

The trajectory of this crisis, however, does not give any cause for optimism when it comes to the real economy. In the last few decades, we have seen a debt-driven super cycle in which each downturn has been averted and each upturn stimulated by lower interest rates and increased debt levels. Consumers in the industrialised world have overspent over an extended period of time, stimulated by falling interest rates and rising asset values (housing prices). The combination of negative savings, declining wealth and uncertainty about employment prospects means consumers are likely to to save more for years to come. A potential offset to this reduction in demand is increased public spending, at least in the short term. In the longer term, however, there are limitations to how much the public sector can spend without affecting the creditworthiness of nations. Thus, in order to buoy up global growth over time, others will have to overtake. The hope is that consumption in the emerging world will increase. If so, this would provide a better balance between consumption and production between the regions.

The 2008 financial crisis probably marks a turning point for the economic, financial and political regime in the industrialised world. We believe that the debt-driven super- cycle will be followed by a period of consolidation during which public sector stimuli will simply serve to cushion the short-fall in consumer demand expected over the coming years. Fiscal and monetary stimulus will probably not be sufficient to counteract the contraction in the rest of the economy. Nevertheless, we cannot rule out a scenario in which debt expansion is again encouraged. There is danger of over-stimulation, since it might prove difficult to administer pprecisely the right dose.

In the longer term, balance must be established between consumption and production in the various regions of the world. The industrialised nations, headed by the U.S. and the U.K. have consumed too much for too long (resulting in a deficit in the trade balance), while emerging markets (headed by China) have produced more than they have spent. For crisis to have a satisfactory outcome, emerging economies must increase their consumption. If they do not do so, growth will be weak, and unemployment worldwide will continue to rise for many years to come. This could create fertile ground for protectionism, the consequences of which could potentially be very damaging.

This financial crisis has led many observers to predict the death of capitalism. Certainly, calls for stricter regulation have become louder and naive free-market liberalism has received a mortal wound. Increased regulation, improved transparency and lower debt ratios will follow.

Monetary policy is probably also facing a regime change. The causes of the current crisis can largely be ascribed to the fact that interest rates were kept too low for too long, leading to a boom-bust in asset prices (property, commodities and, to some extent, equities). It is likely that future monetary policy will need to have a broader mandate in which the target rate of inflation also takes in developments in the price of a range of assets.

We are in terra incognita facing several potential regime changes. This makes prediction difficult. Some economists have drawn up credible doomsday scenarios, in which the world economy goes into a deflationary spiral in which falling demand feeds falling prices which in turn result in deferred consumption etc. Others believe that the monetary and financial policies now being implemented and the prospects of protectionism will cast the foundations for future hyperinflation The optimists believe that the authorities will find the correct dosage of stimuli going into and coming out of the crisis, and that the outcome will be a better balance between consumption and production in the various regions of the world.

In other words, expectations vary widely and care must be exercised when making predictions and taking risks in a situation of this nature. What we can say with some certainty is that in 2009 growth will be negative in the industrialised nations, unemployment will rise and inflation will fall. The central banks will need to keep their interest rates low, probably for the duration of this year and well into the next.

In the longer term, we believe that the prices of financial assets will normalise and that the willingness to take risk will return. If and when this happens, equities and credit bonds will both represent sound investments, in preference to government bonds, which have functioned as a safe haven during this crisis. In a longer term perspective risk ppremiums are attractive. A prerequisite for normalisation however, is that the banks once more fulfil their roles as providers of capital. The outcome of one will largely determine the outcome of the other. If the credit market is right about the implicit bankruptcy rates, then equities must continue to be avoided.

The safest prediction is that the turbulence will continue in the short term and that market psychology and alternating news flow will have a more decisive short term effect than developments in the real economy. Uncertainty and confusion has rarely, if ever, been greater and the focus of the market could easily fluctuate between the extremes of deflation/ depression on the one hand and inflation/reflation on the other.

Investment strategy for 2009

In view of the strategic changes adopted in 2007, 2008 proved to be a demanding year in terms of implementation. As a direct consequence of the financial crisis it had inter alia been decided in 2007 that long corporate bonds should be removed from the index in favour of additional government bonds. Implementing this decision in 2008 was to prove to be extremely difficult in the face of a very illiquid bond market. The result was that the index was changed, although the corporate bonds were retained as a tactical position while waiting for the situation to return to normality. Moreover, the Norwegian equities portfolio was converted to a Nordic portfolio, and equities funds in emerging markets were purchased. The management universe was expanded for both bonds and equities, at the same time as which a more active management strategy was cultivated.

The investment strategy for 2009 was reviewed while the financial crisis was coming to a head. At the same time, two member banks encountered problems, with disbursements under the deposit guarantee scheme being required in the case of one of these banks. In other words, the Fund experienced the worst possible scenario, i.e. a fall in asset values coinciding with claims for disbursements. The benefit of holding government bonds was demonstrated in full, as was the disadvantage of holding equities and corporate bonds when a crisis occurs. Accordingly, the Board had some difficult decisions to make. The main elements of the strategy and the changes that were adopted are described below.

The restrictions embodied in the Statutes

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

Prudent management

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

The ongoing financial crisis has shown that equities and corporate bonds both generally represent problematical assets in terms of the liability risk of the Fund. The Fund is aware of this situation and it represents a deliberate choice in relation to a long-term investment horizon. Nevertheless, the Board has opted to reduce its exposure to equities and to exclude the banking sector when at some point normality returns to the market.

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

Satisfactory return and the issue of risk

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

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

- Absolute risk as defined by Value at Risk (VaR at a 95 per cent confidence level) must be limited to 15 per cent
- Active risk taking as defined by Tracking Error (TE) must be limited to 6 per cent relative to index.

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

Necessary liquidity

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

The current financial crisis has shown that liquidity risk is a highly critical factor. It has struck the capital market in general and corporate bonds in particular. The loss of liquidity is highly disqualifying in relation to the considerations prescribed in the statutes, and it was against this background that the Board decided to replace exposure to long corporate bonds and to reduce exposure on the money market in preference for additional government bonds. The Fund will have to await the normalisation of the market before this can be implemented in full. The Board has already adopted decisions to refrain from investing in alternative investments, such as hedge funds, buy-out funds, property funds and high yield bonds.

Ethical capital management

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

Increased risk limits

When in the autumn the volatility of the market virtually exploded, a possible overrun of the VaR limit was indicated. The Board therefore resolved that the limit should be increased from 10 per cent to 15 per cent and that the equities share should be reduced from 30 per cent to 23.5 per cent, reflecting developments in value. Thus the Board decided against actively selling out of equities or corporate bonds in an extremely restless market. The exposure in corporate bonds is an active position relative to index, and accordingly it was decided that the TE limit should be extended from 3 per cent to 4.5 per cent to take account of this. The TE limit for 2009 was extended to 6 per cent to take account of major variances from index in the implementation of a dynamic asset allocation.

Strategic index

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

During 2008, the Fund adjusted the management structure away from large mandates with relatively low active risk limits and towards smaller mandates with higher active limits. The table below shows the strategic allocation between asset categories in force for 2009, including the indices applied. Taken as a whole, these changes represent a general improvement in liquidity and a somewhat lower market risk. The expectation is that the return will be somewhat lower.

The money market makes up 24.4 per cent of the index. This category is restricted to government bonds and certificates of short duration. The index is made up of Norwegian government certificates.

Bonds account for 50%, the same as last year. The same applies to the indices. The category consists exclusively of government bonds, of which 80% are nominal bonds, and 20% are inflation-protected bonds.In the final review, the proportion of equities was increased from 23.5 per cent to 25 per cent in 2009. At the same time, it was decided that the exposure to emerging markets should be changed to a global exposure. This was based on risk and management related considerations. It was also decided that the Nordic equities should be switched to global

Strategic index	Share %	Benchmarks
Money market	**24,40%**	
– Money market credit	24,40%	DnB Government Bills all
Government bonds	**50,00%**	
– Global government	40,00%	CitiGroup Non Yen World Gov Index hedged to NOK
– Inflation-protected bonds	10,00%	Barclays Gov World ex UK Inflation Linked index hedged to NOK
Equities	**25,00%**	
– Globale equities	25,00%	MSCI World Global Equites net hedged to NOK
Alternative investments	**0,60%**	
– Miscellaneous satellites	0,60%	DnB Moneymarket 6 months Index
Total	100,00%	Strategic composite

equities. This means that all exposure within equities will apply the same global equity index, MSCI World.

In addition to the traditional asset classes, the Fund has also chosen a category for more absolute management strategies. This comprises risk taking of various types within tactical asset allocation, fixed income and equities, where over time investments will be less dependent on general market risk. This class normally requires little capital since a variety of derivatives are used as primary sources of risk. However, corporative bonds have been scheduled for phasing out in this class, to allow the other asset categories to be refined.

Currency hedging
The various sub-indices are calculated on a currency-hedged basis. This does not, however, represent a proscription against currency risk. The key point for the Fund is to remove the general currency risk. Some mandates are managed passively, (e.g. the equities mandates), in which case currency risk is hedged within defined ranges, whereas others are managed actively, in which case currency risk is a defined source of excess return. The managers themselves define their approach to currency risk within the specified TE limit.

For technical reasons, Japan is excluded from the bond index and the UK is excluded from the inflation-protected bond index. Even so, both countries form part of the investment universe available to managers.

From static to dynamic asset allocation
In light of the negative experiences garnered over the course of the ongoing financial crisis, the board has decided to introduce a modelling tool for dynamic asset allocation. 2008 showed that a static allocation model can generate disproportionately high risk and losses. The need for balanced risk-taking dictates that the proportion of equities must either be reduced or that a more dynamic strategy must be developed under which requirements are imposed on the level of the risk premium. When this is satisfactory, investments in equities will be appropriate. If it is too low, then reducing the proportion of equities will be appropriate. Thus, the conclusion of the Fund is that the risk premium fluctuates over time and that an active stance should be taken towards these fluctuations rather than a passive and static approach. The Fund aims to implement a model of this type in 2009. An equivalent model for government bonds is also under consideration.

Both internal and external asset management
For reasons of strategy and competence, the Guarantee Fund has settled on a mixed model comprising internal asset management (Capital Management) combined with external Fund Managers. The aim is to manage funds in the most professional way possible by recruiting good asset managers capable of outperforming their indices.

Capital Management has overall responsibility for developing and implementing strategy, mandates and the necessary infrastructure. Moreover, the department has its own management mandates within money markets, equities and absolute portfolios. Almost 40 per cent of the capital is managed internally. The department employs eight man-years, all of whom have asset management functions. Settlement functions have been outsourced to Storebrand Asset Management (SIOS).

External Asset Management consists of various specialist Fund Managers within government bonds and equities. These make up just over 60 per cent of the capital. During 2008, the Fund increased the number of managers. At present, the following Fund Managers hold discretionary mandates for the Fund: Credit Agricole Asset Management, Goldman Sachs Asset Management, Wellington Capital Management, Western Asset Management, Nordea Investment Management, Storegrand Kapitalforvaltning, IronBridge Capital Management and RCM. The first four hold fixed income mandates and the latter four hold equities mandates.

J P Morgan performs the role as the Fund's global banker and custodian and central reporting entity.

Consequences in terms of taxation
The Guarantee Fund is exempted from domestic taxation in Norway, but pays withholding tax on its investments abroad. Since the Guarantee Fund does not pay tax to Norway, it is generally not encompassed by the tax treaties that Norway has concluded with other countries. This puts the Fund in an unfavourable position in terms of taxation, which entails that it pays more tax on its investments abroad than other taxpayers resident in Norway. The Fund adjusts to its tax position in part by avoiding investments in countries in which its position will be particularly unfavourable and in part by means of securities lending. The Guarantee Fund has retained attorneys-at-law PWC DA to chart the tax position of the Fund in the various countries in which it is involved and to consider what scope the Fund has for influencing this situation.

Measuring performance and managing risk

The Guarantee Fund measures asset management performance on the basis of developments in defined key figures. Developments relative to the benchmark indices are monitored over time. The results are communicated to the individual managers at periodic follow-up meetings. 2008 was an especially poor year for active management.

The goal is alpha

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

Key ratios

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

Total score

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

Reporting and monitoring

The Fund's reporting systems are based on JPM's systems in which all exposure is priced and reported on a daily basis. Both the asset manager and JPM produce reports on a monthly basis, and these are compared. The outcome of this process provides the basis for performance measurement, with the report book being updated on a continuous basis for the individual asset manager. At least two performance meetings will be held with each manager each year, at which the status of the asset manager is reviewed, with attention being focused on both quantitative and qualitative developments.

The creation of value by asset management over time

The Guarantee Fund has monthly series of data for the last seven years. Thanks to the extremely bad performance last year, the overall grade fell from satisfactory to unsatisfactory. The whole of the accumulated excess return was eaten up, and more. Looking behind the figures, last year's asset management result was in the main destroyed by the exposure to corporate bonds, as was the overall impression of the historical picture.

The figure below shows historical performance over the last seven years relative to benchmark. Aggregate return (left-hand axis) totalled 32,2 per cent whereas aggregate excess return (right-hand axis) totalled -2.0 per cent over the period.

The figure makes it clear that the ongoing financial crisis has been a difficult time both for the Fund's investments and for active asset management. Looking back to June 2007, which was about the time that the financial crisis first hit, excess value totalled an impressive 9.7 per cent. It should be noted, however, that the index change in March, where two credit indices were replaced by one government bond index, contributed 2.3 percentage points to the index return/shortfall in 2008.

Risk management

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

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

Ethical capital management

The Board adopted a decision 2006 to introduce rules and guidelines on ethical capital management, and provisions reflecting this wish were incorporated in the Statutes by the General Meeting in 2007. The principles and practice are described below.

Ethical values, a prerequisite for high returns

The objective of achieving the highest possible return at the lowest possible risk has been modified by the proviso that this should take place within the framework of accepted ethical values. In the short term and on a large scale there may be some conflict between achievement of the target rate of return and the need to uphold ethical values. Nevertheless, as have other leading managers, the Fund has concluded that ethical values represent an important and sustainable prerequisite for generating a high return in the long term and that this policy will accordingly serve the best interests of the members.

Guidelines and principles

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

The exclusion of companies

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

Development and practice

At the outset, the primary focus of attention was on companies that produced landmines and cluster bombs. Since then the focus has been broadened to take in companies that use child labour and are in breach of important principles of labour law or human rights. More recently, the threat of climate change has attracted increasing attention and companies with heavy emissions of climate gases must in future expect that active owners will insist that they take responsibility for the pollution they cause by introducing treatment procedures or purchasing emission quotas. The Fund has also adopted a negative stance on the tobacco industry.

At present, the practice of the Guarantee Fund is simply to exclude companies that are seen as failing to comply with the ethical requirements. A shift is taking place in the direction of a more proactive approach to ownership with a view to influencing the attitudes and business practices of companies. This approach involves attempting to influence companies through active dialogue and proactive ownership rather than selling off the Fund's ownership stake. The awareness that dialogue in long-term commitments have a greater effect than withdrawal of ownership is key here, although the threat of exclusion can also be effective, given the negative attention and loss of reputation that this can cause a company. This means that these methods can be applied in combination, even though they might initially appear to be contradictory. The Guarantee Fund is monitoring this process carefully, but has thus far preferred to maintain a low profile as regards proactive ownership and assertiveness.

Collaboration partner

The Guarantee Fund's chosen approach has been to seek support in the work done in this area by others, and to this end the Fund signed an agreement in 2008 with Storebrand Asset Management which has practised ethical guidelines for capital management for many years. Although the Guarantee Fund bases its actions on the same guidelines, Storebrand's practice of the rules on the exclusion of companies is stricter than the approach adopted by the Guarantee Fund.

Implementation

Decisions to exclude companies are taken by the head of the Asset Management Department, who in turn instructs all the Guarantee Fund's managers to exclude the company in question from the Fund's investment universe. The decision is then incorporated in the compliance system of our global banking and custodian services provider (JPM), which ensures that any breaches of the instructions can be followed up with the asset managers in question.

Compliance

Flows of information
The Guarantee Fund uses a reporting solution supplied by the Fund's custodian bank, J P Morgan (JPM). Reporting encompasses account, returns, risk, compliance, as well as other relevant reporting. Reporting is on a daily basis, with the individual managers forwarding their transaction data to JPM electronically. JPM in turn compiles and reports in consolidated form.

Internal management
Storebrand Investment Operation Systems (SIOS) is the Guarantee Fund's settlement system for its internally managed portfolios. The Simcorp Dimension portfolio management system is used via a citrix solution. Storebrand transfers all transaction data relating to capital management to JPM on a daily basis.

External management
External managers apay their own systems and who transfer their daily transaction data to JPM.

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

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

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

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

- No holding of equity capital instruments issued by member institutions
- Minimum reguired holdings of government securities (one-third)
- Maximum ownership stake in any individual company of no more than five per cent
- Maximum cash holding of no more than 10 per cent
- Maximum Tracking Error of no more than 6 per cent
- Maximum Value at Risk of no more than 15 per cent

Any breaches of the above control points are reported to the General Manager.

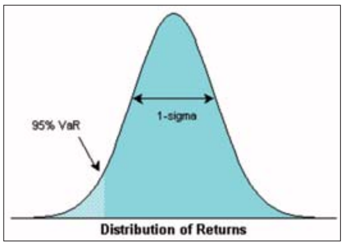
Interruptions to the reporting process
Because of the restructuring of asset management mandates and the introduction of new managers, there were repeated interruptions to the reporting process during 2008. As a result, day-to-day reporting suffered extensively throughout large parts of the year. This situation stabilised towards the end of the year. Many of these disturbances, particularly faults in risk reporting, can be attributed to mistakes in basic data as a consequence of inadequacies in JPM's systems. These are instrument -dependent problems, which JPM will need to remedy in its accounting systems.

Breaches of risk limits
Several breaches of the TE limit occurred in 2008. Most were of a technical nature and the result of mistakes in basic data, although breaches also occurred as a consequence of the extreme volatility of the market. JPM's risk measurements are based on historical data from the last two years where greater emphasis is placed on newer data than on older data. As a consequence, the risk figures are fairly sensitive to major movements in the market.

Key terms used in asset management

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

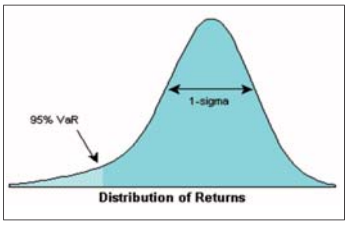
VaR differs from standard deviation in that it measures only the risk of a negative outcome. It is shown as a percentage rate indicating the area under the curve that is not assessed as VaR. 95 per cent VaR means that 95 per cent of the area under the curve is to the right, and 5 per cent of the area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



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

Number of Sigma	Value-at-Risk
1.00	84,1%
1.28	90,0%
1.64	95,0%
2.00	97,7%
2.33	99,0%
3.00	99,9%

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



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

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

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

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

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

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

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

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

The Guarantee Fund levy for 2008

At its meeting on 27 February 2009, the Board of the Guarantee Fund resolved that the full ordinary level will be called up in 2009, in total NOK 1,455 million. In addition the members will be required to furnish guarantees to a minimum value of NOK 2,327 million.

This decision was triggered by the fact that the Guarantee Fund's equity capital was not sufficient to cover the minimum capital requirement for 2009, which by law must be at least NOK 19,130 million. The equity capital of the Guarantee Fund as at the measurement point, 31 December 2008, stood at NOK 15,348 million. This represents a shortfall of NOK 3,782 million.

The calculation of the size of the Guarantee Fund and of the payments to the Fund follow from the provisions of the Act on Guarantee Schemes for Banks and Public Administration etc. of financial institutions (Guarantee Schemes Act).

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

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

(2) A member's annual fee shall be fixed at the sum of 0.1 per cent of total guaranteed deposits plus 0.05 per cent of the measurement base for the capital adequacy requirement, nonetheless such that

a) for a member with tier 1 capital adequacy below 8 per cent, the amount of the fee shall be raised by a percentage addition of 4 times the number of percentage points by which the tier 1 capital adequacy falls short of 8 per cent,
b) for a member with a tier 1 capital adequacy of more than 8 per cent, the amount of the fee shall be lowered by a percentage deduction of 4 times the number of percentage points by which the tier 1 capital adequacy exceeds 8 per cent, but the deduction may in no case exceed 35 per cent.

(3) For branches as mentioned in section 2-2 first and second paragraph a fee shall each year be paid to the Fund corresponding to 0.1 per cent of total deposits in the branch. A pro rata deduction shall be made in respect of that part of the guarantee amount under section 2-10 second paragraph for which cover is deemed to be provided under the deposit-guarantee scheme in the branch's home state. The provisions of the second paragraph litra a and b otherwise apply correspondingly.
(4) The King may lay down further rules on the calculation of members' fees pursuant to this section and may give his approval for the fee to be set lower than mentioned in the second and third paragraph. If the total amount of fees from the members in any particular year comes to less than one tenth of the Fund's minimum own capital pursuant to section 2-6, the King may decide that the annual fee shall be calculated on the basis of higher rates than those set out in the preceding paragraph.

Section 2-8 *Members' guarantee*
(1) If the Fund's own capital is lower than the minimum required under section 2-6, the Guarantee Schemes Act page 4 of 15 shortfall shall be covered by guarantee from the members. The amount guaranteed by each member shall be calculated in the same way as the fee payable under section 2-7.

(2) The Funds' board of directors undertake distribution of the guarantee amounts and stipulate how the guarantee liabilities shall be secured. The distribution of the guarantee amounts shall be recalculated if the board so decides, and when the King so requires.

(3) Calls for payments pursuant to guarantee liabilities in a single year may not exceed one tenth of the minimum capital pursuant to section 2-6.

The Guarantee Fund has received a report from FSA on guaranteed deposits, the measurement base for calculating capital adequacy and tier one capital ratio for the member banks, which information provides the basis for calculating the minimum size of the Guarantee Fund in 2009 and for the allocation of the ordinary levy and guarantees furnished by the members. In the case of OBOS and branches with topping-up arrangements, separate reports have been compiled. The minimum size of the Guarantee Fund in 2009 is to be calculated on the basis of the measurement dates 30 September 2007, 31 December 2007, 31 March 2008 and 30 June 2008.

Guaranteed deposits

Average guaranteed deposits for the period totalled NOK 715 billion. The increase in guaranteed deposits since the last period totalled 8.4 per cent. Guaranteed deposits, excluding branches with topping-up cover, amounted to 57.2 per cent of total customer deposits.

The growth in guaranteed deposits as a percentage of total deposits is shown below.
The table is based on the average of the measurement dates. For example, for 2009 these will be the measurement dates 30 September 2007, 31 December 2007, 31 March 2008 and 30 June 2008.

	2005	2006	2007	2008	2009
Total (excl. topping-up cover	67,5%	65,2%	60,1%	58,2%	57,2%

Measurement base for capital adequacy

The increase in the measurement base was 8.2 per cent. The measurement base for 2008 increased to NOK 1,680 billion. This increase was influenced by the introduction of Basel II. With effect from 1 January 2007 the regulations governing the measurement base were amended as a consequence of the introduction of Basel II. By using the standard method, the banks were able to postpone the amendments until 1 January 2008, the path chosen by most of the members. Seven of the largest members, however, adopted the more advanced method, using internal models (IRB) in their calculations in 2007. However, these regulations provide that under the new method the measurement base shall not be lower than 95 per cent of the old calculation method used in 2007 and no lower than 90 per cent of the old calculation method in 2008. In the case of the banks that chose the standard method, the Basel II regulations will affect the changes at the two measurement points in 2008 (31 March 2008 and 30 June 2008), i.e. a lower measurement base for the Guarantee Fund. Both methods, both the standard method and the IRB method, provide for a lower measurement base than had the Basel I regulations been followed.

Minimum size 2009
– the Norwegian Banks' Guarantee Fund

Based on the information provided by the members as compiled by FSA for all four periods, the minimum size of the Norwegian Banks Guarantee Fund in 2009 is calculated to be:

Garanteed deposits	715 227 mill.	x 1,5 %	= kr. 10 729 mill.
Measurement base	1 680 229 mill.	x 0,5 %	= kr. 8 401 mill.
Total			kr. 19 130 mill.

As illustrated in the above calculation, the minimum size of the Guarantee Fund will increase from NOK 17,663 million in 2008 to 19,130 million in 2009, or by 8.3 per cent or NOK 1,467 million.

Management of Banks in Crisis

On the recommendation of the management, the Board adopted a decision at its meeting on 7 June 2007 to follow up a number of points in the report entitled "Management of Banks in Crisis". This report was discussed in the Annual Report for 2006. The following issues were followed up in 2008:

The complexity of banks' computer systems and repayment of guaranteed deposits
The administration has been in close contact with one of the data processing centres used by the banks with a view to laying the groundwork for a project that will safeguard payments to depositors. The aim is to secure the speediest possible repayment of guaranteed deposits within satisfactory limits.

It has been concluded that the most expedient approach is for the compilation of lists of credit balances and, if applicable, payment procedures to be based on requirements defined by FSA. These requirements will apply to all member banks and can in turn be passed on to the data processing centres used by the banks. The administration is in the process of drafting a specification of requirements for use by FSA.

Information procedures for "who informs whom" in a public administration situation
FSA has an overview of the allocation of tasks to the various official bodies when public administration procedures are instituted. In addition, FSA is drafting a more concrete and detailed contact list, which provides clear information on which institutions will be responsible for the various functions that need to be performed as soon as a bank is closed.

Policy for supporting banks in crisis
The Board of the Fund has discussed and adopted the Fund's policy for supporting banks in crises. Please see page 54. This version is also available on the Fund's website.

Security in the outstanding loans of banks (corporate loans)
It must be assumed that if the Guarantee Fund (or The Central Bank) is to extend liquidity loans to a bank in crisis, then security will be required. Without security there will be a substantial risk that the losses of the Fund will be considerable should it subsequently prove necessary to place the bank under public administration.

In response to suggestions from the Guarantee Fund, the Ministry of Finance has circulated proposed legislative changes in a consultation process.

Use of payment cards outside Norway
There are few reasons why payment cards in use outside Norway should be handled any differently from cards used in Norway when a bank is placed under public administration. Firstly, many cardholders will have cards issued by parties other than the failed bank. Secondly, the situation for bank customers will not differ significantly from that of a person whose wallet is stolen. The Board has decided against following this matter up.

Agreement with law firm in connection with public administration proceedings
FSA has a list of names of attorneys at law and other persons suitable for appointment to the administration board of a bank that has to be placed under public administration.

Setting up of website in connection with public administration
The Guarantee Fund has its own website: www.bankenessikringsfond.no which has in part been customized to provide ongoing information to the customers of a failed bank and others. In that this website already exists, information can be provided relatively quickly and the pages can be updated as and when required.

Board memo on the settlement of transactions
Questions concerning delineation problems relating to transactions rejected in settlement, but which it has been suggested could be included in a new settlement guaranteed by the Guarantee Fund were raised in the report and in the consultative responses.

The Board has discussed and noted an extensive memo on the subject of the settlement of transactions in a situation in which a bank has run into payment difficulties. It was emphasized that it is essential to be certain that the rules put in place for handling transactions within the common infrastructure of the banks, NICS, are known to the persons who need to take decisions in connection with the administration of a bank in crisis.

Reopening of a bank placed under administration/ Agreement and regulations relating to the continued operations of a bank placed under administration
This matter has been put on hold.

Review of the Guarantee Fund scheme
In view of the changes at international level in the size of the deposit guarantee and the applicable payment arrangements, see page 59, amendments to the Norwegian Guarantee Fund legislation will be necessary. It might be appropriate in this context to assess the levy system and the size of the Fund. Further discussions on this matter should be conducted with the industry organizations, FSA, The Central Bank and the Ministry of Finance.

Glitnir Bank ASA

On 7 October 2008, the Guarantee Fund received a report from FSA that Glitnir Bank ASA was encountering liquidity problems, caused primarily by the situation of the parent bank in Iceland. In order to ensure that the bank had sufficient fund to continue trading as normal while a sale was arranged, the Fund provided the bank with a well-secured credit facility of NOK 5 billion. The maximum drawn on this facility was approximately 35% and a commercial rate of interest was paid on the drawdown. To enable the Fund to finance this facility without having to sell off assets in a difficult market the Fund was granted a loan on special terms (S-loan) by The Central Bank in the form of an overdraft facility in the amount of NOK 5 billion in return for collateral in the form of securities.

Arctic Securities were retained by the bank/parent bank to arrange a sale and by the end of this process one binding offer had been received to purchase the bank in its entirety. The offer by a group of SpareBank 1 banks was accepted. Arctic Securities were given the time they said they would need to complete the sales process in a satisfactory way. The firm conducted a relatively broad sweep to find buyers, but the market for selling banks was far from buoyant. For the Fund it was essential that the sales process should be handled 100% correctly, both because of the need to safeguard the interest of the vendor and because it was possible that several of the Fund's members would be competing to purchase the bank.

The buyer was granted a licence to acquire the bank on 4 December.

Kaupthing Bank hf NUF branch of Kaupthing Bank hf

The Norwegian branch of Icelandic Kaupthing Bank hf suspended payments to its customers on 9 October 2008 and the branch and FSA confirmed that "that bank is unable at the present time to repay deposits and will not be in a position to do so in the future". The Guarantee Fund held a meeting with representatives of Kaupthing Bank and in light of the confused situation, a law firm was contacted with the aim if possible of attaching Kaupthing Bank's assets in Norway. In order to protect the rights of the Guarantee Fund, Kaupthing Bank hf's assets in Norway were attached. That day, the Norwegian Minister of Finance, Kristin Halvorsen, announced that the Norwegian authorities would advance the deposit guarantee that depositors in Norway enjoy under the Icelandic deposit guarantee scheme.

Later, on Sunday, 12 October 2008, the branch was placed under public administration by the Ministry of Finance, following the adoption of new regulations earlier that day.

The Board of the Guarantee Fund convened in a conference call on 9 October. During the meeting, the situation thus far was reviewed and the Board adopted the following resolution:

1. The administration will continue its efforts to attach any available Kaupthing assets in Norway.
2. The administration will ask the Ministry to table a proposal for an extra grant before the Fund disburses payments under the deposit guarantee scheme.
3. The Guarantee Fund must lodge claims against the estate to recover for the deposits covered by the Fund. The Norwegian authorities will assist the Guarantee Fund in this work.
4. The website of the Guarantee Fund must be updated.
5. A press release outlining the situation will be drafted.

Oslo District Court rendered an interlocutory judgment on 10 October granting the Guarantee Fund an attachment order for up to NOK 1.1 billion. The judgment was enforceable with immediate effect. The

Bank was subject to an immediate freeze on funds transfers. New "Regulations on the public administration of a branch of a bank headquartered in a foreign state" were adopted by the Ministry of Finance on 12 October 2008 and Kaupthing was placed under public administration that same day, with a creditors' committee chaired by Bjarne Borgersen being appointed.

Letters to the depositors of Kaupthing Bank's branch were drafted in consultation with the Ministry of Finance/Government Attorney and FSA. The letter was posted on the websites of the Guarantee Fund and Kaupthing's branch in Norway, with a link on FSA's website, on Thursday, 16 October. The letter and statements of account with interest calculated up to and including 9 October were sent out on Monday, 20 October. The letter also provided detailed information on the situation and advised customers on how they should proceed.
The next board meeting, on Sunday, 19 October, adopted the decision that "the administration is authorized to arrange for funding to permit payments to be effected to the deposit customers".
Before the letter was sent out, the procedure for paying deposit customers was discussed by the administration. One of the alternatives that discussed but rejected was the sale of the deposits to another bank. The chosen solution was that a model based on the procedure followed when customers "change banks" should be adopted, in other words the customer approaches a second bank and asks for the deposit to be transferred to a new or existing account. This allowed the procedures for verifying identity to be safeguarded and customers were able to use the bank of their choice. Contact with the Ministry of Finance concerning disbursements on behalf of the Icelandic deposit guarantee scheme proceeded smoothly, and payments were able to start on Monday, 27 October from a DnB NOR account operated by the Guarantee Fund. Kaupthing Bank's employees assisted in processing customer's responses sent via their new banks and lists were compiled in connection with the transfers. The Guarantee Fund approved all payments to the deposit customers of the branch.
Kaupthing Bank compiled full lists based on specifications presented by the Norwegian Banks' Guarantee Fund. The Guarantee Fund and the Norwegian State paid in the necessary funds in advance of the disbursements. Total guaranteed claims that could be/were lodged by depositors were just under NOK 1,180 million of which the Guarantee Fund had to recover NOK 799 million. Some 5,400 customers had claims for repayments. Disbursements to the deposit customers of the branch proceeded smoothly and efficiently, although many customers were slow to state the banks to which they wished their deposits to be transferred. Deposits in excess of NOK 2 million not covered under the scheme amounted to no more than NOK 6 million. Several meetings have been held with the bankruptcy administration board and there has been some contact by telephone.

As at 10 February, NOK 0.4 million remains unpaid and all customers will receive payment of their residual deposits. On 3 February 2009, FSA approved an agreement between the bankruptcy administration board for the Norwegian branch of Kaupthing and Kaupthing Bank hf's Icelandic liquidation board. According to the Ministry of Finance, this agreement entails that all creditor's of Kaupthing's branch in Norway will receive payment in full of their secured claims. This applies to depositors, the Norwegian Bank's Guarantee Fund and the Norwegian State.

Disbursements by the Guarantee Fund and costs totaling almost NOK 800 million have accordingly been reported as a claim on the bankruptcy estate of the Kaupthing Bank hf branch in Norway.

Policy for supporting banks in crisis

The Board of the Guarantee Fund has determined that the following information will be published on the website of the Guarantee Fund and in the Annual Report for 2008:

The primary task of the Norwegian Banks' Guarantee Fund is to ensure that depositors receive payment of guaranteed deposits should a bank prove unable to meet its commitments as they arise. Under the Act, deposits of up to NOK 2 million per customer are covered, including accrued interest. This limit applies even if the customer holds multiple accounts in the same bank. If the customer has deposits in multiple banks, the NOK 2 million limit applies for each individual bank. All Norwegian savings and commercial banks, including Norwegian subsidiaries of foreign banks and OBOS (Oslo Housing and Savings Society) are full members of the Norwegian Banks' Guarantee Fund and are accordingly covered under the deposit guarantee scheme. Branches of foreign credit institutions in Norway may apply to join the Deposit Guarantee Scheme, and, if successful, will receive additional cover over and above the amount safeguarded under the scheme operating in their home country. Thus customers of branch member banks enjoy the same deposit guarantee cover as customers of Norwegian banks. When Kaupthing's branch in Norway ceased payments, the Norwegian State chose to advance the amount payable under the Icelandic deposit guarantee scheme.

The amount guaranteed under the Guarantee Scheme's Act is a minimum guarantee which enters into force if a bank is unable to fulfill its obligations and is placed under public administration. In special circumstances, the Guarantee Fund may cover amounts over and above the minimum guarantee.

The Guarantee Fund is also able to offer support by injecting capital into a bank that is encountering difficulties, usually after all other avenues have been explored. In a crisis of this nature, the Fund will be faced with a choice between offering support or declining to offer support, the consequence of which will be that the authorities may decide to place the bank under public administration. The provision on support measures does not include branches of foreign banks.

Support or public administration

If a bank is unable to meet its commitments, it will normally investigate whether there is any way of resolving the situation. The most obvious solution is for shareholders to inject fresh capital or for other banks to take over the foundering bank. Under certain circumstances, it is possible for the authorities to mandatorily write down the share capital or the primary certificate capital.

If reaching a voluntary solution does not prove possible, the Statutes of the Fund provide guidelines on when support may be given with a view to avoiding public administration. The Board of the Guarantee Fund must, inter alia, attach special weight to the need to uphold public confidence in the banking system as well as safeguarding the financial position of the Fund. This includes assessing what costs will be associated with support measures as compared with the costs that will accrue if the ultimate outcome is public administration and disbursements under the Deposit Guarantee Scheme. The primary function of the Fund is to safeguard the guaranteed deposits. This can best be achieved by applying cost effective solutions if banks encounter problems. Accordingly, support measures should generally only be considered if this is regarded as less costly than public administration. Whether the Fund should provide support over and above this with a view to safeguarding general confidence in the banking system will need to be assessed in the individual case.

The Fund is able to provide support only if its remaining capital in combination with future levy payment and guarantee payments from members is considered to be sufficient to cover the obligations of the Fund under the Deposit Guarantee Scheme.

Save with the consent of the King, the Fund cannot furnish guarantees or take on other commitments under the deposit guarantee scheme in excess of the statutory guarantee or support measures totaling more than twice the minimum capital of the Fund. Similar restrictions on the right to borrow do not apply in the case of borrowing to cover the statutory deposit guarantee.

The Guarantee Schemes Act provides an overview of measures that may be applied in support of banks that are suffering liquidity or financial strength problems. The Guarantee Fund may provide support of a wide range of types, including

- Liquidity support
- Guarantees for loans or the performance of other commitments
- A general guarantee that a bank will fulfill its commitments,
- Acquiring the assets of a bank, or
- the Fund may also inject equity capital or furnish an equity capital guarantee to enable the business to continue or be wound up.

All of these measures were used during the 1988 – 1992 banking crisis.

Preconditions for support

Under Section 18-3 of the Statutes, the Fund may instruct … *a member institution in receipt of support from the Fund to initiate negotiations with a view to merging with another merger institution or other financial institution, or to make changes in the member institution's management or its activities*. Requiring the institution to merge (or to put in place other structural change) will be appropriate where a bank is receiving support. Nevertheless, the specific demands made of the member institution will need to be assessed in the individual case.

According to Management of Banks in Crisis (pp 22-23), other preconditions for supporting banks in crisis may be imposed, for example

- the replacement of the board and management
- liquidity support must primarily be given against collateral or otherwise where the Fund considers the equity situation of the bank to be satisfactory. In the case of Glitnir ASA, the Board opted in October 2008 to furnish temporary liquidity support over a short period of time to enable the bank to come up with a structured solution. The liquidity support backed by collateral was extended for a limited period after the SpareBank 1 Consortium acquired Glitnir.

- A revised status report should be required if the equity capital of the bank has been lost in whole or in part.
- Equity capital support will not be appropriate before estimated losses have been covered from the owner's capital of the bank.
- Claims must also be made against the owner of subordinate loan capital and perpetual hybrid tier I bonds before the Guarantee Fund injects subordinated capital.
- It may also be appropriate to require other non-guaranteed creditors to contribute to resolving a crisis. Examples might include bondholders, the banks and other professional creditors.

Conclusions

It is important that the market should not form the impression that in a crisis the Guarantee Fund will cover the claims of all creditors and, accordingly, that public administration is a viable alternative. One aim of the Fund's strategy for supporting banks in crisis is to encourage greater vigilance on the part of the creditors of banks so that the banks do not expand on the basis of the Guarantee Fund's guarantee cover.

In order to ensure that the Guarantee Fund does not undermine discipline in the market, it is important that

- support should be considered only if this is considered to be less costly than all other appropriate measures, including public administration,
- equity capital support from the Fund must be predicated on the writing down of owner's capital and of any other subordinated capital
- if a decision on support needs to be adopted quickly, the decision may be made conditional upon writing down of this nature based on a revised status report,
- liquidity must be made subject to guarantees and, if applicable, the requirement that a sale be effected,
- if possible, attempts must be made to reach a voluntary solution under which other creditors also contribute to the resolution of the crisis.

The Fund's policy for support/continued trading versus winding up and settlement (by public administration) also has direct effects on the disposal of the Fund's assets, and it is essential to have a clear understanding of how wide-reaching support measures and/disbursements following a process of public administration can be funded.

The primary task of the Fund is to safeguard the deposit commitments of its members. Support measures must therefore be dimensioned in such a way that the remaining capital will at all times be regarded as sufficient. This indicates that the Fund must take care not to provide excessive support, particularly where there are prospects of extensive disbursements to other banks.

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

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

Topping-up agreements with branches of foreign credit institutions

Under Section 2-2 of the Guarantee Schemes Act, a bank or credit institution headquartered in another EEA state accepting deposits from the public through a branch in Norway is entitled to become a member of the Norwegian deposit guarantee scheme provided for in Section 2-10. The precondition for membership is that the deposit guarantee scheme in the home country of the branch is not considered to provide depositors in the branch with cover that is on a par with the statutory cover afforded in Norway. The King may decree that conditions shall attach to such membership.

A new branch member, Swedbank's Norwegian branch, joined the Norwegian Banks' Guarantee Scheme on 29 May 2008. One of the branch members of the Fund, Kaupthing Bank hf NUF, was placed under public administration during 2008. Handelsbanken and Skandiabanken applied for membership of the Guarantee Fund on 10 June 2008 and 29 May 2008, respectively. Both banks were granted membership at a board meeting on 25 November 2008, subject to the approval of Kredittilsynet. So far, such approval has been granted only in the case of Skandiabanken.

The Guarantee Fund has concluded agreements on topping-up cover with Sweden, Denmark and Iceland. As regards the agreement with Iceland, since Kaupthing Bank was placed under administration and wound up, no Icelandic banks have topping-up cover under the Norwegian scheme.

Cooperation at international level

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

When EFDI was founded in 2002, its membership comprised 25 deposit guarantee schemes. Since then, the organisation has grown rapidly and now comprises 54 members from 39 countries, all European. EFDI works closely with a number of European and other organisations involved in deposit guarantee issues.

Contact with the membership - analysis of banks and information

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

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

Accounting supervision and analysis

As in previous years, the Department for Analysis reviewed the annual and quarterly financial statements of all member banks during 2008. The annual accounts and the annual report and the reports of the auditor and the control committee are reviewed with a view to providing the Department for Analysis with as much current information on the individual bank as possible.

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

The wide differences in the sizes of the member banks entails that in a number of areas the smallest banks are not directly comparable with the very largest banks. The largest member, DnB NOR, has total assets of over NOK 1,300 billion, making up almost 45 per cent of the total, whereas the smallest bank has total assets of NOK 0.3 billion. The variations in the sizes of the member banks must be and are taken into account in the assessments.

As in previous years, the analyses of accounts and standard figures in 2007 were conducted using official accounting data compiled directly from the banks. The results of the analyses and the standard figures for the savings banks were sent to the individual banks on 28 March 2008. For internal use, the accounting figures were adjusted for, amongst other values, equity capital differences.

Developments in the accounts of the banks over the course of the year are monitored, inter alia by compiling and reviewing the quarterly accounts of all banks. The Department for Analysis has created a database program for registering key figures from the banks' quarterly accounts. In addition to accounting values, capital adequacy figures and information on defaulted and exposed loans are registered. The Department for Analysis has been registering quarterly figures for savings banks for seven years and for commercial banks for five years. In terms of overview this has provided the Department with a highly efficient tool, which proved to be of great assistance during 2008. Scope is provided for calculation, sorting and allocation to groups on the basis of the registered quarterly accounting figures.

Inspection visits

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

The financial strength of most banks as at 30 September 2008 remained good and none of the well-established banks were operating at a loss. The results for the first three quarters were buoyant in terms of performance measured in kroner, a reduction of only NOK 1.4 billion kroner after taxes. The third quarter viewed in isolation revealed that the financial unrest is now affecting performance in Norway. Not unexpectedly, earnings on securities showed a major downturn, and losses on lending revealed that the loss figures are on their way upwards. Average return on equity as at 30 September 2008 was 11 per cent, and 70 per cent of the banks (in terms of numbers) reported a return on equity of over 5.0 per cent. The sharp increase in lending by the banks continued into the first half of 2008, restated on a 12 month basis corresponding to 17.1 per cent if account is taken of the transfer of loans to housing credit firms. The development in defaulted and exposed loans turned around in 2008 and it is expected that the overall size of these loans for the latter part of 2008 will show a continued increase, albeit from a very low level. Developments in losses up to and including the third quarter 2008 were favourable for most members. Developments in the fourth quarter 2008 and 2009 are expected to show significantly higher losses and the new IFRS-based accounting rules will as expected make for greater variations in annual book losses.

Ten banks were visited in 2008. The figure for 2007 was eight banks.

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

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

Glitnir bank ASA – Kaupthing Bank branch Norway
In early October, Glitnir Bank ASA encountered liquidity problems and the Kaupthing Bank branch in Norway ceased payments to its customers. Both these cases necessitated an extensive effort on the part of the Department for Analysis. Reference is made to separate articles on the subject of the Guarantee Fund's handling of these cases.

Information activities and courses
The annual autumn conference 2008 was held at the Rica Maritim Hotel in Haugesund between 21 and 23 September and attracted a total of 184 attendees, including speakers, guests and partners.
The main themes of the conference were IFRS, the stock market quotation of primary capital certificates, ICAAP reporting/processes and the current funding market. As in previous years, the sessions on Day 2 covered current issues and were given by prominent professionals within the financial services industry.
The speakers were drawn from FSA, the Norwegian Savings Banks Association, BDO Noraudit, SpareBank I Nøtterø, Ørskog Sparebank as well as the Department for Analysis.

The Department for Analysis provided speakers for courses on the annual financial statement, aimed at auditors and bank personnel responsible for preparing financial statements. As in earlier years, the courses were held in Oslo, Bergen, Kristiansand and Trondheim. The majority of banks and their external auditors are represented on these courses. Speakers are provided by the Department for Analysis as well as by FSA, individual banks and major auditing firms with banking experience.

The Department for Analysis has also provided speakers on courses for company directors and courses for members of audit committees.

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

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

Input is also provided in consultative processes in which the experience of the Department for Analysis is of importance to the banking sector. This work also gives the Department for Analysis valuable insight into the framework conditions governing the operations of the banks which are of significance as regards inspection visits and bank analyses.

Auditors' organisations and associations with ties to the financial services sector are seen as important forums for dialogue with representatives of the industry.

Calculating and collecting the levy
According to the Guarantee Schemes Act, members are required to pay an annual fee until the Guarantee Fund is fully funded. Until this is the case, member banks are also required to furnish guarantees. The terms applicable to new members upon entry are determined by the Ministry of Finance.

The banking statistics submitted by the members include overviews of deposits apportioned according to size. The Department for Analysis has received schedules from FSA detailing guaranteed deposits and the measurement basis for capital adequacy for the member banks, and this information will provide the foundations for calculating the minimum size of the Guarantee Fund in 2009.

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

The financial crisis, international framework conditions and the Norwegian package of measures

International framework conditions – proposed changes to the deposit guarantee

In December of 2008, the European Parliament adopted amendments to the provisions governing the deposit guarantee legislation in European Union Member States. The European Parliament resolution increased the minimum limit for deposit guarantees from € 20 000 to € 50 000. This change comes into force on 30 June 2009. With effect from 1 January 2011, the limit will be set at € 100 000, unless an impact report that is due to be published by the end of 2009 concludes that an increase of this nature and harmonisation throughout the European Union would not be appropriate and that it would be too great a financial burden for all Member States to safeguard consumer protection and financial stability and would distort competition between Member States.

The decision by the European Parliament will entail the full harmonisation of the size of deposit guarantees, effective from 1 January 2011. If as a result of the provisions of the EEA Agreement the Norwegian scheme has to be harmonised to the EU level, the Norwegian deposit guarantee will be halved, from NOK 2 million to € 100 000. It should be noted that insofar as individual EU states practice full guarantees for long-term savings forms, it is intended that these may be continued. The question of whether individual countries are to be able to introduce full cover for certain types of temporary high balances is also to be reviewed. This would probably apply in the case of property transactions. Norwegian authorities are taking active steps to ensure that Norway is able to retain the deposit guarantee of NOK 2 million.

Under the current provisions, the Guarantee Fund effects payment under the guarantee as soon as possible and no later than three months after a bank has been placed under public administration. In special circumstances, this deadline may be extended by up to six months. The European Parliament has adopted provisions tightening up the regulations. The deadline is set at 20 days with scope in special cases for extending the deadline by 10 days. It is also intended that the individual depositor may, subject to application, be given access to a smaller amount within three days.

The new provisions of the Directive will require amendments to the Norwegian legislation in this area.

Norwegian package of measures

In combination with Norges Bank, the Ministry of Finance has implemented measures to improve the availability of liquidity to banks. One of these measures involves making government bonds to a value of up to NOK 350 billion available. To gain access, the banks must swap secure housing loans issued by the credit enterprises (preferential bonds). The price payable by the banks for the swap agreement will be decided by auction. The swap agreements may have a duration of up to three years. In order to compensate the State for the risk, a general limit will be placed on the difference between the yield on the government papers and the interest on the preferential bonds swapped by the banks. This limit will apply throughout the life of the scheme. This is also intended to function as an incentive to discontinue the scheme when the market returns to normal. In other words, this swap scheme does not constitute financial support, contrary to what many people seem to believe. In the period leading up to year-end, four of the swap auctions were arranged, and the banks received an injection of NOK 42 billion.

A second facility is that Norges Bank offers F-loans (loans at fixed rate of interest on market terms) with a term of two years, with lowered collateral requirements. These F-loans are aimed primarily at smaller banks that are unable to participate in the swap facility. The maximum bid for the two-year loan will be NOK 1 billion. Prior to year-end, the banks held F-loans with terms of two years to a value of NOK 12.6 billion.

Even before the package of measures was announced in October, Norges Bank had put in place liquidity measures. This took the form of currency swaps and the provision of F-loans of greater scope and with longer terms than normal.

On Sunday, 8 February, the Government announced a proposal to establish the State Finance Fund and the State Bond Fund. Each of these funds will have a capital of NOK 50 billion. The State Finance Fund will be an independent legal entity. The aim of the Fund is to strengthen the core capital of the banks to enable them to take on the economic downturn and to enhance their competitiveness. Viewed in isolation, the NOK 50 billion in core capital corresponds to a loan reserve fund of NOK 400-500 billion. The State Bond Fund is being established to help companies to find funding from a strengthened bond market as well as directly from the banks. The State Bond Fund will be managed by Folketrygdefondet (the manager of the Government Pension Fund).

The bodies of the Guarantee Fund

The organisation
Following elections at the General Meeting on 27 March 2008 and the elections of chairman and deputy chairman at the subsequent initial Board meeting, the structure of the Board was as follows:

- Finn Haugan, CEO Sparebank 1 SMN, Chairman (up for election in 2009)
- Ottar Ertzeid, Group Executive Vice President DnB NOR Bank ASA, Deputy Chairman (up for election in 2010)
- Jan Arveschoug, CEO Voss Veksel- og Landmandsbank ASA (up for election in 2009)
- Geir-Tore Nielsen, Lillestrøm Sparebank (up for election in 2010)
- Gunn Wærsted, CEO Nordea Bank Norge ASA (up for election in 2009)
- Kristin Gulbrandsen, Director The Central Bank
- Bjørn Skogstad Aamo, Director General The Financial Supervisory Authority

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

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

1. Kate Henriksen, Managing Director, Sparebanken Vest (up for election in 2009)
2. Jan-Frode Janson, Deputy CEO Fokus Bank ASA (up for election in 2010)
3. Odd Nodli, Manager Aurskog Sparebank (up for election in 2010)
4. Torbjørn Vik, CEO Bank 1 Oslo AS (up for election in 2010)
5. Åsmund Kåre Rørvik, Manager Kvinnherad Sparebank (up for election in 2009)

Deputy Member No. 1 is convened to all Board meetings

The Board also includes the following publicly-appointed members:

- Svein-Henning Kjelsrud, Deputy Director General The Financial Supervisory Authority. With effect from 1 March 2009, Emil Steffensen, Deputy Director General will take over as The Financial Supervisory Authoritys representative.
- Birger Vikøren, Director The Central Bank

The General Meeting elected the following Nominating Committee:

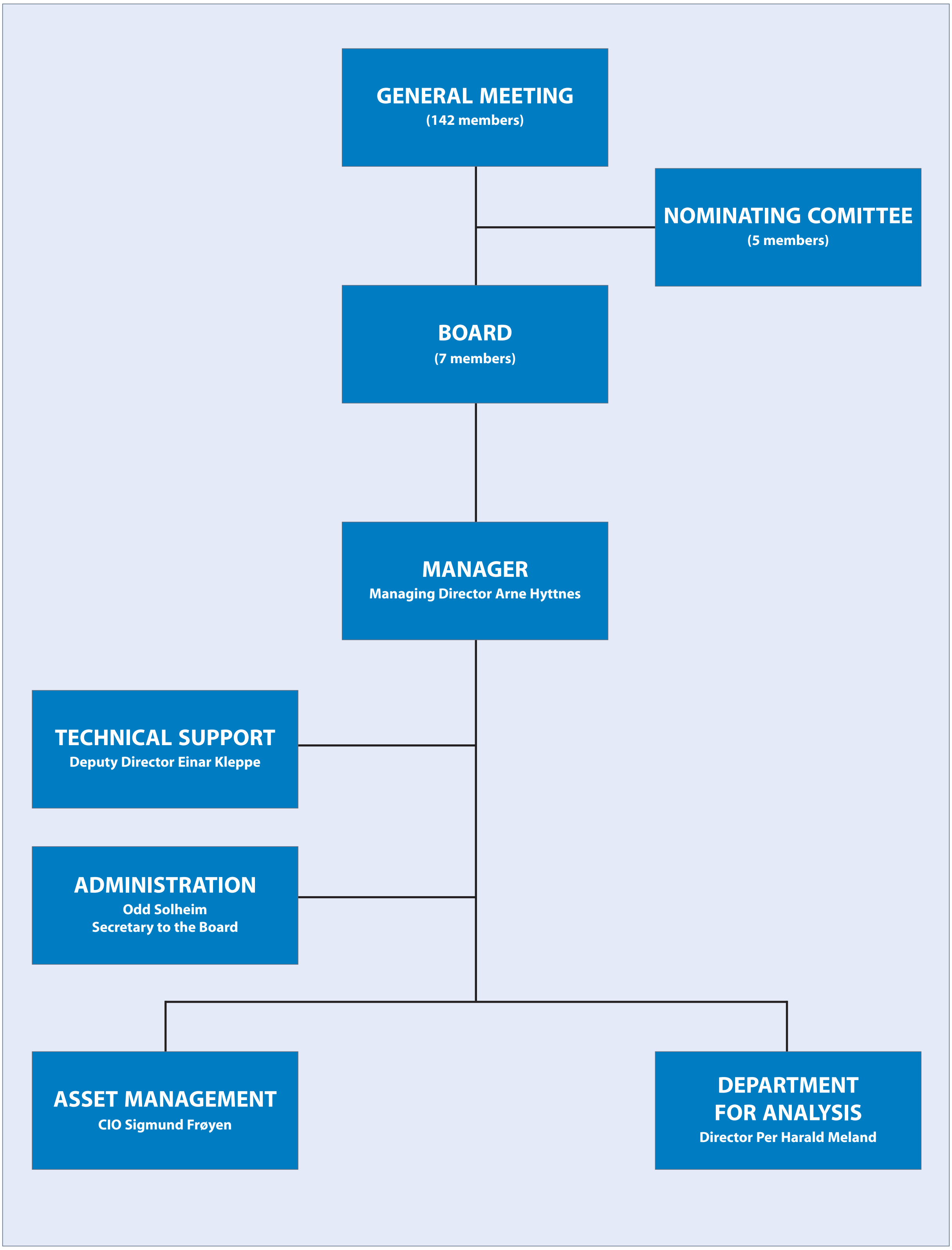
- Arvid Andenæs, Manager Sparebanken Sogn og Fjordane, Chair(up for election in 2009)
- Thomas Borgen, CEO Fokus Bank ASA (up for election in 2009)
- Roar Hoff, Manager DnB NOR ASA (up for election in 2009)
- Oddvar Nordnes, CEO Landkreditt Bank AS (up for election in 2010)
- Herbjørn Steinsvik, CEO Totens Sparebank (up for election in 2010)

Managing Director Arne Hyttnes of the Norwegian Savings Banks Association is the Managing Director of the Guarantee Fund.

Investment Manager Sigmund Frøyen heads the Asset Management Department, which has eight employees. Director Per Harald Meland heads the Department for Analysis, which has six employees.
Director Odd Solheim (FNH) is Secretary to the Board.

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

Organogram as at 27 February 2009



Members of the Norwegian Banks' Guarantee Fund as at 27 February 2009

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

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

C
Cultura Sparebank

D
DnB NOR Bank ASA
Drangedal og Tørdal Sparebank

E
Eidsberg Sparebank
Etne Sparebank
Etnedal Sparebank
Evje og Hornnes Sparebank

F
Fana Sparebank
Fjaler Sparebank
Flekkefjord Sparebank
Fornebu Sparebank
Fron Sparebank

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

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

I
Indre Sogn Sparebank

J
Jernbanepersonalets Sparebank

K
Klepp Sparebank
Klæbu Sparebank
Kragerø Sparebank
Kvinnherad Sparebank
Kvinesdal Sparebank

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

M
Marker Sparebank
Meldal Sparebank
Melhus Sparebank
Modum Sparebank

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

O
OBOS
Odal Sparebank
Ofoten Sparebank
Opdals Sparebank
Orkdal Sparebank

P
Pareto Bank ASA

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

S
Sandnes Sparebank
Santander Consumer Bank AS
Sauda Sparebank
SEB Privatbanken ASA
Selbu Sparebank
Seljord Sparebank
Setskog Sparebank
Skudenes & Aakra Sparebank
Soknedal Sparebank
SpareBank 1 Buskerud - Vestfold
SpareBank 1 Hallingdal
SpareBank 1 Nord-Norge
SpareBank 1 SR-Bank
SpareBank 1 SMN
SpareBank 1 Telemark
Sparebanken Hardanger
Sparebanken Hedmark
Sparebanken Hemne
Sparebanken Jevnaker Lunner

Sparebanken Møre
Sparebanken Narvik
Sparebanken Nordvest
Sparebanken Pluss
Sparebanken Sogn og Fjordane
Sparebanken Sør
Sparebanken Vest
Sparebanken Volda Ørsta
Sparebanken Øst
Spareskillingsbanken
Spydeberg Sparebank
Stadsbygd Sparebank
Storebrand Bank ASA
Strømmen Sparebank
Sunndal Sparebank
Surnadal Sparebank
Søgne og Greipstad Sparebank

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

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

Y
yA Bank ASA

Ø
Ørland Sparebank
Ørskog Sparebank
Øystre Slidre Sparebank

Å
Åfjord Sparebank
Aasen Sparebank

Branch membership
(Section 2-2 of the Act)
Fokus Bank branch of Danske Bank
Nordnet Bank branch of Nordnet Bank AB
SkandiaBanken AB branch Norway (from 10 February 2009)
Swedbank branch Norway

Statutes of The Norwegian Banks' Guarantee Fund

Adopted at the first general meeting of the Norwegian Banks' Guarantee Fund on 22 June 2004 and affirmed by the Ministry of Finance on 9 September 2004. Amended at the general meetings of 19 April 2005, 26 April 2006 and 26 April 2007. Affirmed by the Ministry in letters dated 26 September 2006 and 16 May 2007.

Chapter I Membership and purpose

Section 1 Establishment and membership

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

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

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

a. Saving banks and commercial banks with their head office in Norway shall be members of the Guarantee Fund.

b. The King may decide that other credit institutions with their head office in Norway shall be members of the Guarantee Fund.

c. Credit institutions with their head office in another EEA state which take deposits from the public through a branch in Norway are entitled to become members of the deposit-guarantee scheme if the deposit-guarantee scheme in the branch's home country cannot be considered to give the branch's depositors protection equal to that provided under the Act.

d. The King may decide that branches of credit institutions with their head office in a non-EEA state shall be members of the deposit-guarantee scheme.

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

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

Section 2 Purpose

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

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

Section 3 Right to inspect members

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

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

Chapter II Capital of the Guarantee Fund

Section 4 The Guarantee Fund's capital

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

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

Section 5 Members' levy

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

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

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

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

Section 6 Members' guarantee

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

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

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

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

Section 7 Investment of the Guarantee Fund's assets

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

(2) Investment is subject to the following conditions:

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

Section 8 Borrowing

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

Chapter III The Guarantee Fund's bodies

Section 9 General meeting

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

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

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

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

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

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

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

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

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

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

Section 10 Election committee

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

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

Section 11 The board

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

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

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

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

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

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

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

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

Section 12 The board's duties

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

(2) The board shall inter alia:

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

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

a. The board chairman or at least two board members jointly may sign on behalf of the Fund.
b. The board may give the business manager limited authority to act on behalf of the Fund.

Section 13 Audit

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

Section 14 Duty of confidentiality

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

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

Section 15 Deposit guarantee

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

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

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

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

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

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

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

Section 16 Settlement under the deposit guarantee

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

Section 17 Support measures

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

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

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

(3) Decisions regarding support may only be made within the limits set out

in section 19. When considering whether support shall be provided, the board shall attach particular weight to consideration of public confidence in the banking system and to consideration of the Fund's financial position. The board shall also weigh the costs that would be associated with support measures against the costs that may accrue if the matter were to end in public administration and disbursement under the deposit guarantee. Any decision to grant support requires the backing of at least five board members, and the justification shall made clear in the minutes of the board of the Fund.

Section 18 Conditions for support

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

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

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

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

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

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

Chapter V Annual report and accounts

Section 20 Annual report

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

Section 21 Accounts

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

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

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

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

Chapter VI Amendment of the statutes

Section 22 Statutes

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

Bankenes sikringsfond/Norwegian Banks' Guarantee Fund

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N-0130 Oslo

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

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MacCompaniet as, Oslo