Norwegian Banks'
Guarantee Fund

Annual Report 2011

Contents – Annual Report 2011

The Norwegian Banks' Guarantee Fund – purpose and scope

The Norwegian Banks' Guarantee Fund was established under a legislative amendment of 25 June 2004. The legislation came into force on 1 July 2004 with the merger of the Commercial Banks' Guarantee Fund and the Savings Banks' Guarantee Fund. The Norwegian Banks' Guarantee Fund's operations are regulated by 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. In addition, the King may decree that as well as banks, other credit institutions are required to be members of the Guarantee Fund. As at 1 January 2012, the Fund had 131 members with headquarters in Norway.

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 give the branch's depositors the same degree of protection as that under Norwegian legislation. Membership requires the approval of Finanstilsynet (the Financial Supervisory Authority of Norway). As at 1 January 2012, the Fund had 6 branch members.

The purpose of the Guarantee Fund is to hedge the deposits of its members whereby deposits of up to NOK 2 million per depositor per bank are guaranteed in the event that a member is unable to meet its commitments. With effect from 1 January 2011, the deposit guarantee scheme within the EU has been fully harmonised at EUR 100,000, i.e. below NOK 800,000. However, this does not currently form part of the EEA Agreement. Norwegian authorities and Finance Norway (FNO) are still working actively to retain the current deposit guarantee scheme. The deposit guarantee scheme is a crucial part of the regulation of the financial markets and helps create confidence and trust in the banking industry, thereby safeguarding financial stability. For branch members with a homeland guarantee of EUR 100,000 per depositor, the Fund covers the excess amount up to NOK 2 million.

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 kept up to date.

The development of the guarantee fund institution is necessary in order to ensure satisfactory safeguards for customers, banks and society. The development process involves work on framework conditions and statutes etc. The Norwegian Banks' Guarantee Fund is a member of the European Forum of Deposit Insurers (EFDI). The purpose of the forum is to contribute to the stability of the financial system by fostering European cooperation between deposit guarantee schemes.

To enable it to handle emergency situations, the Guarantee Fund has accumulated considerable funds over time, and as at 31 December 2011 the equity in the Fund was NOK 22,799 million, which is higher than the statutory minimum requirement.

The day-to-day operations of the Fund comprise three departments. One department's responsibilities include crisis prevention 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 membership fees and guarantees and producing reports and information on the cover provided under the deposit guarantee scheme. The Fund also has a department tasked with managing the assets of the Fund. The purpose of the department is to ensure good risk-adjusted return on the assets. As well as implementing the strategic decisions adopted by the Board of Directors, the department has asset management responsibility in its own right and also selects and supervises external asset managers. The Fund also has a Controller/Mid-office department, which supervises the asset management operation, including controlling risk and investment limits with periodic reporting to the management and Board.

Leader

2011 was marked by a large degree of uncertainty, partly as a consequence of the debt crisis in Europe, but the Norwegian economy and the banking industry in Norway were relatively unscathed. None of the banks needed assistance from the Guarantee Fund in 2011.

The Fund invests a major proportion of the securities sovereign bonds and in equities listed on international stock exchanges. The asset management has come through a period of considerable turbulence in both the bond and share markets with flying colours. Thus from an operational point of view, we are quite satisfied.

How Norwegian guarantee fund rules will be framed is not yet clear. The Banking Law Commission has started the work, but is dependent on the EU rules being laid down. From a Norwegian perspective, being able to retain the Norwegian deposit guarantee of NOK 2 million is a key issue. The authorities and the finance industry have strived to achieve this but it is still unclear what the outcome will be and when it will be available. Recent history has shown that a robust guarantee fund scheme is absolutely vital, and it would be a paradox if, in these times of uncertainty, we were obliged to weaken our scheme. A Ministry of Finance discussion document proposed that the deadline for paying guaranteed deposits be set to 7 days after a bank has gone into administration. Prompt repayment of guaranteed deposits is important, but the deadlines must be realistic and should be harmonised with the EU's new provisions when they become available. Norway has a well-developed finance industry and one of the best capitalised guarantee funds in the world. Implementing the EU provisions that are necessary in Norwegian legislation should not, therefore, be a major problem generally speaking.

The banks' accounts showed satisfactory results in 2011. The results were somewhat lower than in 2010, but this was due to non-recurring effects in the accounts for 2010 as a result of large gains from the merger between Nordito and PBS, and substantial reallocations of commitments in the CPA early retirement scheme, with no new provision being estimated. Defaults and losses are at a low level. Moderate dividends are expected, and as a whole, the banks have a good starting point for 2012.

However, there is clearly a close correlation between the Norwegian economy and the economy of the banks. To date, the activity has remained high, partly driven by low interest rates, high activity levels in the petroleum industry and a large increase in the population. There are, nevertheless, signs that the weak international growth is affecting the Norwegian economy. For example, export-related industries are experiencing lower demand and falling prices in various export goods. The twelve-month growth in household debt is more than 7 per cent, and is now at its highest level since December 2008.

Households' debt burden (debt as a percentage of disposable income) has reached a high level of more than 200 per cent. Growth in debt of more than 7 per cent means that the debt is growing faster than the disposable income, which further increases households' debt burden. The temperature in the housing market remains high. The price growth in the housing market and the debt increase is causing concern for the authorities and the banks alike, and is not sustainable over time. The banks must take this into consideration in their credit appraisals, which they are in fact doing.

The banks in Norway have a good starting point for 2012, but great uncertainty surrounds both the development of the regulatory system and developments in the economy. It is therefore important to have an effective cooperation in place between Norwegian authorities and the industry in order to establish appropriate solutions.

Arne Hyttnes
Managing Director

Directors' report 2011

Changes in the membership
At the end of 2011, the Norwegian Banks' Guarantee Fund had 137 members, 131 of which had their headquarters in Norway and 6 of which were branch members. This is a fall from 140 at the end of 2010. No new members joined the Fund in 2011. One member, Warren Bank AS, handed back its licence to Finanstilsynet in 2011, when it also left the Guarantee Fund. Two bank mergers took place in 2011. Sparebanken Vest and Sparebanken Hardanger were merged, with Sparebanken Vest as the acquiring party. Rygge-Vaaler Sparebank and Halden Sparebank merged their operations into a new bank named SpareBank 1 Østfold Akershus.

Results in 2011
Despite the fact that 2011 was a very difficult year in most financal markets causing depreciation and losses for the majority of investors, the Board is pleased to register a good result for the Guarantee Fund.

The accounting has been prepared under the going concern assumption. The Fund's holding of securities is classed as a trading portfolio, and market value has been applied.

The Guarantee Fund recorded a profit of NOK 875 million in 2011. No membership fees were collected in 2011. The corresponding profit in 2010 was NOK 3,273 million, of which membership fees constituted NOK 1,673 million. It is proposed that the surplus be allocated to equity.

The result of asset management operations before costs and fees was NOK 931 million, representing a time-weighted return of 4.3 per cent. A breakdown of the asset categories is given in the table below. The table shows results before management fees, and differs from the profit and loss account in that the portfolios are grouped differently.

The asset category of Global Government Bonds was a majority contributor in 2011, with a return of 5.8 per cent, while Global Equities made a negative contributi- on of -1.9 per cent. Relative to its index, the Fund had a reduced return of NOK -15 million, or -0.1 per cent.

Other operating revenues
Other operating revenues totalled NOK 0.6 million in 2011, compared with NOK 1.5 million in 2010. Dividends from filed class actions totalled NOK 0.5 million and income from the Autumn Conference/ other courses amounted to NOK 0.1 million.

Operating expenses
Total operating expenses for 2011 were NOK 57 million. The corresponding figure for 2010 was NOK 96.2 million. The decrease can largely be ascribed to lower performance fees for external asset managers.

Asset management costs before performance fees and variable remunerations amounted to NOK 37.9 million in 2011. The corresponding figure for 2010 was NOK 35.8 million. This made for an ordinary cost percentage in asset management of 0.17 in 2011, compared with 0.18 in the preceding year. Performance fees paid to external asset managers totalled NOK 3.1 million in 2011, compared with NOK 42.4 million in 2010. A provision of NOK 1.5 million was allocated for variable remunerations for internal asset managers in 2011, compared with NOK 2.8 million in the preceding year. The total cost percentage in asset management, including performance fees and variable remunerations, was 0.19. The internal arrangement for variable remunerations has been adjusted to reflect the new regulations on remuneration arrangements in financial institutions etc.

The cash flow statement in the accounts shows that the Guarantee Fund's liquidity situation over the course of the year was satisfactory. The difference between the profit for the year and the liquidity change over the

31.12.2011	Absolute		Relative to index	
Asset category	Return (MNOK)	Return (%)	Excess return (MNOK)	Excess return (%)
Global Government Bonds	945	5,8 %	-58	-0,4 %
Global Equities	-59	-1,9 %	5	0,0 %
Tactical asset allocation	45	–	38	–
Total portfolio	**931**	**4,3 %**	**-15**	**-0,1 %**

31.12.2011 Asset category	Market value (NOK mill.)			Weight (%)		
	Guarantee Fund	Reference index	Difference	Guarantee Fund	Reference index	Difference
Global Government Bonds	16 857	16 959	-102	74,1 %	74,5 %	-0,4 %
Global Equities	5 872	5 691	181	25,8 %	25,0 %	0,8 %
Tactical asset allocation	35	114	-79	0,2 %	0,5 %	-0,3 %
Total portfolio	**22 764**	**22 764**	**0**	**100 %**	**100%**	**0 %**

course of the year can primarily be attributed to the reinvestment of returns on investments.

Financial position

Managed capital at year end stood at NOK 22.8 billion, 72.7 per cent of which was invested in government fixed income securities. The table above shows the breakdown of asset categories (excluding operating assets), and the corresponding breakdown for the index.

No Guarantee Fund fee in 2012

Section 2-6 of the Guarantee Schemes Act requires the aggregate equity and subordinated loan capital of the Fund to, at any given time, at least equal the sum of 1.5 per cent of aggregate guaranteed deposits lodged with the members and 0.5 per cent of the basis of calculation for the capital adequacy requirements. The minimum requirement for equity and subordinated loan capital in 2012 is estimated to be NOK 21,585 million, compared with NOK 21,452 million in 2011. This represents an increase of 0.62 per cent or NOK 133 million. The equity of the Fund as at 31 December 2011 was NOK 22,799 million. At year end the Fund was NOK 1,215 million above the minimum requirement. In the meeting of the Board of Directors on 1 March 2012, it was decided that no fees would be collected from members for 2012.

Investment strategy

The asset management of the Fund must balance various considerations. The liquidity requirement is high and is such that the capital must be easily accessible in the event that a crisis should result in the guarantee being paid. A good return is desirable, but at the lowest possible risk, and the target rate of return is secondary to the liquidity requirement. The target rate of return is set at 1.0 percentage point above a risk-free return, of which 0.75 percentage points is the expected contribution from the overarching allocation (the index), while 0.25 percentage points is the targeted contribution from active asset management.

The allocation between asset categories is such that the proportion of Global Government Bonds makes up 75 per cent, and the proportion of Global Equities constitutes 25 per cent. The bond index comprises highly rated 1–10 year government bonds. When selecting countries and bonds, the rating, GDP weights and a discretionary fundamental screening are combined in order to ensure that the Fund has the safest and most liquid securities in the index at any given time. The fixed income portfolio represents the Fund's safe investment, which in the event of a crisis arising is expected to increase in value. The allocation of Global Equities represents the Fund's long-term return engine. It is the view of the Board that the ratio between the safe asset and the risky asset is balanced. At year end, Value at Risk with a 95 per cent probability was within 7.6 per cent of total assets, while the framework set by the Board is maximum 9 per cent.

The Fund has a mixed asset management operation comprising internal asset management combined with external asset managers. The strategy is active, where managers are permitted to deviate from their index, within defined risk limits. At year end, active risk measured by Tracking Error was 1.2 per cent, while the limit set by the Board is maximum 2.5 per cent.

In 2011, Bank of New York Mellon (BNYM) was appointed as the Fund's global custodian bank. BNYM is also responsible for independent performance measurements, valuations and compliance for all investments for the Fund's account. An internal controller monitors the asset management both internally and externally. It is the view of the Board that a robust asset management model is in place and that over the past year, the systems, organisation, monitoring and quality of assets held have all been improved.

Key figures	Fund 2011	Index 2011	Fund 02-11	Index 02-11	Direction	Target/limit
Return premium	1,8%	1,9%	2,7%	2,4%	>	1,00%
- Index premium	1,9%		2,4%	2,4%	>	0,75%
- Asset premium	-0,1%		0,3%		>	0,25%
Volatility (ex-post)	2,9%	2,5%	5,2%	5,0%	<	5,5%
TE (ex-post)	0,7%		1,6%		<	2,5%
VaR (ex-post)	4,9%	4,2%	8,6%	8,2%	<	9,0%
Sharpe Ratio	0,61	0,74	0,52	0,49	>	0,25
Information Ratio	-0,10		0,11		>	0,25
Consistency	50%		58%		>	50%
Skewness	0,1		-0,8		>	0
Liability correlation	0,4		0,0		<	0,1

(For definitions of terms, see the end of the Annual Report.)

Performance and risk

Performance is assessed relative to the risk taken, and the Fund uses various key figures for this purpose. The table abowe presents the most important key figures used and shows frameworks and targets, as well as actual figures for 2011 and for the period 2002–2011.

The premium on returns is broken down into the contribution from the index and the contribution from active asset management. The premium on returns in 2011 was higher than the target, but lower than average for the period. The high premium on returns is due to an abnormally high return on bonds.

Sharpe Ratio is an expression of risk-adjusted return. This was high last year; higher than average for the whole period and higher than the target, but lower than the index. When the Sharpe Ratio for the portfolio is higher than for the index, the contribution from active asset management has been positive, also when adjusted for risk. This was the case throughout the period, but still not high enough relative to the target of an Information Ratio of 0.25.

A large number of risk limits were introduced at portfolio level in 2011 in order to reduce the concentration risk for different market risks. The limits and responsibility for these have mainly been passed on locally to asset managers. The key figures above are used as a basis for the internal rating of asset managers. Two fixed income managers were replaced in 2011 due to poor performance. One new manager was recruited to substitute them.

Outlook

The start of a new year brought steadier market conditions inspired by improved figures from the American economy, higher growth in China than feared and a degree more optimism about the debt situation in Europe. The share prices have increased, despite mixed results from the companies. The low interest rate level dictates limited return expectations for government bonds, but will hopefully stimulate the growth profile and outlook for the higher risk assets.

The Norwegian economy is strong, but the growth profile is characterised by weaker global growth where the developments in Europe are particularly negative. The debt crisis in the Mediterranean countries has led to high unemployment in many countries and is threatening the financial stability of that part of the world.

Fund members have fared well in a challenging international climate, but ought to be prepared for weaker growth also in Norway, added to which the financial turbulence globally may create imbalances in liquidity.

Norwegian banks are dependent on well-functioning financial markets worldwide. New regulatory requirements have had a negative effect on financing costs. The market for covered bonds has functioned relatively satisfactorily, while the market for senior bank bonds has been challenging. On the other hand, the increase in the risk mark-up in the Norwegian interbank market and for Norwegian banks internationally has been lower than for many other countries. If the global crisis intensifies in 2012, there may be major ripple effects, including for Norwegian banks.

Members' performance in 2011

The banks had significantly lower profits at the end of the third quarter compared with the year before. The reduction can mainly be attributed to positive non-recurring effects in last year's accounts. Corrected for these effects, the banks showed a slight improvement in pre-tax profit, both in absolute terms and in relation to the asset capital.

The banks' interest margin (defined as the difference between the average interest on loans and deposits) was marginally higher at the end of the third quarter than a quarter earlier, but was still at a historically low level. The increase can be attributed to a slight improvement in the lending margin, while the deposit margin fell somewhat.

Norwegian banks experienced higher financing costs in 2011 because borrowings with long terms to maturity had to be refinanced at higher rates. The competition for deposit capital from customers was tough, with a ditto pressure on deposit margins. Both savings banks and commercial banks had moderate growth in loans in 2011, while deposit growth was high. The percentual loss of gross loans saw a marginal rise in 2011.

Crisis management and crisis prevention measures

The Guarantee Fund was not involved in any crisis management operations in 2011.

The work of the Department of Analysis mainly focuses on crisis prevention measures for members (the banks), and preparing crisis plans for any potential banking crisis. A test will be conducted of the data regulations for banks in 2012. This is primarily a test to establish whether the banks and their system suppliers are in a position to provide the correct data on guaranteed deposits within five days, as required by the regulations. Limited testing may also be carried out on whether the Guarantee Fund will be able to meet the most recently proposed deadline for payment of deposits, which is 7 weekdays.

As part of the Fund's crisis prevention measures, the Fund visits a number of banks throughout the year. From the Fund's perspective, the visits focus on the small banks, and 8 banks were visited in 2011.

Analysis and identification of banks that can find themselves in a crisis situation are important in relation to the potential to reduce risk for disbursements. Intervening at an early stage in a bank facing problems could limit the adverse effects that would otherwise occur if the bank is placed under public administration.

Framework conditions for crisis management

The European Commission is expected to issue a draft directive on crisis management in the near future. The proposal can be broken down into four subject areas:

- Preventive measures, including more stringent supervisory requirements and a requirement for all institutions to devise a restructuring plan and resolution plan.
- Provisions that give the authorities the possibility to intervene at an early stage when problems arise.
- The authority and tools to be able to reorganise, divide up and wind up institutions.
- Financing of a publicly administered resolution fund.

In the statement of 3 May 2011 on the Financial Crisis Commission's report (Official Norwegian Report no. 2011:1), Finance Norway (FNO) gave its views on the European Commission's input to date. FNO observed that the Norwegian rules must be framed in light of the requirements set for the EU. It was particularly noted that the threshold values introduced and consequences of breaches ought to be publicly available.

With regard to the introduction of the resolution fund, the majority in the Financial Crisis Commission were in favour of the Banks' Guarantee Fund and the resolution fund being subject to the same authoritative body. FNO, however, supported the minority, which also comprised Finanstilsynet's representative, who believed that the division of work that is already established should be used as a basis. FNO believes there is a very strong argument for retaining the current organisation of the work.

Together with new legislation on guarantee funds, the crisis management directive will form the basis for the Banking Law Commission's preparation of a draft new legislation.

Framework conditions for the deposit guarantee scheme

In summer 2010, the European Commission presented a proposal for a new deposit guarantee directive. The proposal will be adopted by means of the co-determination procedure, and both the European Parliament and Council of Ministers and the Commission must therefore reach agreement on identical rules. This has been a drawn out process. Although the bodies appear to agree on the main features of a solution, there is still disagreement on some key points, particularly in connection with financial conditions and the length of the period of payment.

From a Norwegian perspective, the question of being able to retain the Norwegian deposit guarantee at NOK 2 million has been a central issue. The authorities, with the support of the finance industry, have tried their best to persuade the European Parliament and Council of Ministers in this matter. It is still unclear, however, what the outcome will be.

Like the Financial Crisis Commission, the Ministry of Finance has proposed that the payment deadline is set at 7 days. In a letter dated 24 January 2012, Finance Norway emphasised the importance of quick repayment of guaranteed deposits. However, it also notes that the payment deadline should be harmonised with the EU's new provisions when they become available. It further notes that the payment deadline should be realistic and that planned tests should be carried out and evaluated before a new deadline is decided.

Information activities and courses

The annual autumn conference was held at the Radisson Blu Atlantic Hotel in Stavanger between 18 and 20 September and attracted a total of 250 attendees.

Administrative issues

The Board of the Norwegian Banks' Guarantee Fund, including the first deputy member, who is convened to all Board meetings, comprises four men and three women. The Board is fully aware of society's expectations with regard to promoting gender equality in the Board and in the management of the Fund.

The Fund's manager is Arne Hyttnes, Managing Director of Finance Norway. The offices of the Guarantee Fund are located at Hansteens gate 2 in Oslo. The administrative staff of the Fund comprises 15 employees, eight of whom are women. The Fund has a corporate health service agreement. Absence due to illness in 2011 totalled 57 days or 1.86 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, 1 March 2012

Finn Haugan
Chairman

Ottar Ertzeid
Deputy chairman

Gunn Wærsted

Kate Henriksen

Oddstein Haugen

Kristin Gulbrandsen

Morten Baltzersen

Arne Hyttnes,
Manager

Profit and loss account

All figures in NOK

	NOTE	2011	2010
Membership fees	**10**	0	1 673 467 249
Result of asset management activities			
Interest on bank deposits		5 252 131	9 762 282
Result, fixed income securities	**11**	997 261 518	870 380 195
Result, shares	**12**	-70 866 680	814 374 005
Net result of asset management		931 646 970	1 694 516 481
Other operating revenues	**13**	635 684	1 445 253
Other operating expenses	**14**	-56 989 017	-96 165 191
Profit for financial year		875 293 636	3 273 263 793
Appropriation of result			
Transferred from/to the Guarantee Fund's equity		875 293 636	3 273 263 793

Balance sheet

	NOTE	31.12.2011	31.12.2010
ASSETS			
Bank deposits	**2**	539 589 366	884 485 067
Loans		0	1
Bonds and commercial papers	**3**	16 433 121 739	15 344 028 309
Shares	**4**	5 686 452 001	5 158 230 942
Tangible fixed assets	**5**	406 747	395 232
Over-financing of pension commitment	**9**	218 017	0
Other receivables	**6**	546 352 759	465 622 564
Accrued interest not yet due	**7**	214 363 760	136 262 643
Total assets		23 420 504 389	21 989 024 758
LIABILITIES AND EQUITY			
Other liabilities	**8**	609 255 757	52 380 999
Provision for commitments	**9**	12 006 852	12 695 617
Total liabilities		621 262 610	65 076 616
Equity of Guarantee Fund	**1**	22 799 241 779	21 923 948 142
Total liabilities and equity		23 420 504 389	21 989 024 758

Oslo, 1. March 2012

31. Desember 2011

Finn Haugan
Chairman

Ottar Ertzeid
Deputy Chairman

Gunn Wærsted

Kate Henriksen

Oddstein Haugen

Kristin Gulbrandsen

Morten Baltzersen

Arne Hyttnes
Manager

Notes to the accounts as at 31 December 2011

General

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 with their head office in Norway are also 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 give the branch's depositors the same degree of protection as that afforded under Norwegian law. The approval of Finanstilsynet (the Financial Supervisory Authority of Norway) is required before a branch member can 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 in Norway. The format has been adapted to the activities of the Guarantee Fund.

Valuation policies for financial instruments

General

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 Fund's securities holding is valued on a daily basis by BNY Mellon Asset Servicing, which is the Fund's external supplier of investment support in 2011 (back office, custody, risk, performance). The primary source for pricing is FT Interactive Data; thereafter, prices from Bloomberg and Reuters are used. The main source for the pricing of OTC (over the counter) contracts is Markit. All listed securities are priced at the official published closing prices. Bloomberg, Reuters, Statpro Canada and SS&C Technologies are used as secondary sources. The Norwegian Banks' Guarantee Fund performs regular controls of pricing and valuations provided by the Fund's external suppliers.

Shares

The Norwegian Banks' Guarantee Fund has a holding of both Norwegian and foreign shares. Norwegian shares only make up a small percentage of the Fund's share investments. The majority of the shares in which the Fund invests are listed shares with a high degree of liquidity. For daily pricing and valuation of listed shares at period end, the most recent official closing prices on the balance sheet date or the last day of trading before the balance sheet date are used (last price traded). In special cases, manual prices may be sought from brokers.

Bonds/commercial papers

The Norwegian Banks' Guarantee Fund invests in liquid government bonds with a high creditworthiness. For daily pricing and valuation of government bonds at period end, the most recent official closing price available for the purchase price is the norm. Where this is not available, manual prices are sought from recognised analysts and brokers or suppliers who specialise in providing prices for bonds.

Financial derivatives (note 6, 8)

Financial derivatives are contracts where the value of an instrument is derived from another instrument (share indexes and other indexes, interest rate, bond, currency, etc.) and where the settlement date/payment date is generally some time in the future. The Norwegian Banks' Guarantee Fund invests in financial derivatives linked to share, bond, interest and currency markets. The Fund does not invest in commodity derivatives. Valuations are based on observed market values for instruments where these are available, and official closing prices (derivate contracts traded on a stock exchange). 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. All OTC derivative contracts are valued on a daily basis. For the majority of the derivative contracts, the market value will be the same as the unrealised gain/loss on the balance sheet date.

Options
An option may be purchased or issued. A purchased option is a contract that gives the buyer the right, but not an obligation, to buy/sell an asset/financial instrument at an agreed price at a future date. An issued option is a contract where the issuer has an obligation to provide an asset/financial instrument at an agreed price at a future date. Options can be used to hedge values or with the aim of achieving extra returns. Use of options in the Norwegian Banks' Guarantee Fund declined in 2011 compared with previous years (listed options – fixed income securities, OTC options – FX options, swaptions). Prices from Reuters are used to price options traded on the stock exchange. OTC options are valued by an external supplier.

Futures
Futures are forward contracts that are traded on the stock exchange and for which a mark-to-market valuation is undertaken on a daily basis according to market movements and price changes. Value changes on futures contracts are booked on an ongoing basis as unrealised profit/loss. Prices from Bloomberg and Reuters are used to price futures. The Norwegian Banks' Guarantee Fund uses share index, interest and bond futures. Futures contracts are generally traded via a broker in the large international futures stock exchanges, such as Euronext, CBOT, CME, LIFFE, etc.

Forwards
Forwards are OTC forward contracts, i.e. these contracts are not traded on stock exchanges as futures (however there are exceptions, and some forwards are traded on the stock exchange). Forwards are priced, recorded and settled on a daily basis until the contract's due date at market value, which is unrealised gain/loss. The Guarantee Fund uses forwards other than currency contracts to a limited degree and scope. Investments are made in forwards with underlying bonds.

Interest rate swaps
An interest rate swap is an agreement for the exchange of, for example, variable for fixed interest. Interest rate swaps are used to hedge the value of an investment and with the aim of achieving excess returns. Interest rate swaps are valued on a daily basis by an external supplier. Prices of individual interest rate swaps can vary from supplier to supplier and regular controls are therefore made of the pricing.

Forward rate agreements
FRAs are recorded at market value and settled at the start of the period linked to the agreement. FRAs are seldom used.

Forward exchange contracts
Forward exchange contracts (FX Forwards/FX Swaps) are used to hedge currency within the Fund's set framework of securities and financial instruments against NOK in the trading portfolio. These contracts have short to medium terms of maturity. Spot contracts with a maturity of 1–4 days are also used to hedge transactions. Forward exchange contracts are also used with a view to achieving excess returns. The forward exchange contracts are recorded at market value and the unrealised result/value of contracts forms part of the Fund's daily value. (See note 6, 8, 15.)

Currency conversion
Shares, bonds, commercial papers, cash and cash equivalents, receivables and liabilities are converted and valued on a daily basis. At period end, valuation is according to the exchange rate on the balance sheet date. WM Reuters 4 pm London closing rate is used for the daily valuation and at period end.

Miscellaneous valuation policies

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 costs incurred but not paid 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. Dividends on shares are taken to income on the ex-date and registered as a receivable until payment is confirmed.

Pensions
The Guarantee Fund has a defined benefit pension scheme for its employees. In a defined benefit pension scheme, the employer has an obligation to pay an employee's future pension in a specified amount. This group pension scheme is funded and administered by a life insurance company. The estimated accrued commitment is compared with the value of paid in and saved funds. Where the total pension fund assets exceed the estimated pension commitment on the balance sheet date, the net value is recognised as an asset in the balance sheet. Where the pension commitment exceeds the pension fund assets, the net obligation is classified as a liability in the balance sheet.

The Guarantee Fund also has uncovered pension commitments that are financed through operations. Pension commitments in such agreements are recorded as a liability in the balance sheet with the exception of commitments resulting from the CPA Early Retirement Subsidy Act. The current financial contributions to this scheme are recorded in the profit and loss account as a defined contribution guarantee scheme. A working group appointed by the Ministry of Finance has evaluated principles for the accounting of a new CPA scheme. The group has provisionally concluded that the current CPA premium is recorded in the profit and loss account and that the commitment is not recognised in the balance sheet. The working group's evaluation is out to consultation. As at 31 December 2011, the individual enterprise does not have the necessary information for recording the commitment. In practice, only Fellesordningen (the joint arrangement) for the CPA would have the data necessary to perform a calculation of the commitment. In accordance with generally accepted accounting practice, the CPA commitment relating to the old scheme was recorded as income as at 1 January 2010.

Pension costs and pension commitments are calculated on an annual basis by an actuary. The calculation is based on a range of estimates in which returns on pension funds, future interest rates and inflation levels, wage increases, turnover and changes in the National Insurance base rate (G) all play a major role, in addition to life expectancy@. Estimate changes as a result of changes to the aforementioned parameters appear as actuarial variances. Such estimate variances are recognised in the profit and loss account over the average expected remaining period of service for active personnel insofar as the variance exceeds the higher of 10% of the pension fund assets and 10% of the pension commitments.

The pension commitment is calculated as the present value of those parts of future pension benefits that have been earned as at the balance sheet date. The pension cost is based on assumptions made at the start of the period. The net pension cost for the year consists of the present value of accrued pension entitlements for the year, interest expense on the commitment less the expected return on the pension fund assets, recognised estimate deviations and accrued employer's National Insurance contributions. Net pension costs for the period are included in "Other operating expenses" in the accounts.

An estimated value is used in the valuation of pension fund assets. The value is adjusted annually relative to the actual return on the fund assets.

Pension costs and commitments include employer's National Insurance contributions.

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

Tax
Under Section 2-30 of the Norwegian Taxation Act, the Guarantee Fund is exempt from tax liability.

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

Note 1

Guarantee Fund's equity and subordinated loan capital

The size or aggregate equity and subordinated loan capital of the Guarantee Fund is defined in Section 2-6 of the Guarantee Schemes Act and shall, at all times, as a minimum be equal to the sum of 1.5 per cent of aggregate guaranteed deposits held by 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 only includes guaranteed deposits. Members pay an annual fee to the Guarantee Fund, unless the Fund's equity 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 amount of equity and subordinated loan capital in 2012

The statutory requirement for equity and subordinated loan capital in 2012 is, in principle, the average of the guaranteed deposit and average calculation basis for the 2 last quarters of 2010 and the 2 first quarters of 2011.

1.5 per cent of average guaranteed deposits	847 128 mill.	12 706 922 329
0.5 per cent of average measurement basis	1 775 559 mill.	8 877 792 575
Minimum size of the equity and subordinated loan capital		21 584 714 904
Equity in Norwegian Banks' Guarantee Fund at 31.12.2011		22 799 241 779
	Overcoverage at 01.01.2012	1 214 526 875

The calculated charge for 2012 is 1,454,998,058, but since the Fund meets the minimum requirement for capital, no charge will be made for 2012.

Minimum amount of equity and subordinated loan capital in 2011

The statutory requirement for equity and subordinated loan capital in 2011 is, in principle, the average of the guaranteed deposit and average calculation basis for the 2 last quarters of 2009 and the 2 first quarters of 2010.

1.5 per cent of average guaranteed deposits	819 111 mill.	12 286 663 399
0.5 per cent of average measurement basis	1 833 028 mill.	9 165 139 606
Minimum size of the equity and subordinated loan capital		21 451 803 005
Equity in Norwegian Banks' Guarantee Fund at 31.12.2010		21 923 948 143
	Overcoverage at 01.01.2011	472 145 138

Minimum amount of equity and subordinated loan capital in 2010

The statutory requirement for equity and subordinated loan capital in2010 is, in principle, the average of the guaranteed deposit and average calculation basis for the 2 last quarters of 2008 and the 2 first quarters of 2009.

1.5 per cent of average guaranteed deposits	797 849 mill.	11 967 740 843
0.5 per cent of average measurement basis	1 902 140 mill.	9 510 699 518
Minimum size of the equity and subordinated loan capital		21 478 440 360
Equity in Norwegian Banks' Guarantee Fund at 31.12.2009		18 650 684 339
	Overcoverage at 01.01.2010	-2 827 756 021

The equity in the Fund has had the following development. (Figures in NOK mill.)

	2011	**2010**	**2009**	**2008**	**2007**
Equity as at 1 January	21 924	18 651	15 348	17 203	16 526
Change in equity during period	875	3 273	3 303	-1 855	679
Equity as at 31 Desember	22 799	21 924	18 651	15 348	17 205
Principle change in pension				2	
Equity as at January 2008				15 346	

Note 2
Bank deposits
Figures shown here are the sum of bank deposits in operating accounts and tax withholding funds; in addition to bank deposits in accounts linked to the management of assets placed in both Norwegian and foreign banks.

Tax withholding funds in a dedicated account total NOK 1,350,468. Of the bank deposits, NOK 383,718,841 is invested in foreign currency.

As at 31 December 2011, the share of cash/bank deposits (excluding operating accounts) was 2.1 per cent of assets managed by the Guarantee Fund (Net Asset Value). Based on daily measurements, the Guarantee Fund had on average 3.2 per cent of managed assets invested in cash in 2011. The corresponding figures for 2010 were 3.7 per cent and 3 per cent respectively.

The holding was converted at the rate of exchange as at 31 December 2011 and is broken down into the following currencies:
Amounts in NOK

Currency	**31.12.11**	**31.12.10**
NOK	155 870 525	541 572 222
USD	312 866 006	165 464 077
AUD	18 241 677	7 135 347
EUR	(2 581 671)	70 868 872
GBP	18 011 143	18 849 428
CAD	12 494 677	8 988 392
CHF	5 508 144	20 396 318
HKD	5 442 444	19 163 502
JPY	11 278 561	6 688 778
SEK	3 406 166	7 259 720
NZD	45 253	10 744 411
SGD	34 026	454
ILS	12 460	230 078
DKK	(1 040 045)	6 790 366
PLN	-	284 009
MXP	-	48 115
ZAR	-	970
CZK	-	7
	539 589 366	884 485 067

Note 3
Bonds and commercial papers
(Amounts in NOK 1,000)

	2011		2010	
Debtor category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Global fixed income funds	-	-	24 233	23 966
Government securities (public sector)				
Bonds	15 689 589	16 260 804	9 097 541	8 780 343
Commercial papers	170 641	172 318	4 837 662	4 801 353
Other issuers *)				
Bonds	-	-	1 774 397	1 738 366
Commercial papers	-	-	-	-
Total	15 860 229	16 433 122	15 733 833	15 344 028

*) Corporate sector

The total market value/book value is NOK 572,892,365 higher than the purchase price.

As at 31 December 2011, the Fund had no holdings in Norwegian or foreign credit bonds (corporate sector) or fixed income funds.

The Guarantee Fund has a liquidity requirement for bond holdings. The liquidity in the bond holdings is measured on a monthly basis for the individual bond, for the individual portfolio and for the Fund as a whole. There is also a requirement in relation to the creditworthiness of the issuer (see note 15 Risk management).

The share of government securities represented 72 per cent of the funds managed by the Guarantee Fund as at 31 December 2011 (Net Asset Value). Based on daily measurements, the Guarantee Fund had on average 71 per cent of managed assets invested in government securities in 2011. The corresponding figures for 2010 were 62 per cent and 67 per cent respectively.

Bonds and commerical papers by country Amounts in NOK 1,000

	2011	2010
Country	**Market value**	**Market value**
Germany	3 386 932	1 731 348
USA	3 372 236	3 548 052
UK	2 441 123	876 551
France	2 147 596	1 719 561
Canada	1 264 222	137 959
Australia	994 025	55 737
Netherlands	659 321	451 631
Sweden	436 375	27 243
Switzerland	418 210	-
Denmark	297 455	69 325
Norway	291 482	3 433 791
Austria	286 200	90 336
Finland	261 254	139 836
Other (15 countries)	176 691	3 062 659
Total	16 433 122	15 344 028

As at 31 December 2011, the Guarantee Fund's bond holdings comprised solely of government securities. As at 31 December 2010, the Fund also had holdings in Norwegian and foreign credit bonds (corporate bonds) and fixed income funds.

Bonds and commercial papers are held in the following currencies (amounts in NOK 1,000).

	2011	2010
Currency	**Market value**	**Market value**
EUR	6 741 310	6 238 696
USD	3 372 236	3 435 867
GBP	2 441 123	723 501
CAD	1 264 222	137 959
AUD	994 025	10 743
SEK	436 375	4 459
CHF	418 210	-
DKK	297 455	35 554
NOK	291 482	3 583 571
SGD	125 169	19 172
HKD	51 514	-
NZD	-	1 037 468
PLN	-	78 993
MXN	-	38 045
Total	16 433 122	15 344 028

Duration by sector and type of security

Debtor category	**2011**	**2010**
Government securities (public sector)	4,25	2,02
Bonds	4,30	2,93
Commercial papers	0,20	0,36
Other issuers *)	-	1,27
Bonds	-	1,27

*) Corporate sector

Duration is calculated for long positions in the bonds market and is weighted according to market value as at 31 December 2011. The term "duration" is used here for the adjusted maturity (no. of years) of a bond, with the time it takes for all the cash flows of the bond to be received. Duration is also calculated in the Fund for interest rate derivatives and short positions in the bonds market.

Bonds and commercial papers by issuer's creditworthiness as at 31 December 2011 (amounts in NOK 1,000)

Credit rating agency	**Market value**
S&P	
AAA	13 060 878
AA+ *)	3 372 244
Total	16 433 122
Moody	
Aaa	16 381 600
Aa1	51 522
Total	16 433 122
Fitch	
AAA	16 433 122
Total	16 433 122

*) USA was downgraded by S&P in August 2011.
The issuer's creditworthiness presented here is the local currency long-term credit rating as at 31 December 2011 (source: Bloomberg).

Note 4
Shares
(Amounts in NOK 1,000)
Summary

	2011		2010	
	Purchase price	**Market value**	**Purchase price**	**Market value**
Norwegian shares listed on Oslo Stock Exchange	81 691	68 086	44 616	48 649
Unlisted shares	366	366	12 705	366
Foreign shares listed on Oslo Stock Exchange	3 019	3 429	4 715	5 600
Foreign shares listed on foreign stock exchanges	5 201 893	5 614 571	4 540 855	5 103 616
Total	5 286 969	5 686 452	4 602 892	5 158 231

Amounts in NOK 1,000

In total, the market value/book value is NOK 399,483,115 higher than the purchase price of the shares.
As at 31 December 2011, the Fund had shareholdings in 394 shares issued by companies based in a total of 23 countries. The Fund had no shares in equity funds or combination funds. The Fund has a residual holding in two shares that are no longer listed. These shares have been written down, and no market value is available for these shares any longer.

Investments in shares are subject to the Fund's ethical guidelines (SRI – Social Responsible Investments). (See note 15 Risk management.)

The holding of shares represented 25 per cent of assets managed by the Guarantee Fund as at 31 December 2011 (Net Asset Value). Based on monthly measurements, the Guarantee Fund had on average 25.3 per cent of the managed assets invested in shares in 2011.

15 largest shareholdings of foreign shares listed on foreign stock exchanges (Amounts in NOK 1,000)

Company name/share	**Currency**	**Purchase price**	**Market value**
Pfizer	USD	93 047	116 200
Exxon Mobil	USD	83 069	100 115
International Business Machine	USD	62 807	87 578
China Mobile	HKD	79 309	83 168
Chevron	USD	64 232	82 085
McDonald's	USD	58 980	80 429
Microsoft	USD	76 996	78 825
Nestlè	CHF	68 241	75 719
Abbott Laboratories	USD	65 223	75 266
Johnson & Johnson	USD	66 836	71 192
Novartis	CHF	58 692	63 932
Starbucks	USD	40 481	60 134
Total	EUR	56 143	57 581
Vodafone	GBP	53 391	56 444
Pepsico	USD	51 204	56 284
Misc. (379 shares)	div	4 223 234	4 469 620
Totalt		5 201 883	5 614 571

Shareholdings by country (Amounts in NOK 1,000)

	2011	2010
Country	**Market value**	**Market value**
USA	2 926 500	2 346 542
UK	492 106	508 340
Switzerland	405 666	373 201
Japan	380 092	316 071
Germany	215 317	272 808
France	212 055	131 579
Canada	175 577	124 924
Hong Kong	163 567	107 249
Australia	144 873	82 863
Netherlands	112 986	17 905
Spain	100 243	135 775
Denmark	80 598	139 236
Sweden	69 979	147 527
Norway	68 094	48 656
Liberia	25 556	43 136
Belgium	21 666	45 816
Other (13 countries)	91 578	316 602
Total	5 686 452	5 158 231

Gross currency exposure on portfolios of foreign shares breaks down as follows (Amounts in NOK 1,000)

	2011	2010
Country	**Market value**	**Market value**
USD	3 133 552	2 612 910
EUR	640 494	795 651
GBP	530 128	409 522
JPY	380 092	316 071
CHF	294 946	257 242
HKD	183 228	152 711
AUD	144 873	82 863
CAD	136 567	124 924
SEK	90 092	160 702
DKK	80 598	139 236
SGD	-	33 211
ILS	-	18 575
Total	5 614 571	5 103 616

Note 5
Tangible fixed assets

	2011	2010	
	Inventory computer	Vehicles	Inventory computer
Purchase price 1 January	1 187 846	371 743	781 309
Purchases	120 843	0	406 537
Disposals	0	200 000	0
Loss on disposals	0	-46 000	0
Depreciation carried back	0	0	0
Purchase price 31 December	1 308 689	125 743	1 187 846
Accum. depreciation 01.01	792 614	125 743	781 309
Year's depreciation	109 328	0	11 305
Depreciation carried back		0	0
Accum. depreciation 31 December	901 942	125 743	792 614
Book value 31 December	406 747	0	395 232
Total tangible fixed assets	406 747	395 232	

The Guarantee Fund's fixed assets are depreciated on a linear basis at the following rates:

Furniture	20% of purchase price
Computer and other electronic equipment	1/3 of purchase price

Note 6
Other receivables
Summary

	31.12.2011	31.12.2010
Unsettled trades management	326 057 811	-
Dividend	7 932 917	5 906 317
Refundable withholding tax	-	2 359 572
Other receivables	189 002 227	-
Currency derivatives, market value	1 127 397	447 901 045
Share derivatives, market value	1 995 014	1 144 069
Interest rate derivatives, market value	20 229 153	8 311 562
Other receivables	8 240	-
Total	546 352 759	465 622 564

Unsettled trades management is quoted on a gross basis. Unsettled trades relate, in principle, to trades with a trading date in 2011 and settlement date in 2012. The Guarantee Fund had no open REPO contracts as at 31 December 2011.

Financial instruments (see also note 8)
The market value for most derivatives used by the Fund is calculated as unrealised gain/loss on the balance sheet date. Standard derivative contracts traded on the stock market are used, such as futures, or options and OTC (Over the Counter) derivative contracts traded on the stock market such as interest rate swaps, currency options or forward contracts. The Fund uses financial futures that are traded on the largest futures stock exchanges internationally (Euronext, CBOT, CME, LIFFE). Futures with underlying commodities are not used.

Currency derivatives (see also note 8)

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Currency options	1 120 403	1 127 397	2 620 560	891 367
Spot contracts	-	-	-	5 344
Forward contracts	-	-	-	447 004 334
Total	1 120 403	1 127 397	2 620 560	447 901 045

Currency options are seldom used, and at the end of the year only one currency option contract was registered. The purpose of investing in currency options is to achieve excess returns.

Share derivatives (see also note 8)

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Share index futures	-	1 995 014	-	1 144 069
Share index options	-	-	-	-
Total	-	1 995 014	-	1 144 069

Share derivatives are mainly used in the Fund to manage risk in relation to the benchmark. In order to achieve this, the share indexes (S&P, FTSE, TOPIX, DJ EURO STOXX) are used, which are rolled when due each quarter or traded as necessary. Share futures are also used to achieve excess returns.

Interest rate derivatives (see also note 8)

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Futures bond index/bonds	-	18 416 551	-	-
Futures interest rates *)	-	-	-	246 657
Options interest rates	-	-	4 673 410	1 648 654
Options bond index	-	-	7 018 658	2 526 474
Swaptions **)	3 165 436	1 812 602	2 088 556	2 004 418
Interest rate swaps	-	-	-	221 612
Bond forwards	-	-	-	1 663 747
Total	3 165 436	20 229 153	13 780 624	8 311 562

*) Short Term Interest Rate futures (STIR) are included in this category.
**) Swaption is an option to receive interest rate swaps on the due date.

More than 2/3 of the assets in the Fund are invested in the interest rate market in government securities. Using interest rate derivatives manages the risk relative to the benchmark. Interest rate derivatives are also used to take active positions with the aim of achieving excess returns. Options traded on the stock exchange are generally options with underlying interest rate futures (Short Term Interest Rate futures). OTC options in the category interest rate derivatives can be, for example, swaptions.

Other receivables

Category	Market value
Collateral received *)	181 589 033
Interest receivable	4 781 215
Dividend receivable	2 631 979
Total	189 002 227

*) Collateral received, i.e. received as security

Collateral (cash) is security received from a counter party to secure positive exposure that the Fund has against a counter party. Collateral is provided after a pre-defined exposure against the counter party has been exceeded. A standardised international agreement template (ISDA Master Agreement with Credit Support Annex) is used. Collateral is security in the event of one of the counter parties being unable to meet its financial obligations.

Note 7
Accrued interest not yet due

Accrued interest not yet due, NOK 214,363,760 at 31 December 2011, relates to Norwegian and foreign commercial papers and bonds.

Accrued interest not yet due breaks down into the following countries and issuers
Amounts in NOK

Country/issuer	31.12.2011
Germany	86 144 419
France	29 912 016
UK	24 984 607
USA	13 482 685
Netherlands	10 601 693
Australia	9 038 095
Sweden	8 407 332
Norway	7 360 808
Canada	6 091 122
Finland	5 581 501
Austria	5 019 934
Switzerland	4 843 698
Denmark	1 297 105
Singapore	1 280 648
Hong Kong	640 275
Belgium	75
Japan	(80 309)
Spain	(241 944)
	214 363 760

Negative accrued interest not yet due relates to either short positions or is settled and booked for certain types of contracts (interest rate derivatives).

Note 8
Other liabilities

	31.12.2011	31.12.2010
Unsettled trades management	178 480 023	30 831 875
Tax withholdings, employer's NI cont.	2 360 708	3 757 200
Bonus	1 500 000	2 800 000
Misc. other liabilities/accrued expenses	42 414 211	10 554 362
Interest rate derivatives	4 669 981	4 437 561
Currency derivatives	270 527 676	-
Short positions	109 303 157	-
Total	609 255 757	52 380 999

Unsettled trades management is quoted on a gross basis. Unsettled trades relate, in principle, to trades with a trading date in 2011 and settlement date in 2012. The Guarantee Fund had no open REPO contracts as at 31 December 2011.

Financial instruments (see also note 6)
The market value for most current derivative contracts used by the Fund is calculated as unrealised gain/loss on the balance sheet date.

Currency derivatives (see also note 6)

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Currency options	-	-	-	-
Spot contracts *)	-	1 128 422	-	-
Forward contracts	-	-271 656 099	-	-
Total	-	-270 527 676	-	-

*) Forward contract with settlement within 3 working days of the trading date.

Currency contracts by currency (Amounts in NOK 1,000)

	Nominal volume	Market value
EUR	8 256 796 502	133 655 015
DKK	377 328 967	5 554 103
CHF	776 426 719	3 319 479
CNY	59 825 566	2 264 707
NOK	736 433 870	1 702 639
HKD	242 739 381	1 075 277
CZK	16 254 760	694 259
PLN	16 644 943	453 493
ILS	99 820	1 348
SGD	163 326 729	-646 529
NZD	63 655 271	-802 264
SEK	716 843 391	-942 231
JPY	459 337 652	-3 405 923
GBP	3 202 487 666	-32 495 226
CAD	1 592 208 007	-42 719 551
AUD	1 402 373 230	-51 164 167
USD	15 348 498 714	-287 072 106
Total	33 431 281 189	-270 527 676

Forward currency agreements (FX Forwards/FX Swaps) are used for currency hedging securities and other financial instruments that the Fund invests in. These contracts have short to medium terms of maturity. Spot contracts with a maturity of 1 to 4 days are also used. Since currency hedging is applied to the trading portfolio, it is not possible to determine in advance how many days or weeks the holding will remain unchanged. The currency exposure is regularly calculated in each portfolio and where this exceeds the set framework for each individual currency exposure, currency contracts are entered into to reduce the currency exposure for the individual currency below an acceptable (permitted) limit. Forward exchange contracts are also used for the purpose of achieving excess returns. All of the forward exchange contracts are booked at market value and the unrealised result/value of contracts is part of the Fund's daily value. In the Fund, the size of the currency contracts' nominal market value (market value of underlying basis that is used to calculate the contract's value, i.e. unrealised profit/loss) and the unrealised profit/loss per counter party are reported regularly.

Interest rate derivatives (see also note 6)

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Futures bond index/bonds	-	-	-	-4 437 561
Futures interest rates *)	-	-243 922	-	-
Options interest rates	-	-	-	-
Options bond index	-	-	-	-
Swaptions **)	-	-	-	-
Interest rate swaps	-	-266 847	-	-
Bond forwards	-	-4 159 211		
Total	-	-4 669 981	-	-4 437 561

*) Short Term Interest Rate futures (STIR) are included in this category.
**) Swaption is an option to receive interest rate swaps on the due date.

More than 2/3 of the assets in the Fund are invested in the interest rate market in government securities. Interest rate derivatives are used to manage the risk in the portfolios. Interest rate derivatives are also used to take active positions with the aim of achieving excess returns. There are restrictions for each individual mandate in relation to what types of derivatives can be used.

Short positions

	2011		2010	
Derivative category	**Purchase price**	**Market value**	**Purchase price**	**Market value**
Shares	-	-72 054	-	0
Bonds	-	-109 231 104	-	0
Total	-	-109 303 157	-	0

Short selling is used in the Guarantee Fund to a limited degree and its use can vary. There are both share and bond mandates that make use of short selling.

Misc. other liabilities/accrued expenses

Kategori	**Market value**
Collateral provided *)	-32 984 796
Miscellaneous other liabilities/acc. exp.	-9 429 416
Total	-42 414 211

*) Collateral pledged, i.e. given to a counter party as security. See also note 6.

Note 9
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. Full pension requires an earnings period of 30 years and gives pension rights equivalent to the difference between 70 per cent of salary and the benefits paid under the Norwegian National Insurance Scheme. The pension scheme is in compliance with the Mandatory Occupational Pensions Act. This agreement is referred to in the following as secured benefits. The retirement age is 67.

Pension rights for salaries over 12 G (G = the National Insurance basic amount) are funded from the operations of the Guarantee Fund in the case of retirement pension, children's pension and surviving spouse's pension. Disability pension for salaries 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 consist of the following:
- Pension commitments (except disability pensions) relating to salaries over 12 G are covered under a pension scheme funded from operations.
- The Guarantee Fund is covered by a new CPA scheme in the private sector and has a financial commitment relating to this scheme. The scope of this commitment is unknown, and as required by generally accepted accounting practice is recorded in the accounts as a defined contribution pension scheme. (For further comments, see below.)
- Current pensions – agreed take-up of CPA early retirement under the old scheme and early retirement pension for a former head of department.
- Agreed early retirement pension from age 62 for the Investment Manager.
- At the time of uptake of early retirement pension the employee will be withdrawn from the company pension scheme but will be compensated for all reductions in earnings up until he or she reaches the ordinary retirement age. Compensation for loss in the group pension scheme is included as an unsecured commitment.
- Supplementary pensions for retired personnel. These benefits are only covered in part by the group pension agreement and the commitments relating to the unsecured benefits are included in the pension commitment.

The actuarial calculation is based on Norwegian accounting standard 6: Pension costs. Calculation of the secured pension commitment takes place on the exact date of employment and encompasses all employees with pension rights through membership of the existing group pension agreement. The pension commitment is calculated as the present value of the part of the aggregate estimated future pension benefits that have been earned as at the balance sheet date based on defined economic and demographic assumptions (see the table below). An estimated value is used in the valuation of pension fund assets.

As at 31 December 2011, the defined benefit pension scheme is over-financed. Net capital is classified as an asset in the balance sheet, while commitments relating to unsecured schemes are recorded as a liability in the balance sheet. Changes in the pension commitment and pension fund assets deriving from changes in the underlying assumptions and other actuarial variances are recognised in the profit and loss account over the average expected remaining period of service for active personnel insofar as the variance exceeds the higher of 10 per cent of the pension fund assets and 10 per cent of the pension commitments. The actuarial variances also include conditions relating to the withdrawal of members upon retirement.

Pension costs and commitments include employer's National Insurance contributions.

The new CPA Early Retirement Subsidy Act entered into force in 2010. The commitment under this Act is not recorded in the balance sheet. Instead, the current financial contributions to the scheme are recognised in the profit and loss account as a defined contribution scheme. A working group appointed by the Ministry of Finance has assessed the accounting of the new CPA scheme. The group has provisionally concluded that the current CPA premium is recorded in the profit and loss account and that the commitment is not recognised in the balance sheet. As at 31 December 2011, the individual enterprises do not have the information needed to calculate this commitment. In practice, only Fellesordningen (the joint arrangement) for the CPA would have the data necessary to perform a calculation of the commitment.

The CPA commitment according to the old scheme was carried-back as at 1 January 2010 with a net income effect of approximately NOK 810,000. The cost for 2011 is not, therefore, comparable with 2010.

Pension costs, pension commitments and pension fund assets

	2011	2010		2011	2010
Discount rate	2,60 %	4,00 %			
Expected return	4,10 %	5,40 %			
Expected wage growth	3,50 %	4,00 %			
Expected adjustment of G value	3,25 %	3,75 %	No. economically active	15	14
Expected reg. of pensions	0,10 %	1,30 %	No. of retired personnel	7	7

Pension cost		**2011**			**2010**	
Profit and loss account	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Present value of year's pension earnings (incl. employer's cont.)	2 137 471	701 364	2 838 835	2 261 178	896 857	3 158 035
Interest expense on accrued commitment	867 531	402 397	1 269 928	1 036 884	521 380	1 558 264
Expected return on pension fund assets	(1 280 630)	-	(1 280 630)	(1 418 213)	-	(1 418 213)
Pension cost before actuarial variances	1 724 372	1 103 761	2 828 133	1 879 849	1 418 237	3 298 086
Amortisation of estimate variances	-	(18 504)	(18 504)	-		-
Pension costs refunded from operation, corrected		-	-	-	(21 735)	(21 735)
Administration costs	212 127	-	212 127	224 544	-	224 544
Total	1 936 499	1 085 257	3 021 756	2 104 393	1 396 502	3 500 895
Accrued pension premium carried back			0	(25 000)	-	(25 000)
CPA commit. carried back Old scheme		0	0		(896 610)	(896 610)
Share of actuarial variances CPA		-	-		86 641	86 641
Net pension cost recorded in P&L account in period	1 936 499	1 085 257	3 021 756	2 079 393	586 533	2 665 926
Premium, Fellesordningen for CPA		36 550	36 550			
Risk cover disability pension salary over 12G		25 122	25 122		21 298	21 298
Total pension cost and risk premium	1 936 499	1 146 929	3 083 428	2 079 393	607 831	2 687 224

Pension commitment		**2011**			**2010**	
Balance sheet	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Estimated accrued pension commitment (incl. employer's cont.)	25 764 316	10 907 604	36 671 920	22 850 329	10 528 687	33 379 016
Estimated value of pension fund assets	(24 493 900)	0	(24 493 900)	(23 051 900)	-	(23 051 900)
Net pension commitments	1 270 416	10 907 604	12 178 020	(201 571)	10 528 687	10 327 116
Actuarial variance not recorded in P&L account	-1 488 433	1 099 248	(389 185)	1 038 066	1 330 435	2 368 501
Net pension assets (-) and commitments	(218 017)	12 006 852	11 788 835	836 495	11 859 122	12 695 617
Book fund assets (net over-financing)	(218 017)					
Book liabilities		12 006 852				12 695 617

Year's change in pension commitments

Pension commitments	2011	2010
Opening balance at 1 January	33 379 016	38 554 049
Year's earnings	2 838 835	3 158 035
Year's interest expense	1 269 928	1 558 264
Payments to retirees and payment of employer's contribution on premium	(2 389 474)	(2 182 583)
Aktuarielle avvik	1 573 615	(6 812 139)
Carry-back, previous CPA commitment	-	(896 610)
Closing balance at 31 December	36 671 920	33 379 016

Composition of pension fund assets

Pension fund assets	2011	2010
Estimated pension fund assets at 1 January	23 051 900	24 608 000
Actuarial variances	(1 165 567)	(4 408 776)
Pension assets at 1 January less actuarial variances	21 886 333	20 199 224
Expected return on pension fund assets	1 280 630	1 418 213
Premiums paid	2 621 394	2 547 584
Pensions paid out	(1 082 330)	(888 577)
Admin. expenses group scheme	(212 127)	(224 544)
Estimated pension fund assets at 31 December	24 493 900	23 051 900
Actual gross return, fund assets 2010	-	1 066 257

Note 10
Membership fees

The guarantee fee for 2011 was 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. The guarantee fee is calculated on the basis of the average of guaranteed deposits (0.1 per cent) and the measurement basis for capital ratio (0.05 per cent) as at the end of the third and fourth quarter 2009 and first and second quarter 2010. Members with a tier 1 capital ratio in excess of 8.0 per cent as at 31 December 2009 are granted a discount on their annual fee. The maximum discount is 35 per cent for a tier 1 capital ratio of 16.75 per cent. Topping-up members pay only for guaranteed deposits.

Member banks were not charged a guarantee fee in 2011. The fee would otherwise have been charged and entered as income in November 2011.

Note 11
Result portfolios of fixed income securities

	2011	2010
Interest income bonds/commercial papers	421 400 972	385 418 173
Dividend fund	34 220	-2 858 439
Realised gains/losses (*)	249 932 011	664 873 534
Unrealised gains/losses (**)	325 894 315	-177 053 073
	997 261 518	870 380 195

(*) Specification of book realised gains/losses in the accounts

	2011	2010
Bonds/commercial papers	31 743 200	432 229 041
Interest rate and share derivativesr		
*** Financial futures**		
- Interest rates	-26 752 320	72 859 072
- Share index	20 628 569	9 092 972
- Bond index	15 572 783	-20 430
* Options		
- Interest rates	309 788	-15 343 005
- Bonds	-1 901 209	-3 650 860
- Share index	14 666 610	203 180
- Swaption	912 056	41 107
* Interest rate swaps	18 448 325	-19 340 344
* Bond forwards	422 260	742 754
Currency derivatives		
* Call options	1 763 426	-2 668 662
* Put options	-7 844 111	2 177 443
* Forward contracts	694 320 633	361 587 605
Currency fluctuation effect*)	-508 189 388	-149 612 811
Miscellaneous **)	4 630 416	-10 566 169
Costs *)**	-8 799 030	-12 857 359
	249 932 008	664 873 534

*) All holdings excl. currency forward contracts
**) Stock loan income
***) Miscellaneous charges and expenses (custody, futures fees)

The currency fluctuation effect is the sum of the part of both realised and unrealised gains/losses that are attributed to changes in the currency exchange rate. With regard to financial instruments that are not issued in NOK, part of the result will always be derived from the change in the currency exchange rate.

(**) Specification of book unrealised gains/losses in the accounts

	2011	2010
Bonds/commercial papers	314 502 989	-216 848 037
Interest rate and share derivatives		
*** Financial futures**		
- Interest rates	-490 579	24 645 885
- Share index	-3 025 059	13 694 340
- Bond index	18 620 224	-560 561
* Options		
- Interest rates	1 330 360	-3 703 931
- Bonds	1 201 871	-1 358 701
- Swaptions	-1 269 512	-302 004
- Share index	4 361 288	
* Interest rate swaps	-3 869 174	3 544 231
* Bond forwards	-309 878	-139 608
Currency derivatives		
* Call options	1 902 689	-1 708 272
* Put options	955 548	-3 431 361
* Forward contracts	-678 311 960	241 253 202
Miscellaneous	0	4 756 973
Currency fluctuation effect*)	670 295 510	-236 895 229
	325 894 315	-177 053 073

*) All holdings excl. currency forward contracts

Note 12
Result, share portfolios

	2011	2010
Share dividends	134 780 492	109 176 766
Realised gains/losses (*)	-4 707 696	273 783 972
Unrealised gains/losses (**)	-200 939 476	431 413 266
	-70 866 680	814 374 005

(*) Specification of book realised gains/losses in the accounts

	2011	2010
Shares	172 624 511	149 602 283
Short sales	85 603 795	4 782 956
Share derivatives		
* Financial futures	-20 864 795	51 848 931
Currency derivatives		
* Forward contracts	-82 849 520	-65 604 419
Currency fluctuation effect*)	-158 419 590	129 611 818
Miscellaneous)**	3 122 981	7 490 169
Costs *)**	-3 925 079	-3 947 766
	-4 707 696	273 783 972

*) All holdings excl. currency forward contracts
**) Stock loan income
***) Miscellaneous charges and expenses (custody, futures fees)

The currency fluctuation effect is the sum of the part of both realised and unrealised gains/losses that are attributed to changes in the currency exchange rate. With regard to financial instruments that are not issued in NOK, part of the result will always be derived from the change in the currency exchange rate. Norwegian shares issued in NOK will not have currency fluctuation effects.

(**) Specification of book unrealised gains/losses in the accountst

	2011	2010
Shares	-497 057 001	448 069 745
Short sales	33 590	1 875 541
Share derivatives		
* Financial futures	3 876 003	-5 651 202
Currency derivatives		
* Forward contracts	-38 930 148	49 880 386
Currency fluctuation effect*)	331 138 081	-62 761 204
	-200 939 476	431 413 266

*) All holdings excl. currency forward contracts

Note 13
Other operating revenues

	2011	2010
Claims, compensation as per group lawsuit	485 162	283 918
Norion Bank, residual payment from bankruptcy estate	0	57 459
Net income, Ålesund og Giske Tunnel og Bruselskap	0	884 214
Net income from courses	150 522	219 662
	635 684	1 445 253

Note 14
Other operating expenses

	2011	2010
Salaries, fees and payroll costs	18 611 635	20 399 361
Administration and operating costs	16 876 117	22 517 374
Costs external asset managers	21 391 937	53 237 151
Ordinary depreciation	109 328	11 305
	56 989 017	96 165 191

Details of employees and representatives

No. of employees as at 31 December 2011: 15			2011	2010
Salaries, fees in total			12 075 204	12 227 155
of which paid in 2011:	Chairman	31 000		
	Other Board members	111 000		
	Manager	197 004		
Variable remuneration, asset managementn			1 500 000	2 800 000
National Insurance contributions			2 260 539	2 824 855
Pension costs			2 561 405	2 155 626
Payroll costs			214 486	391 724
			18 611 635	20 399 360

The main principles for the remuneration system in the Norwegian Banks' Guarantee Fund:
The special rules on remuneration that are outlined only apply to employees in asset management. Other leading personnel, or employees with control duties do not have variable remuneration and are not, therefore, included in this remuneration system. The variable remuneration is determined and distributed based in part on a mathematical model based on the preceding year's achieved excess return (adjusted for risk) for the internal asset management, and partly based on fulfilment of the individual discretionary criteria. The main changes in the model from 2010 relate to the adaptation of the requirements in the regulations on remuneration (which the Board has decided the Fund will comply with as long as this is appropriate). This particularly applies to the 2-year requirement on earnings and the requirement for a 50 per cent distribution of the remuneration where the other 50 per cent is made contingent with a payment period spread over three years. This part is adjusted according to the percentual return in the Fund. In the event of a negative return, this part is reduced, while it is increased for a positive return. For 2011, 100 per cent of the commitment has been set aside.

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.

Transactions with close associates
We consider FNO to be a close associate since Arne Hyttnes is the Manager in the Guarantee Fund and Managing Director in FNO. The Guarantee Fund buys services in the form of property rental, accounting services and other administrative services from FNO.

The company's transactions with close associates:	2011
Salary, Manager:	197 004
Agreement on assistance with FNO	3 937 500
Property rental, accounts, salaries and similar.	2 786 449
Total	6 920 953

Auditor's fee etc.	2011	2010
Statutory audit incl. VAT	257 125	203 621
Tax consultancy services incl. VAT	114 726	469 379
Total	371 851	673 000

Note 15
Risk management
Overarching guidelines for the investment strategy
Pursuant to the statutes, the Board of Directors determines the strategy and guidelines for the management of the Guarantee Fund's assets based on the intention of satisfactory management, good return, necessary liquidity and ethical management.

The Fund holds a varied portfolio of securities. The aim is to diversify the Fund's 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.

Investment strategy
The Board has chosen to break down the capital into 3 asset categories: Government bonds with a weight in index of 74.5 per cent, global shares with a weight in index of 25 per cent and tactical asset allocation with a weight in index of 0.5 per cent. The content of the index for the former and latter categories is the same, which means that the weight of government bonds in reality is 75 per cent of the index.

The government bonds index is made up of highly rated government bonds and is provided by Barclays. It is customised for the Fund based on GDP weights as well as fundamental and liquidity screening of countries and securities. The share index is based on MSCI World, where banking sectors are excluded and where companies based on SRI considerations are also excluded. Both indexes are 100 per cent hedged to NOK.

The mandate for operationalisation of the investment strategy with the associated frameworks is delegated to the Manager, who in turn has delegated it to the Investment Manager. The authority is valid for one year at a time.

Mandates
The number of mandates was reduced considerably in 2011, and totals 6 at the end of 2011. The internal asset management has responsibility for the overall mandate structure, and has concentrated its own management on 2 mandates; the tactical allocation and global shares. The external asset management is currently made up of two global government bond mandates (Wellington and Aviva) and two global share mandates (Storebrand and Nordea).

No investments are made in funds or investment companies. The liquidity and transparency requirements make such investments unsuitable.

Risk limits
Risk limits are determined by the Board of Directors. There are three levels of risk: Risk limits at portfolio level, risk limits at fund level and risk limits at index level. The Board of Directors determines maximum limits for the different levels and many complementary risk limits are defined with a view to reducing the concentration of various types of market risk, such as risks associated with credit, currency, interest rates, counter parties, shares, countries and liquidity. Limits are also set for absolute risk (VaR) and active risk (TE). Responsibility for exploitation of the risk limits in the respective levels lies with the Portfolio Manager, Investment Manager and Board of Directors respectively. Exploitation of risk limits is measured on a daily basis, and is monitored by Mid-office/the Controller.

Operational risk
Large parts of the Fund's activity is outsourced to external suppliers with operations abroad. Recognised suppliers of services related to investment support are used. A system of controls and routines has been established in order to ensure effective controls that help reduce the operational risk. The Fund's department for asset management is controlled by Mid-office/the Controller, which is subordinate to the Department of Analysis.

All risk limits are incorporated into the Compliance System both locally with external asset managers and centrally with BNYM. These limits are subject to daily monitoring both locally and centrally. Follow-up of violations of limits and periodic reporting to the administration and the Board of Directors is carried out by Mid-office/the Controller centrally. The Controller obtains independent opinions from external auditors on routines and control activities (SAS70 and RS402).

In 2011, BNYM took over the independent control and reporting role that was previously carried out by JPM/Storebrand. At the same time Bloomberg AIM was implemented as the front office system for the internal asset management. Bloomberg AIM will in full-scale implementation also contain data on all holdings related to external portfolios, which will enable consolidation and analyses at various levels. BNYM is responsible for the daily reporting, which includes accounts, compliance, risk and return on investment. The various managers forward their transaction data electronically to BNYM, which compiles and reports in a consolidated format. The managers and BNYM price securities independently, and these values are reconciled on a monthly basis. BNYM also reconciles all bank and custodian accounts.

Risk management and performance measurement
Risk management is performed at all aforementioned levels. The Portfolio Manager is the central decision-maker at portfolio level, while the Investment Manager allocates and concludes mandates and thereby has overall responsibility for the active management, both risk and performance. A uniform stop loss rule is practised at portfolio level tied up to the relative loss, measured since start-up. The aim is to limit the potential for loss in individual portfolios.

Measurement of the performance of the managers is based on developments in central key figures. Developments over time are viewed in relation to the applicable indexes. Five key figures in particular are emphasised: Information Ratio (IR), skewness, consistency, liability score and the excess return contribution. IR is a measure of the performance of excess return relative to active risk (TE). The Fund's target IR is 0.25 or higher. Skewness measures whether a manager is exhibiting positive skewness in the distribution of the excess return over time. Consistency measures the frequency of value creation in the form of the number of months of positive excess return relative to the total number of months. In the interest of maintaining stability in the value creation, this measurement should exceed 50 per cent. Liability score measures the correlation between the excess return and credit premium in the banking sector, where the excess return should be uncorrelated or positively correlated with the credit premium in the banking sector. In the excess return contribution, the excess return is measured relative to the available risk limit, where the ability of the manager to exploit this effectively is emphasised. These five key figures are weighted to create a total score, which in turn provides the basis for the rating of the manager, from A to D, A being the highest rating. Over time, the rating will determine whether the mandate is maintained, the goal being B or higher. Various attribution and factor analyses are also used to evaluate value creation over time. The aim is to determine whether risk-taking is balanced, i.e. that particular factors are not over-emphasised.

Ethical management
The Guarantee Fund is not permitted to make investments where there is an unacceptable risk that the Fund might become party to unethical actions or omissions that contravene fundamental human rights or humanitarian principles or lead to gross corruption or environmental destruction. These principles are rooted in 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 Fund does not publish the identities of the companies in question.

Liquidity risk
The Guarantee Fund has a requirement for liquidity in securities holdings in accordance with the purpose of the Fund. Liquidity in share and securities holdings is measured and evaluated on a monthly basis for each holding, each portfolio and for the Fund as a whole. Liquidity frameworks have been determined based on the degree of negotiability.
The proportion of cash and liquid resources is monitored on a daily basis and the Fund uses reporting that shows future cash flows. The Guarantee Fund has an uncommitted secured credit facility with BNYM of USD 1,000,000,000, where drawings are secured against the Fund's securities.

Foreign currency risk
The majority of the Fund's securities holdings are denominated and traded in foreign currency. There is therefore a foreign currency risk. Foreign currency risk is defined as the risk that fluctuations in exchange rates can result in depreciation and loss.

The Fund's portfolios are defined as trading portfolios. The Fund's benchmark is hedged 100 per cent against NOK. The individual mandates have limits that restrict the exposure to individual currencies. Forward exchange contracts and swaps are used to adjust the risk.

The index is based on 100 per cent hedging to NOK. The currency hedging practise in the portfolios differs for interest rate portfolios and share portfolios. For the former group, currency is a source of the degree of excess return of currency hedging, which is a product of activ

Exposure to all foreign currency is calculated, monitored and controlled on a daily basis.

Counter party risk
The Fund includes derivative contracts with foreign counter parties and these carry a counter party risk. The Fund has entered into standardised international agreements with its counter parties, including supplementary agreements on collateral (ISDA Master Agreement with Credit Support Annex). For example, when a pre-defined exposure limit against a counter party has been exceeded, collateral is required. This collateral is normally provided in the form of cash.

The Fund regularly monitors the credit rating/creditworthiness of its counter parties and data from short and long-term credit appraisals published by the large credit appraisal agencies (S&P, Moody, Fitch) are used. The extent of exposure relative to a counter party for derivative contracts is monitored and reported on a regular basis.

Securities lending
The Fund has entered into an agreement with BNYM for securities lending, with BNYM as the agent. The lending requires adequate collateral in the form of cash. Collateral received for securities lending is reinvested in short-term government fixed income securities in order to minimise gearing of the portfolio.

Taxation/withholding tax
The Guarantee Fund is exempt from taxation in Norway, but pays withholding tax on its investments abroad. The Fund's tax status in Norway means that it is not automatically covered by the tax agreements Norway have with individual countries. This means that the Fund has to use resources on mapping and clarifying the tax position in a number of countries.

The Guarantee Fund is aware of the provision in EU law which stipulates that where a state imposes withholding tax on a dividend paid to a foreign shareholder, this foreign shareholder will be in a position that is comparable to that of shareholders liable for domestic tax. This means that if the source country tax exempts domestic corporate shareholders from tax on dividends through an exemption method, the said exemption must also cover foreign corporate shareholders who receive dividends from domestic companies, regardless of how they are taxed in their homeland. It is important for the Guarantee Fund to improve the tax position in the countries where it feels discriminated against and that it considers on an ongoing basis whether requests for compensation should be prioritised where it is believed the Fund is unlawfully treated.

Cash flow statement

	2011	2010
Profit for the year	875 293 636	3 273 263 793
Loss on sale of tangible fixed assets	0	46 000
Ordinary depreciation	109 328	11 305
Contributed from year's activities	875 402 964	3 273 321 098
Investment in tangible fixed assets	-120 843	-406 537
Sale of tangible fixed assets	0	200 000
Reduction (+)/increase (-) in holding of bonds and commercial papers	-1 089 093 430	-1 925 308 208
Increase (-)/reduction (+) in shareholdings	-528 221 058	-545 773 521
Reduction (+)/increase (-) in accrued interest not yet due	-78 101 116	-275 832
Reduction (+)/increase (-) in other receivables	-80 730 194	-293 157 458
Reduction in provision for commitments	-906 782	-1 153 929
Reduction (-)/increase (+) in other liabilities	556 874 758	-85 028 695
Net change in cash	-344 895 701	422 416 918
Cash balance at 1 January	884 485 067	462 068 149
Cash balance at 31 December	539 589 366	884 485 067

Cash balance encompasses bank deposits and cash.

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To the Annual Shareholders' Meeting of Bankenes sikringsfond

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Bankenes sikringsfond, which comprise the balance sheet as at 31 December 2011, and the income statement, showing a profit of NOK 875 293 636 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Bankenes sikringsfond as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 1 March 2012
PricewaterhouseCoopers AS

Geir Julsvoll
State Authorised Public Accountant (Norway)

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

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Key terms used in asset management

Time-weighted return is considered to be the ideal method of calculating return. The method is used to eliminate the effects of payments to and by the portfolio and allows returns to be compared across portfolios, portfolio managers and/or reference indexes. Time-weighted return is calculated by dividing up the calculation period into sub-periods, with each sub-period constituting the interval between two cash flows. The return for the individual sub-period is determined by dividing the closing value of the portfolio by the opening value of the sub-period. The return for the reporting period as a whole is determined by linking the rates of return for the individual sub-periods. The advantage of time-weighted returns is that the method gives the same outcome even if the cash flows differ widely in terms of size.

Value at Risk (VaR) and standard deviation are both measures of risk that describe the risk profile in portfolios or indexes. Standard deviation measures the 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 that indicates the area under the curve that is not assessed as VaR. A 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 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 risk measure indicating 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 and measures the 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 the excess return relative to the index against which it is measured (its benchmark), expressed in NOK 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 greater than zero. Risk is consequently rewarded. When it is greater than the index, the effect of the active asset management has been positive.

Consistency is a measure of the performance of a portfolio where the number of months with an 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.

Skewness is a measure of the performance of a portfolio and measures the asymmetry in the distribution of alpha in order to show an asset manager's ability to protect the downside. The distribution of alpha should be greater on the upside than on the downside and thus the measure should be higher than 0.

Liability score is a measure of the performance of a portfolio and measures the correlation between the excess return and the credit premium in the European banking sector. The development in this credit premium has been chosen as a proxy for the liability of the Fund, whereby when the premium rises, this implies that the risk for disbursement rises, and vice versa. The correlation should be lower than 0.1, which implies that the excess return has been independent of the credit premium or negatively correlated.

Duration is a measure of duration and expresses the effective maturity of fixed income securities 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.

Bodies of the Guarantee Fund

Organisation
Following elections at the General Meeting on 24 March 2011 and the election of the Chairman and Deputy Chairman at the subsequent Board meeting on 9 June 2011, the structure of the Board was as follows:

- Finn Haugan, CEO Sparebank 1 SMN, Chairman (up for election in 2013)
- Ottar Ertzeid, Group Executive Vice President DNB Bank ASA, Deputy Chairman (up for election in 2012)
- Gunn Wærsted, CEO Nordea Bank Norge ASA (up for election in 2013)
- Kate Henriksen, Divisional Director, Sparebanken Vest (up for election in 2013)
- Geir-Tore Nielsen, Managing Director, Lillestrøm Sparebank (resigned on 3 October 2011)

Publicly-appointed Board members:

- Kristin Gulbrandsen, Executive Director Norges Bank
- Bjørn Skogstad Aamo, Director General, Finanstilsynet (replaced by Morten Baltzersen on 6 September 2011), Finanstilsynet

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

The following were elected as deputy members (listed in numerical order):

1. Oddstein Haugen, CEO Luster Sparebank (up for election in 2013)
2. Jan-Frode Janson, Deputy CEO Fokus Bank (up for election in 2012)
3. Odd Nodli, Manager Aurskog Sparebank (up for election in 2012)
4. Lisbet K. Nærø, Managing Director, BN Bank ASA (resigned on 31 August 2011)
5. Harald Gaupen, CEO SpareBank 1 Buskerud Vestfold (up for election in 2013)

Deputy member no. 1 is convened to all Board meetings.

The Board also includes the following publicly-appointed deputy members:

- Arild J. Lund, Director Norges Bank
- Emil Steffensen, Deputy Director General Finanstilsynet (replaced by Erik Lind Iversen on 6 September 2011), Finanstilsynet

The General Meeting elected the following Nominating Committee:

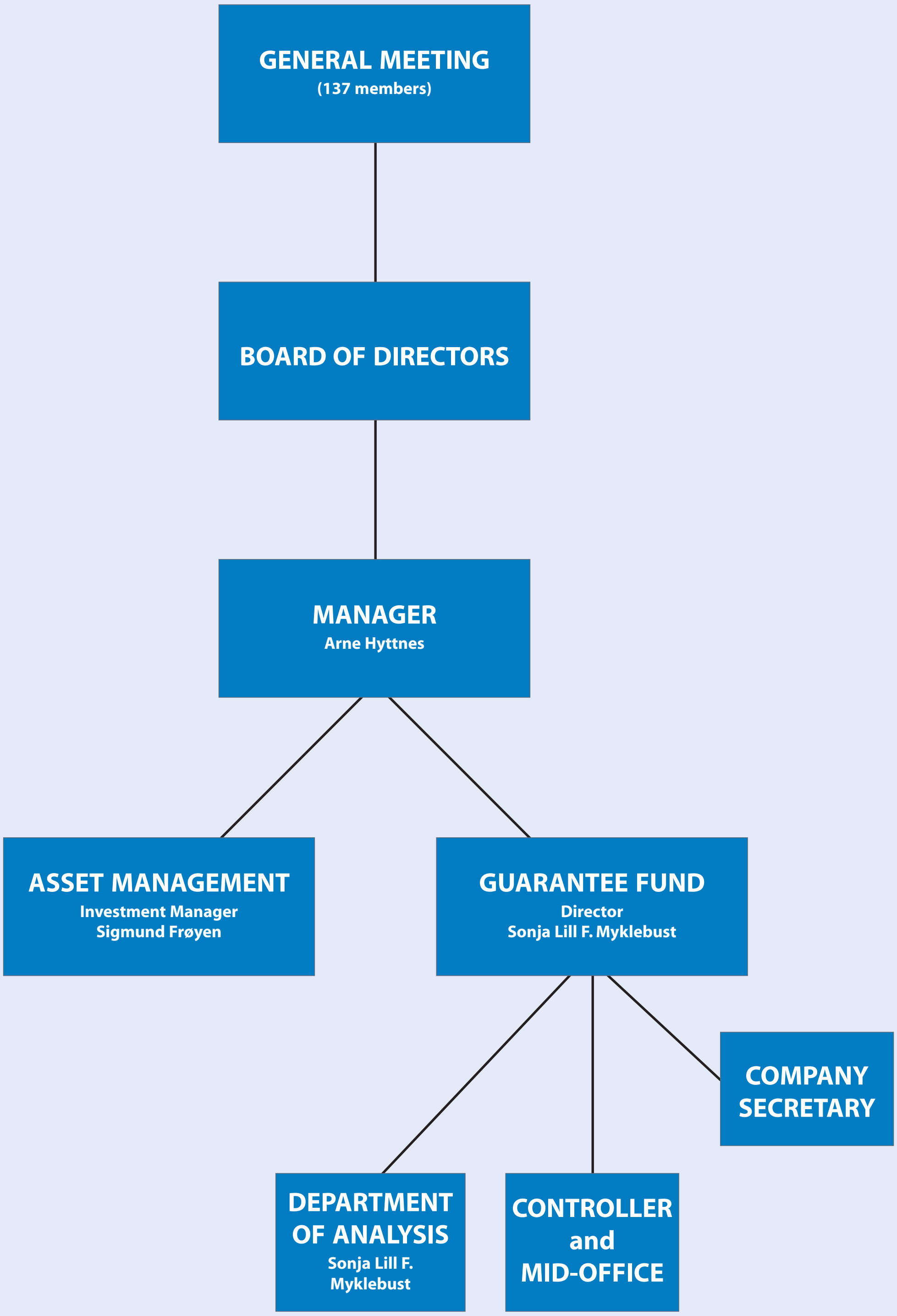
- Geir Bergvoll, Head of Mergers and Acquisitions DNB Bank ASA, Chairman (up for election in 2013)
- Trond Mellingsæter, CEO Fokus Bank (up for election in 2012)
- Raimond Pettersen, CEO Bank2 ASA (resigned on 7 October 2011)
- Øivind Gaarder, Managing Director Jernbanepersonalets Sparebank (up for election in 2012)
- Knut Grinde Jacobsen, Managing Director Haugesund Sparebank (up for election in 2013)

Arne Hyttnes, Managing Director of Finance Norway, is the manager of the Guarantee Fund.

Investment Manager Sigmund Frøyen heads the Asset Management Department, which has six employees. Director Sonja Lill Flø Myklebust heads the Department of Analysis, which has nine employees including the Controller/Mid-office.

In addition, the Norwegian Banks' Guarantee Fund draws on the resources of Finance Norway if its workload so dictates.

Organisation plan as at 1 January 2012



The Guarantee Fund also uses resources from Finance Norway as needed.

Members of the Norwegian Banks' Guarantee Fund as at 1 January 2012

Members with head office in Norway

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

B
Bamble og Langesund Sparebank
Bank Norwegian AS
Bank 1 Oslo 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 Bank ASA
Drangedal og Tørdal Sparebank

E
Eidsberg Sparebank
Etne Sparebank
Etnedal Sparebank
Evje og Hornnes Sparebank

F
Fana Sparebank
Flekkefjord Sparebank
Fornebu Sparebank

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

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

I
Indre Sogn Sparebank

J
Jernbanepersonalets Sparebank

K
Klepp Sparebank
KLP Banken AS
Klæbu Sparebank
Kragerø 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

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

O
OBOS
Odal Sparebank
Ofoten Sparebank
Opdals Sparebank
Orkdal Sparebank

P
Pareto Bank ASA

R
Rindal Sparebank
Rørosbanken Røros Sparebank

S
Sandnes Sparebank
Santander Consumer Bank AS
SEB Privatbanken ASA
Selbu Sparebank
Seljord Sparebank
Skudenes & Aakra Sparebank
Soknedal Sparebank
SpareBank 1 Buskerud – Vestfold
SpareBank 1 Gudbrandsdal
SpareBank 1 Hallingdal
SpareBank 1 Modum
SpareBank 1 Nord-Norge
SpareBank 1 NordVest
SpareBank 1 Nøtterøy-Tønsberg
SpareBank 1 Ringerike Hadeland
SpareBank 1 SMN
SpareBank 1 SR-Bank
SpareBank 1 Søre Sunnmøre
SpareBank 1 Telemark
SpareBank 1 Østfold Akershus
Sparebanken Hedmark
Sparebanken Hemne
Sparebanken Møre
Sparebanken Narvik
Sparebanken Pluss
Sparebanken Sogn og Fjordane
Sparebanken Sør
Sparebanken Vest
Sparebanken Øst
Spareskillingsbanken
Spydeberg Sparebank
Stadsbygd Sparebank
Storebrand Bank ASA
Strømmen Sparebank
Sunndal Sparebank
Surnadal Sparebank
Søgne og Greipstad Sparebank

T
Terra Kortbank AS
Time 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 members
(cf. Section 2-2 of the Act)
Fokus Bank, Norwegian branch of Danske Bank
Handelsbanken AB, NUF in Norway
Nordnet Bank, branch of Nordnet Bank AB
SkandiaBanken AB, NUF in Norway
Swedbank Norway, branch of Swedbank AB
BlueStep Finans AB, Oslo branch

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 Finanstilsynet 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 Finanstilsynet.

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 Finanstilsynet (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 extra-ordinary 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 under takings,
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 1business 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 Finanstilsynet, provide a guarantee or assume other commitments in connection with a deposit guarantee or support measure which in aggregate amount to more than twice the Fund's minimum capital pursuant to section 4.

Chapter V Annual report and accounts

Section 20 Annual report

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

Section 21 Accounts

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

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

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

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

Chapter VI Changes to the statutes etc.

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.

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N-0202 Oslo

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www.bankenessikringsfond.no

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MacCompaniet as, Oslo