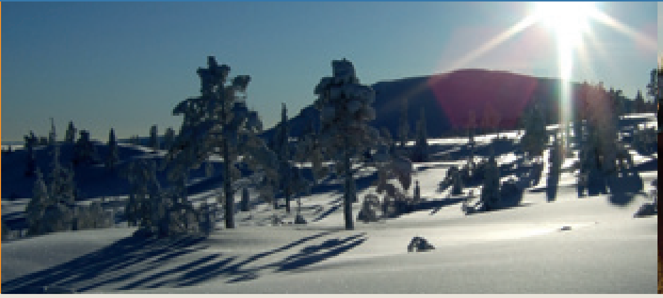
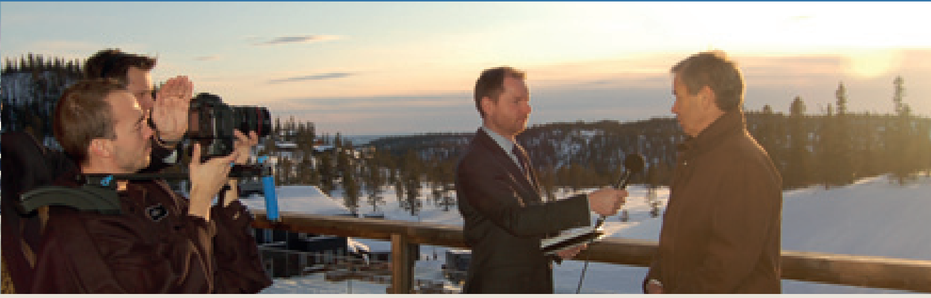
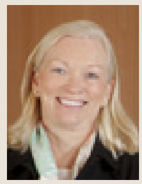
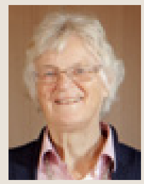
Annual Report of the Executive Board 2012





Norges Bank's Executive Board

The Executive Board supervises the executive and advisory activities of the Bank and comprises seven members, all appointed by the King-in-Council. Two employee representatives attend meetings when the Executive Board deals with administrative matters.

Øystein Olsen	Appointed governor of Norges Bank as from 1 January 2011 for a term of six years. Postgraduate degree in economics (Cand. oecon) from the University of Oslo (1977). His work experience includes positions as director general, Economic Policy Department, Ministry of Finance, and as director general, Statistics Norway.
Jan F. Qvigstad	Appointed deputy governor of Norges Bank as from 1 April 2008 for a term of six years. Postgraduate degree in economics (Cand. oecon) from the University of Oslo (1975). His work experience includes posts as principal officer and assistant director, Economics Department, Ministry of Finance, and as executive director of Norges Bank Monetary Policy.
Brit K. Rugland	Appointed 1 January 2004–31 December 2005. Reappointed 1 January 2006–31 December 2009 and 1 January 2010–31 December 2013. General manager and owner of the investment company Rugland Invest. Chairman of the board of the state-owned gas company Gassco AS. Has broad experience from the petroleum, financial and shipping industries.
Liselott Kilaas	Appointed 1 January 2004–31 December 2007. Reappointed 1 January 2008–31 December 2011 and 1 January 2012–31 December 2015. Managing director, Aleris Norge. Graduate of the University of Oslo and International Institute for Management Development (IMD) in Lausanne. Member of the board of directors of Telenor and has broad experience from the ICT sector, petroleum industry and consultancy.
Ida Helliesen	Appointed 1 January 2010–31 December 2013. Retired. Helliesen has held several executive positions at Norsk Hydro, including CFO. She is a business economist and has been a member of several government commissions, including on energy and on telecommunications. She has also held directorships at Aker Solutions, Skagerak Energi, Statistics Norway, Storebrand Bank and served as a member of the Norwegian Ministry of Finance's Investment Strategy Council.
Eirik Wærness	Appointed 1 January 2010-31 December 2013 Chief analyst, energy market research, Statoil. Wærness is an economist with Norwegian and international qualifications and research experience. Has work experience from the Norwegian Ministry of Finance, Total E&P Norge and Econ Pöyry.
Egil Matsen	Appointed 1 January 2012–31 December 2015. Professor, Department of Economics, NTNU, research in the areas of macroeconomics and finance. Also has work experience from Norges Bank. Doctorate in economics (Dr. oecon) from the Norwegian School of Economics and Business Administration.

EMPLOYEE REPRESENTATIVES:

Jan Erik Martinsen	Appointed 1 January 2001–31 December 2014. Employee representative. Employee of Norges Bank since 1975. Chief safety delegate in the period 1 January 1994–31 December 2000. Deputy chairman of Norges Bank's Staff Association from 2001 to 2006 and chairman since 1 January 2007.
Gøril Bjerkhol Havro	Appointed 1 January 2011–31 December 2014. Employee representative. Employee of Norges Bank since 2008. Has a BA from the University of Oxford, a master's degree in development studies from Nelson Mandela Metropolitan University in South Africa, and a business economics degree from HEC Paris. Work experience from the OECD.

Annual Report of the Executive Board 2012

Norges Bank's activities are regulated by the Norges Bank Act. In addition, the Bank manages the Government Pension Fund Global (GPFG) in accordance with the Act relating to the Government Pension Fund and the mandate for managing the GPFG issued by the Ministry of Finance.

Norges Bank is managed from the head office in Oslo. The Bank also has offices in London, New York, Singapore and Shanghai.

Pursuant to Section 5 of the Norges Bank Act, executive and advisory authority in Norges Bank is vested in the Executive Board, which manages its resources. The Executive Board comprises seven members, all appointed by the King-in-Council. The Governor and Deputy Governor of Norges Bank are chairman and deputy chairman, respectively, of the Executive Board. The other five members are not employees of the Bank. Two alternates have also been appointed for the five external members. They attend Executive Board meetings on a regular basis with the right to be present and to speak. Two employee representatives supplement the Executive Board when matters are discussed that primarily concern the Bank's internal operations and conditions for the staff.

The Executive Board works to attain the Bank's objectives and values, with particular emphasis on promoting price stability, financial stability and prudent and effective asset management. The Executive Board attaches importance to high standards and low costs in the Bank's performance of its responsibilities.

The Executive Board is responsible for establishing a satisfactory framework and satisfactory objectives and principles for the Bank's operations. The Executive Board shall ensure that financial reporting and asset management are subject to adequate control and supervision and that risk management and internal control are satisfactory in all of the Bank's activities.

The Executive Board has two subcommittees, the audit committee and remuneration committee. The audit committee comprises three of the external members of the Executive Board, and prepares business for and advises the Executive Board. The committee's task is to strengthen and streamline the Executive Board's management and follow-up work related to financial reporting, risk management and internal control. Internal Audit provides independent assessments of risk management and internal control for submission to the Executive Board. Internal Audit reports to the audit committee.

The remuneration committee comprises two of the external members of the Executive Board. It is a preparatory and advisory body, responsible for matters concerning pay and remuneration arrangements at the Bank.

In 2012, 14 Executive Board meetings were held, and 127 items of business were discussed. Most of the business concerned core activities. The number of items of business has declined somewhat in recent years as the Executive Board has delegated executive responsibility to the Governor of Norges Bank and the Chief Executive Officer of Norges Bank Investment Management (NBIM). This has enabled the Executive Board to focus more attention on governance, follow-up and control of the Bank's activities, with particular emphasis on issues of strategic importance related to core activities.

Monetary policy, financial stability and payment systems

The conduct of monetary policy and assessment of the outlook for financial stability in 2012 reflected weak growth among Norway's trading partners, financial market turbulence and a strong krone exchange rate. There was considerable uncertainty regarding global economic developments, especially developments in Europe. Unemployment was high and rising in a number of countries. High government debt in many European countries and uncertainty about the future of Economic and Monetary Union pushed up interest rates on loans to the riskiest borrowers. However, actions taken by the European Central Bank (ECB) and the Federal Reserve contributed to a decline in money and bond market risk premiums through autumn. Key rates in a number of countries were close to zero, and a number of central banks announced that key rates would be kept low for a long period.

Despite weak economic growth among Norway's trading partners, growth in the Norwegian economy was robust, supported by increased activity in the petroleum sector and construction industry, favourable terms of trade and high population growth. At the same time, parts of the export industry were hit by lower demand in Europe and a strong krone. Unemployment was low and stable. Capacity utilisation was estimated to be above a normal level.

Inflation is low and stable. Viewed over several years, annual inflation has remained somewhat below, but fairly close to, the target of 2.5%. Consumer price inflation varies considerably from month to month, partly as a result of short-term fluctuations in energy prices. The underlying 12-month rise in consumer prices was estimated to be between 1% and 1½% for most of the year.

At the beginning of 2012, weaker growth prospects abroad and the strong krone were expected to curb inflation and growth in Norway. In view of this, the Executive Board decided to lower the key policy rate by 0.25 percentage point to 1.5% in March. The interest rate forecast was revised down considerably compared with the October 2011 projections. Domestic growth picked up slightly faster than expected in the period to summer. Inflation remained low, but developments in the Norwegian economy suggested that inflation would gradually pick up. The key policy rate was kept unchanged at 1.5% for the remainder of the year.

Norwegian banks fared well in 2012. Partly owing to solid public finances and the favourable economic situation in Norway, the risk of lending to Norwegian banks is perceived as low. Banks have to some extent made use of ample access to funding to prepare for the forthcoming international liquidity and stable funding requirements.

The financial crisis clearly demonstrated the need to improve banks' capital adequacy in order to reduce vulnerability in the financial system. A new international regulatory framework, with higher capital requirements for banks, is therefore underway. Lenders and investors are also requiring higher capital ratios in banks. Norwegian banks have increased their capital ratios over the past year. This is a positive development, but calculations by Norges Bank indicate that banks should further strengthen their capital base to be adequately resilient to an abrupt deterioration in the economy and higher loan losses.

The Executive Board held the view that the Norwegian authorities should introduce a supplemental capital requirement for large Norwegian banks, as signalled by the Swedish authorities. The Executive Board pointed out that the high debt burden in the household sector poses a risk to the financial system and that this risk has been amplified because banks' own risk models underestimate the systemic risk associated with residential mortgages. In the opinion of the Executive Board, the authorities should increase residential mortgage risk weights by introducing a supplemental capital add-on for systemic risk.

The experiences of the financial crisis clearly demonstrated the close linkages between developments in the real economy and financial markets. As from 2013, Norges Bank will issue advice to the Ministry of Finance on countercyclical capital buffer requirements for banks. With a view to further developing the Bank's analyses, the Executive Board has decided that monetary policy and the decision basis for the countercyclical capital buffer will be presented in a single report four times a year. A separate report containing a more structural analysis of financial stability will be published once a year.

Norwegian payment systems functioned effectively in 2012. Norges Bank supervised important interbank systems pursuant to the Payment Systems Act and conducted oversight of systems for clearing and settlement of financial transactions. Operation of Norges Bank's settlement system was stable. In 2012, payments totalling on average NOK 216bn per day were settled in Norges Bank's settlement system, compared with NOK 183bn in 2011. At end-2012, banks had sight deposits and reserves on deposit at Norges Bank totalling NOK 35bn.

Norges Bank has decided to begin work on developing a new banknote series. The security of Norwegian banknotes must be enhanced as part of the ongoing efforts to deter counterfeiting. Developing a new banknote series is a complicated and demanding project that will extend over several years.

Markets and investment management

Turbulence in international financial markets eased considerably when the ECB announced its intention, on certain conditions, to purchase government bonds to dampen the market impact of the debt crisis in the euro area. Risk premiums fell in both the interbank market and banks' funding markets.

In its conduct of monetary policy, Norges Bank manages banks' central bank deposits to ensure that the level of short-term money market rates is close to the key policy rate set by the Executive Board. This is achieved through different forms of market operations, whereby the central bank either supplies or withdraws reserves to/from the banking system.

Norges Bank shall promote economic stability in Norway.

In 2012, Norges Bank sought to maintain bank reserves in the banking system at an average NOK 35bn with a target range of ±5bn around this level. The average interest rate on unsecured overnight lending in the interbank market (the NOWA rate) in 2012 was equal to Norges Bank's key policy rate. The daily reported volume of overnight interbank lending averaged NOK 12.6bn through the year.

According to an agreement between the Ministry of Finance and Norges Bank, the Bank shall provide services as adviser, facilitator and payment agent in connection with raising and managing domestic government loans. The Government's schedule for the issue of short- and long-term securities in 2011 was published in an auction calendar in December 2011. Norges Bank held 17 auctions of government bonds and 16 auctions of short-term government paper (Treasury bills) in 2012. Ad hoc auctions were not held. The total volume issued, excluding the Government's own purchases in the primary market, amounted to NOK 60bn in government bonds and NOK 62bn in Treasury bills.

At the end of 2012, Norges Bank managed assets amounting to a total of NOK 4 115bn in international capital markets. The assets primarily comprised the GPFG, which is managed on behalf of the Ministry of Finance. The Bank also manages its own international reserves. Norges Bank's international reserves comprise foreign exchange reserves and claims on the International Monetary Fund (IMF). Excluding borrowing in foreign currency, the market value of the foreign exchange reserves came to NOK 268bn at end-2012. The reserves are divided into a money market portfolio and a long-term portfolio. In addition, capital is accumulated in a petroleum buffer portfolio to be used for transferring foreign exchange to the GPFG.

The long-term portfolio accounts for the largest portion of foreign exchange reserves. The objective of the management of the long-term portfolio is a high long-term return, but the portfolio is also intended to be used for monetary policy purposes or in the interests of financial stability if deemed necessary. At end-2012, the market value of the portfolio was NOK 227bn. The return was 9.8% in 2012, measured in terms of the benchmark portfolio's currency basket. In NOK terms, the return was 2.49%. The difference reflects the appreciation of NOK compared with the benchmark portfolio's currency basket.

The money market portfolio is the most liquid portion of the foreign exchange reserves. This portfolio and the long-term investment portfolio are to be available for use as a monetary policy instrument or to promote financial stability. In addition, the money market portfolio is used to honour Norges Bank's international obligations, including transactions involving the IMF and loans to individual countries. The portfolio is invested so that it can within one trading day be used for transactions in the foreign exchange market without having to realise appreciable losses. The portfolio consists of short-term money market instruments, primarily secured loans to approved international banks and Treasury bills with a maturity of up to one year. At end-2012, the money market portfolio stood at NOK 34.2bn. In 2012, the portfolio returned 0.11%, measured in local currency, while the benchmark index returned 0.09%. The low return partly reflects the unusually low global interest rate level and the strict requirements regarding liquidity and preparedness that apply to the portfolio.

Less turbulence in international capital markets also affected the management of the GPFG in 2012. Equity prices rose, especially in Europe. At end-2012, the market value of the investment portfolio of the GPFG was NOK 3 816bn, an increase of NOK 504bn on 2011. Transfers from the government totalled NOK 276bn, while the return on the portfolio was NOK 447bn before foreign exchange gains. The NOK exchange rate strengthened against several of the currencies the portfolio is invested in. In isolation, this reduced the market value by NOK 220bn. The return was 13%, measured by the benchmark portfolio's currency basket.

The investment mandate for the GPFG was substantially revised in 2012. The most important change was that the fixed regional weights for equities were replaced by a system of country weights based on market value. A consequence of the new system is that the GPFG's overweighting in European markets will fall. In the government bond sub-index of the benchmark index for the bond portfolio, country weights would be calculated on the basis of GDP. These changes will reduce some of the risks to which the GPFG is exposed. The changes will also result in increased investment in emerging markets. Transparent, clear rules for benchmark index rebalancing were issued in autumn 2012.

In March 2010, Norges Bank received a mandate to gradually invest up to 5% of portfolio assets in real estate. In 2011 and 2012, the Bank made several large real estate investments in Europe. In the course of 2012, five contracts were signed.

Norges Bank engages in active ownership to strengthen its management of the GPFG and increase the value of the Fund's assets. The Bank promotes shareholder rights and works to improve social and environmental conditions related to the companies in which it invests. In contact with companies where the Fund is a shareholder, the Bank uses expectations documents on different aspects of corporate governance. The climate change management document was expanded in 2012 to include tropical deforestation. Corporate governance at Norges Bank is based on the principles of the UN Global Compact and the OECD Principles of Corporate Governance and multinational companies. Norges Bank votes at the annual general meetings of approximately 90% of the companies in the Fund's portfolios. The Executive Board also refers to the annual report on the management of the GPFG published by Norges Bank.

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Organisation and personnel

Expertise and resources

Norges Bank's vision is to be a transparent and well run central bank, where core activities are performed to a standard that is in line with international best practice. This objective places considerable demands on employees' work methods and productivity. Targeted skills-enhancement measures help to ensure that the necessary expertise is available to the Bank at all times.

A major reorganisation took place in central banking operations in 2012 to improve coordination between the Bank's various tasks, monetary policy analysis and financial stability. A new general secretariat for strategy and development was also established. Administrative tasks and support functions were placed in a department for corporate and shared services.

At end-2012, there were 660 employees at Norges Bank, compared with 629 at end-2011. Of these, 324 were in central banking operations and 336 were at NBIM.

Gender equality and diversity

Norges Bank focuses on gender equality and diversity. The Bank's policy is to give women and men the same opportunities for salary, promotion and professional and personal development. The Bank's recruitment guidelines state that the best-qualified candidate will be hired, regardless of gender, age, ethnicity or disability. The Bank has a gender equality and diversity action plan, and the Executive Board monitors the progress of gender equality efforts at Norges Bank through regular reports from the administration. Flexitime arrangements at the Bank are intended to make the job situation easier for parents of young children. In 2012, the gender breakdown was 36% women and 64% men, and the Bank has employees from 32 countries.

Norges Bank has a zero-tolerance policy towards all forms of discrimination. The Executive Board follows the progress of gender equality efforts at Norges Bank through regular reports from the administration.

Health, safety and environment

Norges Bank attaches considerable importance to ensuring that all employees have a safe workplace. The objective is to protect the lives and health of employees and safeguard the assets managed by the Bank. Two workplace accidents or injuries during working hours were recorded in 2012. There were no accidents or injuries of a serious nature in connection with travelling to or from work or on Bank business. No injuries or accidents were reported to the Norwegian Labour Inspection Authority as occupational injuries in 2012.

The principles of universal design are applied on reconstruction projects, and the Bank provides aids and protective equipment as needed or required. Regular feedback on the physical and psychosocial working environment comes from annual employee health appraisal interviews conducted by the Bank's health service and from annual climate surveys. According to the reports, job satisfaction is high and working conditions in general are satisfactory. The Bank's Working Environment Committee assesses the working environment and social climate as satisfactory.

Sickness absence and an inclusive workplace

Sickness absence at the Bank is at a low, stable level. In 2012, sickness absence accounted for 2.5% of the total number of working days, compared with 2.7% in 2011.

Norges Bank is an inclusive workplace enterprise. This means that the Bank is committed to working to maintain sickness absence at a low level, accommodating employees needing special adaptations and enabling older employees to extend their professional careers in line with national objectives.

Ethical rules

For Norges Bank to be able to fulfil its responsibilities, the general public must have confidence that the Bank is well run and works systematically to fulfil its responsibilities in a sound manner. It is particularly important to the Executive Board that the Bank's employees in all respects conduct themselves with the necessary ethical awareness and that they are loyal to Norges Bank as their employer.

The Executive Board has laid down ethical principles for employees. These ethical principles are intended to create a common approach to ethical issues among all employees of Norges Bank. The principles serve as the basis for more detailed rules and procedures laid down by the management of central banking operations and investment management, respectively. Rules and procedures in this area have been implemented in both operational areas. The rules cover such areas as employees' own-account trading, activities outside the Bank, gifts and the duty of loyalty to the Bank in general.

Employees who normally work in, or have privileged access to, investment services or the management of financial instruments on behalf of the Bank or one of its customers are covered by special rules regarding own-account trading in Chapter 8 of the Securities Trading Act. Special ethical rules have also been laid down for members of the Executive Board.

In addition, the Executive Board has issued principles for internal reporting of censurable conditions at Norges Bank.

External environment

Norges Bank's direct environmental impact is primarily related to greenhouse gas emissions and office waste. The Bank's indirect environmental impact is related to procurement of goods and services and standards for customers, suppliers and investment properties. Efforts to reduce power consumption continued in 2012, including efficient control of lighting and ventilation systems. The Bank is working diligently to make its operations greener though a long-term building maintenance programme.

Internal control and risk management

The Ministry of Finance has issued a regulation on risk management and internal control in Norges Bank, corresponding to a similar regulation for entities licensed by Finanstilsynet.

The Executive Board has issued general risk management policies for Norges Bank and detailed risk management policies for central banking operations and investment management, respectively. The two operational areas have each established a unit for coordinating and following up risk management and internal control. In addition, they each have a function for ensuring compliance with legislation and internal rules.

The audit committee is a preparatory body for the Executive Board in its follow-up of risk management and internal control. In addition, Internal Audit supports the Executive Board in its follow-up of risk management and internal control by providing advice and independent assessments.

Risk management and internal control in Norges Bank are based on the management model describing the Bank's organisational structure and management principles and the roles and responsibilities of the Bank's executive management. Management models have been established for investment management and central banking operations, respectively, with more detailed management policies for the two operational areas.

Reporting of risk assessments is an integral part of management processes and corporate governance. Central banking operations report their risk assessments three times a year, and investment management four times a year. Each year, the Governor assesses whether internal control was implemented in a satisfactory manner. Internal Audit submits an annual independent report on internal control at the Bank. On the basis of reporting from the administration and Internal Audit, the Executive Board submits to the Supervisory Council an annual assessment of the risk situation in the Bank.

More about financial risk

Norges Bank's primary exposures to financial risk involve market risk, credit risk, counterparty risk and foreign exchange risk though the management of foreign exchange reserves. In addition, the Bank is exposed to credit risk associated with lending to banks. The Bank's borrowings primarily comprise deposits from banks and the government.

The composition of the foreign exchange reserves portfolios and the associated risk are primarily determined by the benchmark index defined by the Executive Board. The Executive Board's investment mandates for the portfolios contain further guidelines and restrictions. These restrictions regulate the extent of active management that can be conducted in addition to rule-based capital allocations. The portfolios primarily contain equities and government and government-related bonds, but also corporate and securitised bonds. In addition, they contain forward exchange contracts, futures contracts and equity swaps. Norges Bank measures the absolute and relative market risk related to the management of the portfolios.

Norges Bank's market risk is the risk of changes in the value of the portfolios due to movements in interest rates and equity prices. Norges Bank's credit risk is the risk of losses if an issuer of fixed income instruments or a bank defaults on its payment obligations to Norges Bank. Norges Bank performs credit assessments of interest-bearing securities and counterparties. Loans to banks are provided against collateral in the form of approved securities. Norges Bank's counterparty risk is the risk of losses if the counterparty is declared bankrupt or cannot otherwise perform its contractual obligations. Counterparty risk includes risk associated with the bankruptcy of a counterparty, settlement risk and custody risk. Norges Bank's currency risk is the risk of changes in exchange rates. Norges Bank is not hedged against exchange rate fluctuations. As the central bank, Norges Bank is not exposed to liquidity risk. Norges Bank has no exposure to financial risk in the management of the GPFG. For more details, see Note 1, Section 2 in Part II.

Report on the financial statements

The annual financial statements of Norges Bank are prepared in accordance with the Norwegian Accounting Act and the Regulation relating to annual financial statements for Norges Bank. The regulation requires Norges Bank to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU but lays down specific requirements for a presentation of the investment portfolio of the GPFG and subsidiaries that solely comprises investments as part of the management of the investment portfolio. The regulation requires Norges Bank's financial statements to include the financial reporting of the investment portfolio of the GPFG, which shall also be prepared in accordance with IFRS.

Foreign exchange reserves constitute Norges Bank's main assets (excluding the GPFG, which has no effect on the Bank's results). Norges Bank holds interest-free liabilities in the form of notes and coins in circulation. In addition, the Bank holds domestic deposits from the government and other banks. This balance sheet composition will normally generate a positive return over time. The Bank's assets are invested primarily in foreign exchange, whereas its liabilities are primarily in NOK. This gives rise to a currency risk that requires sufficient equity. Norges Bank presents separate columns in the income statement, balance sheet and statement of cash flows showing the Bank's foreign exchange reserves. Cash flows at Norges Bank are primarily of an operational nature.

Norges Bank's income primarily comprises net income from financial instruments related to the foreign exchange reserves. Gains and losses arise from changes in exchange rates, changes in equity prices and changes in interest rates that affect bond prices. Norges Bank's results depend on developments in these parameters, which can cause substantial annual fluctuations in net income.

Total comprehensive income for 2012 shows a profit of NOK 0.8bn, compared with a profit of NOK 8.4bn for 2011.

Net income from financial instruments in global securities markets related to the Bank's foreign exchange reserves was a gain of NOK 0.3bn in 2012, compared with NOK 11.9bn in 2011. The reason for this reduction in net income is the appreciation of the krone against most of the principal currencies in the foreign exchange reserves, which resulted, when translated into NOK, in a foreign exchange loss of NOK 21.2bn in 2012.

In 2011, the depreciation of the krone against most of the principal currencies in the foreign exchange reserves resulted in a foreign exchange gain of NOK 6.2bn for the foreign exchange reserves. Gains and losses arising from changes in the krone exchange rate have no effect on the international purchasing power of the foreign exchange reserves. Interest payments to the Treasury amounted to NOK 0.6bn in 2012. In 2011, total interest expenses to the Treasury amounted to NOK 0.9bn.

Changes in actuarial gains and losses for the Bank's pension benefit obligations amounted to NOK 1.2bn in 2012, and negative NOK 1.1bn in 2011.

The Adjustment Fund stood at NOK 72.6bn at end-2011. After year-end allocations for 2012, the Adjustment Fund amounted to NOK 73.3bn. The Ministry of Finance has stipulated the amount that Norges Bank may allocate to the Adjustment Fund as a buffer against changes in exchange rates and securities prices (see "Distribution of profit", below). The size of the foreign exchange reserves and domestic claims at year-end provide a basis for allocating up to NOK 110bn to the Adjustment Fund.

Norges Bank's total assets were NOK 4 137bn at end-2012. Norges Bank's financial statements include the krone account and investment portfolio of the GPFG, which account for approximately 92% of total assets. The GPFG's krone deposit is a liability item on Norges Bank's balance sheet and at year-end was NOK 3814bn. The equivalent amount of the krone deposit is invested abroad by Norges Bank in an ear-marked investment portfolio. The return earned on the investment portfolio is transferred to the krone account of the GPFG. Costs incurred by Norges Bank in connection with management of the GPFG are reimbursed by the Ministry of Finance up to a limit. Financial reporting for the investment portfolio is presented in Note 25 pursuant to the provisions of Chapter 3 of the Regulation relating to annual financial statements for Norges Bank.

Distribution of total comprehensive income

Pursuant to the Norges Bank Act of 24 May 1985, guidelines for allocation and distribution of Norges Bank's profit were originally approved by the Council of State on 7 February 1986.

1. Allocations shall be made from Norges Bank's profit to the Adjustment Fund until the Fund has reached 5% of the Bank's holdings of Norwegian securities and 40% of the Bank's net foreign exchange reserves, excluding the immunisation portfolio and capital managed for the Government Petroleum Fund (now called the Government Pension Fund Global), other claims/liabilities abroad or any other commitments that the Executive Board considers to involve a not insignificant exchange risk. The immunisation portfolio is that part of Norges Bank's foreign exchange reserves that is included in a separate portfolio. The return on this portfolio will be credited to/debited from the Treasury in the accounts of the same year. The same applies to the Government Petroleum Fund portfolio. If the size of the Adjustment Fund exceeds the levels specified in point 1, first paragraph, the surplus shall be reversed to profit or loss.

2 If the Adjustment Fund falls below 25% of the Bank's net foreign exchange reserves excluding the immunisation portfolio and capital managed by the Government Petroleum Fund and other claims/liabilities abroad at the end of the year, available capital shall be reversed from the Transfer Fund to Norges Bank's financial statements until the Adjustment Fund reaches full size according to point 1.

3. Any profit after provisions to or transfers from the Adjustment Fund shall be allocated to the Transfer Fund.

4. Any loss following the allocations described in point 2 shall be covered by transfers from the Adjustment Fund.

5. In connection with the closing of the books each year, an amount equal to one third of the capital in the Transfer Fund shall be transferred to the Treasury.

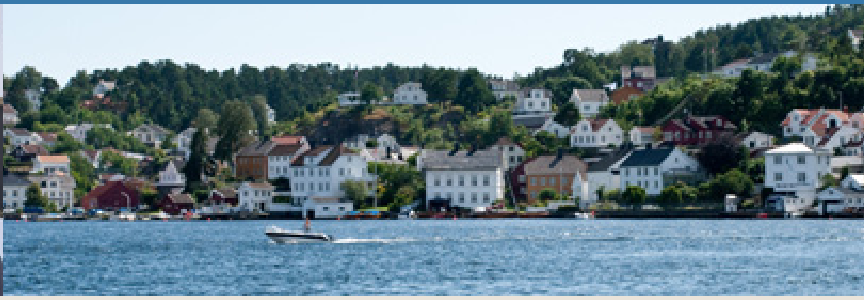
In accordance with the guidelines, the Executive Board proposes the following transfers and allocations:

In accordance with point 1, the profit after other allocations, NOK 773m, is to be transferred to the Adjustment Fund. As there are no funds in the Transfer Fund, no transfer will be made to the Treasury.

Oslo, 27 February 2013

Øystein Olsen *(Chair)*	Jan Fredrik Qvigstad *(Deputy Chair)*	Ida Helliesen
Liselott Kilaas	Egil Matsen	Brit K. Rugland
Eirik Wærness	Jan Erik Martinsen *(Employee representative)*	Gøril Havro *(Employee representative)*

Norges Bank's annual financial statements 2012



Income statement

Amounts in NOK millions

	Note	2012	2011	2012 Of which foreign exchange reserves	2011 Of which foreign exchange reserves
NET INCOME FINANCIAL INSTRUMENTS					
Interest income from deposits and claims	3	19	111	12	11
Interest income from lending to banks	3	283	946	-	-
Interest income, lending associated with reverse repurchase agreements	3	47	105	41	105
Net income/expenses and gains/losses from:					
Equities	3, 17	15 750	-6 204	15 597	-6 225
Bonds and other fixed income securities	3	5 924	11 773	5 925	11 773
Financial derivatives	3	-43	91	-43	91
Interest expense, borrowing associated with repurchase agreements	3	-3	-28	0	-21
Interest expense paid on deposits from banks and the Treasury	3	-1 356	-2 081	-	-
Net interest income from claims on/liabilities to the International Monetary Fund (IMF)	3, 14	15	31	-	-
Tax expense	3	-13	-22	-13	-22
Other financial income/expenses	3, 21	1 327	50	0	-1
Net income from financial instruments before foreign exchange gains/losses		**21 950**	**4 772**	**21 519**	**5 711**
Foreign exchange gains/losses		-21 644	5 416	-21 210	6 168
Net income from financial instruments		**306**	**10 188**	**309**	**11 879**
MANAGEMENT OF THE INVESTMENT PORTFOLIO OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)					
Total comprehensive income, investments of the GPFG	25	225 669	-39 583		
Withdrawn from/Transferred to the krone account of the GPFG	25	-225 669	39 583		
Of which management fees, GPFG	4	2 193	2 539		
Management of the investment portfolio of the GPFG		**2 193**	**2 539**		
OTHER OPERATING INCOME					
Other operating income	5	113	129		
Total other operating income		**113**	**129**		
OTHER OPERATING EXPENSES					
Personnel expenses	6	-1 050	-898		
Other operating expenses	7	-1 924	-2 361		
Depreciation, amortisation and impairment losses	18	-88	-93		
Total other operating expenses		**-3 062**	**-3 352**		
Profit/loss for the period		**-450**	**9 504**	**309**	**11 879**
STATEMENT OF COMPREHENSIVE INCOME					
Profit/loss for the period		-450	9 504	309	11 879
Change in actuarial gains/losses	22	1 223	-1 128		
Total comprehensive income		**773**	**8 376**	**309**	**11 879**

Balance sheet

Amounts in NOK millions

Assets	Note	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012 Of which foreign exchange reserves	31 Dec. 2011 Of which foreign exchange reserves
FINANCIAL ASSETS					
Deposits in banks		3 749	11 790	3 672	11 713
Lending associated with reverse repurchase agreements	10	12 388	15 964	12 388	15 964
Unsettled trades		1	162	1	162
Equities	11, 17	96 721	90 849	96 520	90 778
Equities lent	11, 12	2 821	-	2 821	-
Bonds and other fixed income instruments	11	152 735	153 736	152 735	153 736
Bonds lent	11, 12	-	71	-	71
Financial derivatives	13	6	3	6	3
Claims on the IMF	14	34 315	36 113	-	-
Lending to banks	15	12 006	25 241	-	-
Other financial assets	16	6 460	6 958	14	42
Total financial assets		**321 202**	**340 887**	**268 157**	**272 469**
INVESTMENTS, GPFG					
Investments, GPFG	25	3 813 576	3 309 033		
Total investments, GPFG		**3 813 576**	**3 309 033**		
NON-FINANCIAL ASSETS					
Other non-financial assets	18	1 941	1 855		
Total non-financial assets		**1 941**	**1 855**		
TOTAL ASSETS		**4 136 719**	**3 651 775**	**268 157**	**272 469**

Amounts in NOK millions

Liabilities and equity	Note	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012 Of which foreign exchange reserves	31 Dec. 2011 Of which foreign exchange reserves
FINANCIAL LIABILITIES					
Short-term borrowing		0	-	0	-
Borrowing associated with repurchase agreements	10	0	137	0	137
Cash collateral received	12	1 160	72	1 160	72
Unsettled trades		1 450	9 722	1 450	9 722
Financial derivatives	13	4	51	4	51
Other financial liabilities	19	1 927	3 157	1 015	3
Liabilities to the IMF	14	24 845	26 720	-	-
Deposits from banks, etc.	3, 20	35 336	92 134	-	-
Deposits from the Treasury	3	130 783	81 673	-	-
Notes and coins in circulation	21	53 755	54 766	-	-
Total financial liabilities		**249 260**	**268 432**	**3 629**	**9 985**
DEPOSITS IN KRONE ACCOUNT, GPFG					
DEPOSITS IN KRONE ACCOUNT, GPFG	25	3 813 576	3 309 033		
Total deposits in krone account, GPFG		**3 813 576**	**3 309 033**		
OTHER LIABILITIES					
Pensions	22	330	1 609		
Other liabilities		215	136		
Total other liabilities		**545**	**1 745**		
Total liabilities		**4 063 381**	**3 579 210**	**3 629**	**9 985**
EQUITY					
Equity		73 338	72 565		
Total equity		**73 338**	**72 565**		
TOTAL LIABILITIES AND EQUITY		**4 136 719**	**3 651 775**		
TOTAL FOREIGN EXCHANGE RESERVES				**264 528**	**262 484**

Oslo, 27 February 2013

Øystein Olsen *(Chair)*	Jan Fredrik Qvigstad *(Deputy Chair)*	Ida Helliesen
Liselott Kilaas	Egil Matsen	Brit K. Rugland
Eirik Wærness	Jan Erik Martinsen *(Employee representative)*	Gøril Havro *(Employee representative)*

Statement of cash flows

Amounts in NOK millions (inflows (+) / outflows (-))

	2012	2011	2012 Of which foreign exchange reserves	2011 Of which foreign exchange reserves
Operating activities				
Interest received on deposits in banks	-3 347	3 421	-3 347	3 421
Net cash flows received in connection with reverse repurchase agreements	-3 765	44 059	-3 770	44 059
Net cash flows arising from purchases and sales of equities	-2 773	-2 855	-2 773	-2 855
Net cash flows arising from purchases and sales of bonds and other fixed income instruments	-7 751	-1 432	-7 751	-1 432
Net cash flows arising from financial derivatives	-350	-50	-346	-19
Net cash flows related to claims on and liabilities to the International Monetary Fund	-641	-2 658	-	-
Net cash flows arising from lending to banks	12 945	34 830	-	-
Dividends received from investments in equities	2 686	2 293	2 661	2 271
Interest received on bonds and other fixed income instruments	4 093	4 423	4 093	4 423
Fees received in connection with equity and bond lending	72	73	72	73
Interest received on lending to banks	573	932	-	-
Outflows associated with borrowing	-249	-	-249	-
Net cash flows related to repurchase agreements	-18	-14 033	-18	-14 033
Net cash flows related to deposits in banks	-56 803	12 216	-	-
Inflows from the Treasury to the GPFG	-277 862	-274 155	-	-
Net cash flows from the Treasury excl. inflows to the GPFG	327 984	218 978	1 013	-
Interest paid on banks' deposits	-705	-1 137	-	-
Interest paid on government's deposits	-642	-917	-	-
Net cash flows related to notes and coins in circulation	222	809	-	-
Cash collateral received/paid related to securities lending, derivatives and repurchase agreements	1 088	-17 822	1 088	-17 822
Cash flows related to other financial assets and other financial liabilities	-1 964	3 982	-4 082	5 885
Management fee received from the GPFG	2 539	2 960	2 539	2 960
Net cash flows related to other operating income and other expenses	-2 768	-3 512	-	-
Net cash outflows from operating activities	**-7 436**	**10 405**	**-10 870**	**26 931**
Investing activities				
Net cash flows related to non-financial assets and liabilities	-157	-45	-	
Net cash flows from investing activities	**-157**	**-45**	**-**	**-**
Financing activities				
Net inflows to foreign exchange reserves	-		3 275	-16 592
Net cash flows from financing activities	**-**	**-**	**3 275**	**-16 592**

Amounts in NOK millions (inflows (+) / outflows (-)

	2012	2011	2012 Of which foreign exchange reserves	2011 Of which foreign exchange reserves
Net change in cash and cash equivalents				
Cash and cash equivalents at 1 January	**11 790**	**952**	**11 713**	**895**
Net cash payments in the period	-7 593	10 360	-7 595	10 339
Foreign exchange gains/losses on cash and cash equivalents	-448	478	-447	479
Cash and cash equivalents at 31 December	**3 749**	**11 790**	**3 671**	**11 713**
Cash and cash equivalents comprise:				
Deposits in banks	3 749	11 790	3 671	11 713
Short-term borrowing	-	-	-	-
Total	**3 749**	**11 790**	**3 671**	**11 713**

Statement of changes in equity

Amounts in NOK millions

	Adjustment Fund	Other reserves	Total equity
1 January 2011	63 984	205	64 189
Total comprehensive income	8 376	-	8 376
Transfers to Adjustment Fund	205	- 205	-
31 December 2011	**72 565**	**-**	**72 565**
1 January 2012	72 565	-	72 565
Total comprehensive income	773	-	773
31 December 2012	**73 338**	**-**	**73 338**

Notes

Note 1 Accounting policies

1. INTRODUCTION

Norges Bank is Norway's central bank. The Bank shall promote economic stability in Norway. Norges Bank has executive and advisory responsibilities in the area of monetary policy and is responsible for promoting robust and efficient payment systems and financial markets. Norges Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

Pursuant to Section 30, second paragraph, of the Norges Bank Act, the annual financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance. The regulation requires that Norges Bank's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, but sets certain specific requirements for the presentation of the investment portfolio of the GPFG and subsidiaries that exclusively constitute investments as part of the management of the investment portfolio. The regulation requires Norges Bank's financial statements to include the financial reporting of the investment portfolio of the GPFG, which shall also be prepared in accordance with IFRS. On this basis, the annual financial statements of Norges Bank, including the financial reporting of the investment portfolio of the GPFG, have been prepared in accordance with IFRS. Consolidated financial statements are prepared for the investment portfolio of the GPFG.

Norges Bank prepares annual financial statements with closing date on 31 December that include financial reporting for the investment portfolio of the GPFG. In addition, Norges Bank prepares interim financial statements, which solely comprise the quarterly financial reporting of the investment portfolio of the GPFG, with closing dates on 31 March, 30 June and 30 September.

The annual financial statements of Norges Bank for 2012 were approved by the Executive Board on 27 February 2013 and adopted by the Supervisory Board on 7 March 2013.

2. NORGES BANK AND THE GPFG

The GPFG is invested in its entirety outside Norway. The Storting (Norwegian parliament) has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for investment management. The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues.

The Ministry of Finance has deposited funds for investment in a krone account in Norges Bank specified for this purpose. The corresponding value of the krone account constitutes an investment portfolio managed by Norges Bank in accordance with the Act relating to the Government Pension Fund and the management mandate for the GPFG issued by the Ministry of Finance. The Executive Board has delegated day-to-day asset management to the Bank's asset management area, Norges Bank Investment Management (NBIM).

Norges Bank is not exposed to financial risk from its management of the GPFG. The return on the portfolio is transferred in its entirety to the krone account and does not affect total comprehensive income or equity in Norges Bank. The net value of the investment portfolio is recognised as an asset on a separate line in the Norges Bank balance sheet. The balance of GPFG's krone account is recognised as a liability in the same amount to the Ministry of Finance in the Norges Bank balance sheet.

3. ACCOUNTING POLICIES

3.1 Income statement, statement of comprehensive income and balance sheet

The income statement, statement of comprehensive income and the balance sheet have been prepared in accordance with IAS 1 Presentation of Financial Statements. The liquidity presentation format is used for the balance sheet. In addition, the share of total amounts in NOK related to foreign exchange reserves is presented in separate columns in Norges Bank's income statement and balance sheet. Foreign exchange reserves are to be used for foreign exchange market intervention as part of the implementation of monetary policy or to promote financial stability.

3.2 Statement of cash flows

The statement of cash flows has been prepared in accordance with IAS 7 Statement of Cash Flows using the direct method, whereby major classes of cash receipts and cash payments are disclosed separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown on a net basis when appropriate. All investment activity is defined as operating activities. The management fee for the GPFG, which is charged to the investment portfolio and paid by the Ministry of Finance to Norges Bank, is also classified as an operating activity. Cash and cash equivalents comprise Deposits in banks and Short-term borrowing.

Cash transfers to the GPFG's krone account, in the form of a contribution from the owner, are classified as a financing activity and presented as a transfer from the Norwegian government.

The investment portfolio of the GPFG has no investing activities as defined in IAS 7.

Transfers from the owner to the GPFG's krone account are classified as operating activities in Norges Bank's statement of cash flows. Investment in non-current assets is classified as investing activity in Norges Bank.

Pursuant to the Norges Bank Act, Norges Bank is responsible for issuing notes and coins and ensuring that society has access to and the necessary confidence in cash as a means of payment. Thus, issuance of notes and coins is deemed an operating activity and not a financing activity. The statement of cash flows for Norges Bank shows no items for financing beyond equity transactions, if any, with the owner.

3.3 Statements of changes in equity and in owner's capital

Norges Bank presents statements of changes in equity and of changes in owner's capital (GPFG). The statements have been prepared in accordance with IAS 1 Presentation of Financial Statements.

Owner's capital for the GPFG comprises contributed capital in the form of transfers from the Norwegian government and retained earnings in the form of total comprehensive income.

Norges Bank's equity comprises the Adjustment Fund, the Transfer Fund and Other reserves. The Adjustment Fund comprises the Bank's restricted equity, and the Transfer Fund comprises the basis for transfers to the Treasury. Norges Bank's capital is governed by guidelines for provisions and allocations laid down by the Council of State on 7 February 1986, most recently amended by Royal Decree of 6 December 2002.

3.4 Currency

Norges Bank's functional currency is the Norwegian krone (NOK). Transactions in foreign currency are recognised in the financial statements at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currency are translated into NOK using the exchange rate at the balance sheet date. The presentation currency for financial reporting is the Norwegian krone.

In the income statement, the foreign exchange element linked to realised and unrealised gains and losses on assets and liabilities is disaggregated and presented on a separate line. Foreign exchange adjustments for the period are estimated on the basis of the cost in foreign currency and changes in exchange rates between the time of purchase, or the previous balance sheet date for financial instruments purchased in earlier periods, and the balance sheet date. At realisation, the exchange rate at the transaction date is used.

Foreign subsidiaries that are consolidated into the investment portfolio's financial reporting and have a functional currency different from that of Norges Bank are translated into NOK. Income statements are translated at an average exchange rate for the period, and balance sheets are translated at the reporting period's closing rate. Any translation differences are included in Total comprehensive income and presented as Translation reserve arising from consolidation of foreign subsidiaries.

See also Note 2 Significant estimates and critical accounting judgements.

3.5 Income and expenses

Interest income from deposits in banks, money market investments, lending associated with reverse repurchase agreements and investments in bonds and other fixed income instruments is recognised when the interest is earned and classified in each of the respective lines in the income statement.

Dividends from investments in equity instruments are recognised as income when the dividends are formally approved by the shareholders' meeting or comparable responsible party. Dividends are included in the line Net income/expenses and gains/losses from equities and units.

Income from securities lending is presented as a net income comprising securities lending fees, expenses related to cash collateral received, reinvestment income, and the deduction of the security lending agents' fees connected to the handling of the transaction. The net income is calculated and classified in accordance with the type of security that is lent as either Net income/expenses and gains/losses from equities and units or Net income/expenses and gains/losses from bonds and other fixed income instruments.

Rental income related to investment property, less direct expenses incurred in connection with the signing of lease agreements, is recognised as income straight-line over the lease term. Incentive schemes related to signing lease agreements are recognised straight-line over the lease term, even if payment streams deviate from this basis.

For a description of accounting using the equity method, see 3.12 Jointly controlled entities and jointly controlled assets.

Interest expense is measured and recognised as incurred in profit or loss and presented as either Interest expense repurchase agreements or Other interest income and interest expense.

Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in equity and fixed income instruments, this includes normal commission fees and stamp duties. Commission fees include an amount paid as part of the commission fee to cover analytical research services through CSAs (commission sharing agreements: agreements in which portions of commission fees paid to brokers are allocated further to parties that have contributed analytical research). For investments within the investment asset class real estate, transaction costs will also typically include fees to advisors, typically lawyers and valuation experts, and stamp duty. Transaction costs are expensed as incurred and classified in accordance with the type of investment as either Net income/expenses and gains/losses from equities and units, Net income/expenses and gains/losses from bonds and other fixed income instruments, or Net income/expenses and gains/losses from Financial assets real estate. For investment property and jointly controlled entities, directly attributable transaction costs are recognised in the balance sheet as a portion of the cost at initial recognition. For financial instruments that at initial recognition are measured at amortised cost, transaction costs are recognised in the balance sheet as part of the instrument's cost.

The management fee comprises the Ministry of Finance's reimbursement of Norges Bank's expenses connected with the management of the GPFG, which is recognised in the income statement for the investment portfolio of the GPFG as an expense, and recognised as revenue in the Norges Bank income statement. Operating expenses are reimbursed by the Ministry of Finance within an agreed limit. The management fee accrues during the financial year, but is cash-settled in the following year.

Interest income from lending to banks is recognised in profit or loss as earned. Interest expense on banks and Treasury deposits is measured and recognised as incurred. Other operating income in the Norges Bank income statement primarily comprises services for banks, services for the government and rental income that is recognised in profit or loss as earned. Personnel expenses and Other operating expenses are recognised in profit or loss as incurred.

3.6 Taxation

Norges Bank's activities in Norway are not subject to tax. In some foreign markets, Norges Bank is liable to tax, in the form of withholding tax on dividend and interest income, capital gains tax on the sale of financial instruments and corporate tax paid by foreign subsidiaries for operations in other countries.

Accrued withholding tax, after deductions for refundable withholding tax, capital gains tax and corporate tax are considered income taxes and are classified as Tax expense in the income statement.

3.7 Classification and presentation of financial instruments

At initial recognition, all financial assets are classified in one of the following categories depending on the type of instrument and purpose of the investment:

- Financial assets held for trading
- Financial assets designated as at fair value through profit or loss (fair value option)
- Financial assets classified as loans and receivables

At initial recognition, financial liabilities are classified in one of the following categories:

- Financial liabilities held for trading
- Financial liabilities designated as at fair value through profit or loss (fair value option)
- Other financial liabilities

Norges Bank does not engage in hedge accounting, and therefore none of the financial instruments are designated as hedging instruments.

Financial assets or liabilities held for trading

All positions in financial derivatives as well as short-sale bonds are classified in the category financial assets held for trading or financial liabilities held for trading. Other assets and liabilities are classified as held for trading if the investment is primarily made with the intention of sale or repurchase in the short term, or at the point of first recognition is part of a portfolio that is managed at the portfolio level and where there is evidence of an actual pattern of short-term realisation of profit. None of the investments in equities or bonds are as at the balance sheet reporting date classified as held for trading.

Financial assets and liabilities designated as at fair value through profit or loss (fair value option)

Financial instruments are classified in this category if the following criteria are met: the financial instruments are part of a portfolio that is managed and followed up based on the fair value in connection with a documented risk management strategy or a documented investment strategy. This implies that a fair value business model is used for the portfolio or the asset, and the primary objective is to have gains over the longer term connected to changes in fair value.

All portfolios of equities and bonds under management are as at the balance sheet reporting date classified in this category. Positive holdings of equities and other equity instruments and positive holdings of bonds and other fixed income instruments are presented on separate lines in the balance sheet. Net short positions in similar instruments are presented as Short-sale bonds. Bond debt in jointly controlled entities is presented as Investment in jointly controlled entities real estate.

Investments in the asset class real estate in the form of a share in the cash flow from underlying properties are classified in this category and presented on a separate line in the balance sheet.

Loans and receivables and other financial liabilities, measured at amortised cost

Financial assets and liabilities that are not held for trading and are not designated as at fair value through profit or loss, and are not listed in an active market, are classified as loans and receivables or other financial liabilities.

Short-term financial assets and liabilities with positions in repurchase and reverse repurchase agreements and deposits/debt in the money market along with cash collateral are classified as loans and receivables or other financial liabilities and measured at amortised cost.

Earned and accrued interest

Earned and accrued interest is presented in the balance sheet on the same line as the respective financial asset or liability.

3.8 Recognition and derecognition, financial instruments

Financial assets or liabilities are recognised in the balance sheet when Norges Bank becomes party to the instrument's contractual benefits, or when the risks and rewards of ownership are transferred if this occurs at a different point in time. The transaction is recognised at trade date, in that the purchase or sale of the instrument occurs under normal market conditions. Financial assets are derecognised when the contractual rights to the cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership are transferred. Average acquisition cost is used upon derecognition. Financial liabilities are derecognised when the obligation is extinguished.

Securities lending

Securities lending transactions consist of a transfer of securities, either equities or bonds, from Norges Bank to a borrower against collateral in the form of cash or securities. When the loan terminates, identical securities are returned to Norges Bank. The borrower is obliged to compensate the lender for corporate events relating to the securities. In addition the borrower pays a fee to the lender. The borrower holds the voting rights attached to the securities during the lending period.

Securities lent are not derecognised. During the lending period the securities are accounted for in the same way as other securities holdings. Loaned securities are presented on separate lines in the balance sheet, Equities lent and Bonds lent.

Collateral received in the form of cash is recognised as an asset together with a corresponding liability measured at amortised cost, Cash collateral received. Collateral received in the form of securities is not recognised in the balance sheet unless reinvested.

Reinvestments of cash collateral in the form of reverse repurchase agreements and bonds are recognised in the balance sheet and accounted for in the same manner as comparable investments.

Repurchase and reverse repurchase agreements.

In connection with positions in repurchase agreements, the security is not derecognised when the agreement is entered into. During the contract period, the accounting for the underlying securities is in accordance with the accounting policies for investments in securities. Cash received is recognised as a financial asset in the form of bank deposits and the corresponding short-term financial liability is measured at amortised cost and shown in the balance sheet as Borrowing associated with repurchase agreements.

In connection with reverse repurchase agreements, the received underlying security is not reinvested and therefore is not recognised in the balance sheet. The cash paid is derecognised, and a corresponding receivable reflecting the cash amount that will be received in return is recognised as an asset at amortised cost, Lending associated with reverse repurchase agreements.

Income and expenses connected with repurchase and reverse repurchase agreements are presented on separate lines in the income statement, Interest income, lending associated with reverse repurchase agreements and Interest expense repurchase agreements.

3.9 Measurement of financial instruments

Initial recognition

Financial assets and liabilities classified in categories with subsequent measurement at fair value through profit or loss are recognised at fair value on the trade date. Fair value will normally be the transaction price unless a different value can be justified on the basis of transactions observed in the market.

Financial assets and liabilities that are measured at amortised cost after initial recognition are recognised on the trade date at fair value including directly attributable transaction costs. Transaction costs are described further in 3.5 above.

Subsequent measurement – fair value

All equities, bonds and other fixed income instruments, real estate investments and financial derivatives classified as financial assets and liabilities held for trading or designated as at fair value through profit or loss are measured at fair value on the reporting dates after initial recognition. Gains and losses from changes in fair value are recognised in profit or loss in the period in which they arise. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The price quoted by a stock exchange, broker or price provider is used for securities that are traded in active markets.

If the market for a security is not active, fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is used. The chosen valuation technique makes maximum use of market inputs. For further information on valuation techniques, see Note 23 Fair value measurement of financial instruments and Note 25 GPFG Note 14 Fair value measurement.

Changes in fair value are recognised in the income statement line related to the relevant instrument type, i.e. Net income/expenses and gains/losses from Equities and units, Net income/expenses and gains/losses from bonds and other fixed income instruments, Net income/expenses and gains/losses from financial derivatives and Net income/expenses and gains/losses from financial assets real estate.

Subsequent measurement – amortised cost

Financial assets and liabilities classified as loans and receivables or other financial liabilities are measured at amortised cost after initial recognition. The effective interest is recognised in profit or loss. The effective interest rate is determined as the rate that discounts contractual cash flows within the agreed maturity to the recognised amount. The cash flows include directly attributable transaction costs.

3.10 Netting

Financial assets and financial liabilities are presented net in the balance sheet if Norges Bank has a legal right to offsetting in addition to the intention to in practice settle on a net basis.

Financial assets and liabilities are not netted, because these criteria are not met. This implies that financial derivatives with positive market values are presented as assets and financial derivatives with negative market values are presented as liabilities.

3.11 Investment property

Properties held for the purpose of earning rental income or capital appreciation within the real estate asset class are accounted for as investment property in the investment portfolio's balance sheet.

Investment property is recognised as an asset when it is probable that the future rental income and value changes that are associated with the investment property will flow to Norges Bank and the cost of the investment property can be measured reliably. An investment property is derecognised when sold, i.e. when substantially all the risks and potential for returns related to the property have been transferred to a buyer.

An investment property is measured initially at its purchase price, plus directly attributable transaction costs.

Investment property is measured at fair value at the reporting dates following initial recognition. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and is determined without deduction for transaction costs that will be incurred on sale or other disposal. External appraisals and valuations are regularly obtained as the primary basis for the determination of fair value. See Note 24 GPFG Note 14 Fair value measurement for further information about valuation. Changes in the fair value of properties classified as Investment property in the balance sheet of the investment portfolio are presented in the investment portfolio's income statement as Net income/expenses and gains/losses from investment properties. For property owned by jointly controlled entities, see the discussion of presentation below.

3.12 Jointly controlled entities and jointly controlled assets

Jointly controlled entities and jointly controlled assets are investments where subsidiaries established as part of the management of the investment portfolio of the GPFG have joint control through an agreement with the counterparty over the entity's strategic, financial and operational decisions, or comparable decisions related to the asset.

Jointly controlled entities are accounted for using the equity method. Investments in jointly controlled entities are recognised as an asset when it is probable that the future economic benefits that are associated with the interest in the entity will flow to Norges Bank and the cost of the investment can be measured reliably. Jointly controlled entities are derecognised when sold, i.e. when substantially all the risks and returns have been transferred to a buyer.

Cost at initial recognition comprises the consideration paid, plus directly attributable transaction costs. Investments in such entities are presented as Jointly controlled entities, real estate in the investment portfolio's balance sheet. All jointly controlled entities report to Norges Bank using the accounting policies of Norges Bank, including measuring investment properties held by a jointly controlled entity at fair value. The same applies to bond debt and financial derivatives.

In subsequent reporting periods, the carrying amount of the investment will be adjusted by the share of the profit or loss for the period, which comprises the investment portfolio's share of changes in the investee's equity for the period, adjusted for dividends received and any amortisation of excess value. The investment portfolio's share of the profit or loss for the period is presented as Share of the profit/loss in jointly controlled entities, real estate

Jointly controlled assets are accounted for using proportionate consolidation. Such investments are recognised on the same basis as for jointly controlled entities. Cost at initial recognition comprises the consideration paid, plus directly attributable transaction costs. Under proportionate consolidation, the investment portfolio accounts for its proportionate share of assets, liabilities, income and expenses, on the basis of their nature. Jointly controlled assets primarily comprise investment property (see above). Income and expenses associated with management of investment property are presented as Net income/expenses and gains/losses from investment properties.

3.13 Consolidation of subsidiaries

Norges Bank has established subsidiaries that exclusively constitute investments as part of the management of the investment portfolio of the GPFG. Consolidated financial statements are therefore prepared for the investment portfolio. Pursuant to Section 3-4, first paragraph, last sentence, of the Regulation relating to annual financial reporting for Norges Bank, only consolidated financial statements shall be prepared for the investment portfolio.

The accounting policies are applied consistently when consolidating ownership interests in subsidiaries. Intragroup transactions and intercompany balances are eliminated in the preparation of consolidated financial statements. Intra-group items comprise loans and equity financing from the investment portfolio to subsidiaries to finance property investments in subsidiaries. Loans are made at market interest rates and are issued in the subsidiary's functional currency. Except for the above-mentioned items, all items recognised in subsidiaries' financial statements are included in the investment portfolio's statement of comprehensive income, balance sheet and statement of cash flows. This includes subsidiary operating expenses and management costs, presented as Other expenses.

The subsidiaries exclusively constitute investments as part of the management of the investment portfolio of the GPFG, and are omitted from consolidation in the financial statements of Norges Bank pursuant to Section 2-3, fourth paragraph, of the above-mentioned regulation.

3.14 Internal trades between portfolios

Internal trades in the form of money market lending or borrowing or reverse repurchase agreements between the investment portfolio of the GPFG and the long-term reserves at Norges Bank are presented as a net receivable/payable between the two reporting entities on the balance sheet line Other financial assets (for the party with the net receivable) and Other financial liabilities (for the party with the net payable). Corresponding income items are presented net in the respective income statement as either interest income or interest expense. Such internal trades are made at arm's length, i.e. on market terms.

3.15 Related parties

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions with the government.

3.16 Notes and coins

Notes and coins in circulation are recognised in the balance sheet at face value when they are placed into circulation. Notes and coins are derecognised when they are withdrawn from circulation and no later than the expiry of the ten-year deadline for redemption. Notes and coins not redeemed by the ten-year deadline are recognised in profit or loss as Other financial income/expenses. Notes and coins redeemed after the ten-year deadline are recognised on the same line as an expense in profit or loss. Expenses for the production of notes and coins are recognised in profit or loss as incurred in Other expenses.

3.17 Pensions and other benefit obligations

Accounting treatment of pension and other benefit obligations is in accordance with IAS 19 Employee Benefits. Norges Bank has several pension plans, a funded plan for Bank employees financed by the Bank's pension fund, in addition to unfunded plans for a number of other employees. The Bank's other benefit obligations are related to restructuring measures in the form of early retirement and termination benefits. Calculations for fund-based plans through Norges Bank's pension fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the National Insurance basic amount (G). The economic assumptions on which the calculation of the benefit obligations is based may change over time. The net benefit obligation is the difference between the present value of the benefit obligation and the fair value of plan assets.

Plan assets are measured at fair value. Benefit obligations and plan assets are measured on the balance sheet date. Employers' National Insurance contributions are included and are estimated on the basis of net actual underfunding. Pension expense is calculated on the basis of a straight-line attribution of benefit over the period of service and consists of the current service cost, less the return on plan assets. Changes in actuarial gains and losses are recognised in total comprehensive income.

3.18 Deposits from the government

Deposits from the government are recognised as a liability at fair value and measured at amortised cost.

3.19 Presentation of the investment portfolio of the GPFG

Income from the investment portfolio of the GPFG and income attributed to the GPFG's krone account are presented on separate lines in the statement of comprehensive income. The net value of the investment portfolio and the balance of the GPFG's krone account are presented on separate lines on the asset and liability side of the balance sheet, respectively. Deposits and withdrawals from the GPFG's krone account are presented on separate lines in the statement of cash flows.

Financial reporting for the investment portfolio of the GPFG is presented in a separate note and has been prepared in accordance with IFRS.

3.20 International Monetary Fund (IMF)

Norges Bank and the IMF

Pursuant to Section 25 of the Norges Bank Act, Norges Bank shall administer Norway's financial rights and fulfil the obligations ensuing from participation in the IMF.

Allocated Special Drawing Rights

Allocated Special Drawing Rights (SDRs) are recognised as an asset in the balance sheet. The value of SDRs is calculated on the basis of a currency basket comprising USD, EUR, GBP and JPY. The currency code for this supplementary asset and unit of account is XDR. However, it is customary to use SDR instead, and Norges Bank has chosen to follow this practice in the financial statements. The equivalent value of allocated SDRs in the IMF shows Norges Bank's total allocations of SDRs since the scheme entered into force in 1970 and is recognised as a liability. SDRs are measured at amortised cost.

Reserve tranche position
Norges Bank's reserve tranche position in the IMF comprises Norges Bank's allocated quota in the IMF less the IMF's krone deposit with Norges Bank. The outstanding balance with the IMF is recognised net in the balance sheet. The reserve position is measured at amortised cost.

Loans to the IMF and international commitments under the auspices of the IMF
At initial recognition, loans to the IMF and international commitments under the auspices of the IMF are recognised in the balance sheet at fair value. Subsequent measurement is at amortised cost.

3.21 Lending to banks
At initial recognition, loans to banks are recognised in the balance sheet at fair value. There are no establishment fees or other directly attributable transaction costs. If there is an indication that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. The carrying amount of the engagement is reduced, and the amount of the loss for the period is recognised in profit or loss.

3.22 Other assets
Non-current assets
Non-current assets are recognised at cost, less accumulated straight-line depreciation or amortisation over their expected useful life. An impairment test is performed if there is an indication of impairment. If the carrying amount exceeds fair value, the carrying amount will be written down to fair value.

Gold
Norges Bank has holdings of gold coins and gold bars as part of the Bank's historical collections. The holdings were measured at fair value on the date the gold was reclassified from international reserves to non-current assets. An impairment test is performed if there is an indication of impairment. If the carrying amount exceeds fair value, the carrying amount will be reduced to fair value. In the event the metallic value of gold rises, the holdings are not revalued.

Art and numismatic collections
Norges Bank has a substantial collection of art, gifts and numismatic objects such as medals, banknotes and coins. The collection has been recognised at estimated cost on the basis of an appraisal in 2005. An impairment test is performed if there is an indication of impairment.

4. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT APPLICABLE IN 2012

IASB Final standards and IFRS end IFRIC interpretations with application dates after 2012.

IFRS 9 Financial Instruments
IFRS 9 replaces the classification and measurement rules for financial instruments in IAS 39 Financial Instruments – Recognition and Measurement. In accordance with IFRS 9, financial assets with basic loan features shall be carried at amortised cost, unless the business model indicates that they should be carried at fair value. All other financial assets shall be carried at fair value.

Classification and measurement of financial liabilities under IFRS 9 is a continuation of IAS 39, with the exception of financial liabilities designated as at fair value through profit or loss (fair value option), where changes in fair value relating to own credit risk shall be separated and be presented in other comprehensive income.

All portfolios of equities, bonds and financial derivatives, as well as real estate investments classified as financial assets, have as at 31 December 2012 a business model that is also consistent with the classification measured at fair value under IFRS 9.

The effective date of IFRS 9 has been deferred to annual periods beginning on or after 1 January 2015, but the standard has not yet been endorsed by the EU. Norges Bank expects to apply IFRS as from 1 January 2015, under the assumption that it will be endorsed by the EU. Application of IFRS 9 is not expected to result in material changes in classification, recognition or measurement for Norges Bank's financial reporting on the transition date.

IFRS 10 Consolidated Financial Statements
IFRS 10 Consolidated Financial Statements (IFRS 10) supersedes IAS 27 Consolidation and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. See below on further amendments concerning investment entities.

In the EU, IFRS 10 is effective for accounting periods beginning on or after 1 January 2014. IFRS 10 (excluding rules for investment entities) was endorsed by the EU in the fourth quarter of 2012.

If the investment portfolio of the GPFG is not an investment entity (see below), Norges Bank does not expect that the adoption of IFRS 10 will have a material impact on the consolidated financial statements of the investment portfolio of the GPFG or other areas of Norges Bank. Norges Bank expects to apply IFRS 10 as from 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 to provide an exception to the consolidation requirements in IFRS 10 for reporting entities that qualify as investment entities. Qualifying reporting entities are required to measure investments in subsidiaries at fair value and recognise the investments as a single line item on the balance sheet. In addition, qualifying reporting entities will be required to measure investments in joint ventures or associates at fair value rather than using the equity method. Finally, financial instruments shall be measured at fair value through profit or loss. This means that only entities with primarily fair value business models may apply the investment entity model.

Norges Bank is in the process of obtaining clarification as to whether the investment portfolio of the GPFG is an investment entity under the new rules. Norges Bank as such is not an investment entity. If the investment portfolio qualifies as an investment entity, this will entail changes in its financial reporting. These mainly comprise a change from consolidation to fair value measurement for subsidiaries. In this connection, fair value measurement will also apply to joint ventures.

The Investment Entity amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014. The amendments are expected to be endorsed by the EU in the third quarter of 2013. Norges Bank expects to apply IFRS 10 including these amendments as from 1 January 2014, under the assumption that the amendments will be endorsed by the EU. Norges Bank is deferring application of IFRS 10, IFRS 11 and IFRS 12 until the Investment Entity rules have been endorsed, as permitted by the EU.

IFRS 11 Joint Arrangements
IFRS 11 Joint Arrangements (IFRS 11) supersedes SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. A joint arrangement is an arrangement over which two or more parties have joint control, and has the following characteristics, that the parties are bound by a contractual arrangement and the contractual arrangement gives two or more of those parties joint control over the arrangement. A joint arrangement is either a joint operation (the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities) or a joint venture (the parties that have joint control over the arrangement have rights to the net assets). While IFRS 11 specifies two primary accounting methods, it clearly indicates when a particular method must be used, unlike the choice of accounting method permitted currently. Unless the fair value exception is used, jointly controlled entities shall be accounted for using the equity method as described in IAS 28 Investments in Associates (as revised in 2011).

In the EU, IFRS 11 is effective for annual periods beginning on or after 1 January 2014, and was endorsed by the EU in 2012.

Norges Bank does not expect that the adoption of IFRS 11 will have a material impact on the financial reporting for the investment portfolio of the GPFG or other areas of Norges Bank, if the investment portfolio is not an investment entity (see above). If the investment portfolio is an investment entity, the accounting principles for joint ventures will be changed from the equity method to fair value measurement Norges Bank when the new standard is adopted. Norges Bank expects to apply IFRS 11 as from 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 Disclosure of Interests in Other Entities (IFRS 12) requires the disclosure of information that enables users of financial statements to evaluate the nature of and risks associated with interests in other entities as well as the effects of those interests on the entity's balance sheet,

income and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates, or unconsolidated structured entities.

In the EU, IFRS 12 is effective for annual periods beginning on or after 1 January 2014, and was endorsed by the EU in 2012.

Norges Bank does not expect that the adoption of IFRS 12 will have a material impact on the financial reporting for the investment portfolio of the GPFG or other areas of Norges Bank. Norges Bank expects to apply IFRS 12 as from 1 January 2014. If the investment portfolio is an investment entity, somewhat more substantial changes in note disclosures are expected when IFRS 10 and IFRS 12 are adopted.

IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement (IFRS 13) defines fair value and sets out a single IFRS framework for measuring fair value and disclosures about fair value measurement. IFRS 13 applies when another IFRS requires or permits fair value measurement or disclosures concerning fair value measurement.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with early application permitted. IFRS 13 was endorsed by the EU in 2012. Norges Bank does not expect that the adoption of IFRS 13 will have a significant impact on its financial reporting. Norges Bank will apply IFRS 13 as from 1 January 2013.

IAS 19 Employee Benefits

Norges Bank applies the principle of full recognition of actuarial gains and losses in total comprehensive income under the current IAS 19. The amendments to IAS 19 will not have a material impact on Norges Bank's recognition of its pension benefit obligation. The amendments may entail additional note disclosures.

Note 2 Significant estimates and critical accounting judgements

The preparation of the financial statements of Norges Bank, which include the financial reporting for the investment portfolio of the GPFG in accordance with the accounting policies in Note 1, involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented.

Estimates are based on best judgement; however, actual results may deviate from estimates. In cases of particularly uncertain estimates, this is described in the respective notes.

SIGNIFICANT ESTIMATES

Below is an overview of significant estimates on the reporting date.

Fair value of securities, financial assets, financial derivatives and investment property not traded or quoted in an active market.

Some of the holdings within the investment portfolio of the GPFG and the long-term portfolio are not traded in active markets, i.e. they have been allocated to Level 2 or Level 3 in a fair value hierarchy, as defined in IFRS 7.27A. This pertains primarily to bond holdings, OTC financial derivatives and real estate investments, while nearly all equities are allocated to Level 1 (traded in active markets).

Level 2 and 3 holdings are priced using models, and the resulting value is defined as an estimate. The resulting values of holdings allocated to Level 3, with significant use of non-observable inputs, are regarded as particularly uncertain estimates. Generally, widely accepted, standard pricing models are used. For further information on pricing models and the control environment, see Note 23 Fair value measurement of financial instruments Note 25 GPFG Note 14 Fair value measurement.

Investment properties are measured at fair value. Fair value is based on external appraisals and valuations, or, if necessary, recently completed comparable transactions in comparable markets. The determination of fair value in such appraisals and valuations requires the use of estimates such as future cash flows from assets (based on assumptions regarding tenant occupancy rates, tenant profiles, future revenue streams, the capital value of property, plant and equipment and the overall physical condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions on the reporting date and are allocated to Level 3.

Gains/losses on securities before foreign exchange gains and losses, and Foreign exchange gains and losses

Gains and losses on securities and financial derivatives resulting from changes in the price of the security/instrument (before foreign exchange gains and losses) and gains and losses resulting from changes in foreign exchange rates (foreign exchange gains and losses) are presented separately in the income statement. The method of allocating total gains and losses in NOK for a holding for a period to a security element and foreign exchange element is an estimate, as different methods will result in different allocations.

Foreign exchange element:

Norges Bank calculates unrealised gains and losses due to changes in foreign exchange rates based on the cost in local currency of the holding and the change in the foreign exchange rate from the time of purchase until the balance sheet date. If the holding has been purchased in a previous period, gains and losses from previous periods that have already been recognised in profit or loss are deducted to arrive at the gain or loss for the current period. Accordingly, for realised gains or losses, the foreign exchange rate on the date of sale is used instead of the closing rate at the end of the reporting period, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Security element:

Unrealised gains and losses from changes in the security price are calculated based on the change in the security price from the purchase date to the balance sheet date and the closing rate at the balance sheet date, and gains and losses recognised in the income statement in previous periods are deducted to arrive at the gain or loss from security prices for the current period. Realised gains and losses from changes in security prices are based on the selling price as opposed to the price on the balance sheet date and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Krone account of the GPFG

The underlying estimate uncertainty in the GPFG is reflected in the accounting policies used in the accounting of the GPFG. The most significant items with sources of estimate uncertainty are discussed above. Changes in the policies or assumptions will also change the amount in the krone account, since it contains cash transfers and fair value changes in the underlying instruments. For further information regarding, risk, valuation and sensitivity, see Note 2.

Pension benefit obligation

Norges Bank has funded and unfunded pension and other benefit obligations. All funded and unfunded plans are included in the Bank's actuarial calculations and are carried at fair value. The Bank's funded plan for employees with employment in Norway is financed by Norges Bank's own pension fund, in addition to unfunded plans for a number of other employees, as well as employees in foreign countries. Unfunded plans are funded through operations. Employees in foreign countries have defined contribution plans. The funded plan is a defined benefit plan. Measurement of the pension benefit cost and the pension benefit obligation for these plans requires determination of a number of assumptions and estimates, including future salaries, discount rates, early retirement frequency and return on plan assets. Norges Bank follows Norwegian Accounting Standards Board (NASB) guidelines in determining assumptions for defined benefit plans under IAS 19 Employee Benefits. The guideline assumptions are assessed against actual conditions at Norges Bank before a decision is made to apply them.

Changes in these assumptions may affect the pension plans' financial position, in addition to the net periodic pension benefit cost for the period. The pension benefit obligation (PBO) is significantly affected by changes in the discount rate and expected salary and pension benefit adjustments. The PBO is also materially affected by demographic assumptions. Changes in the aforementioned parameters and changes in the PBO will affect the net pension benefit cost in subsequent periods, both the service cost for the year and the effect of discounting. Norges Bank's PBO pertains exclusively to employees with employment in Norway.

For 2012, Norges Bank has chosen to apply a discount rate derived from corporate bond yields (in Norway, the covered bond market has been used as a basis), while for 2011, a discount rate was applied derived from government bond yields.

Notes and coins in circulation

Notes and coins are derecognised from the balance sheet and recognised as income after an announced withdrawal from circulation and the expiry of the ten-year deadline for redemption, under the assumption that at this point, remaining notes and coins outstanding will not be redeemed. Nevertheless, upon application, older note and coin series may be redeemed in special cases. In such cases, the redemption amount will be recognised as an expense.

SIGNIFICANT CRITICAL ACCOUNTING JUDGEMENTS RELATED TO THE APPLICATION OF ACCOUNTING POLICIES

The following are the judgements made by management related to the application of accounting policies regarded to have the greatest impact on the amounts recognised in the financial statements.

Choice of functional currency

The management of Norges Bank judges the Norwegian krone (NOK) to be the functional currency in the Bank, as this is the dominant currency with regard to the underlying activities of the Bank. The owner's capital in the GPFG, in the form of the GPFG krone account, is denominated in NOK, and a significant share of the costs related to the management of the assets is in NOK.

The financial reporting of the investment portfolio of the GPFG is part of the financial statements of Norges Bank, and on this basis the judgement is that the investment portfolio's functional currency is also the Norwegian krone, even though changes in the krone exchange rate against other currencies have no effect on the investment portfolio's international purchasing power. The Bank's and the investment portfolio's results are measured and reported internally and to the owner in NOK, while the percentage return for the investment portfolio is reported both in NOK and in the currency basket specified in the investment mandate issued by the Ministry of Finance (for additional information, see Note 25 GPFG Note 15 Risk). Furthermore, no single investment currency stands out as dominant in the area of asset management.

When subsidiaries are established or acquired in connection with the management of the real estate asset class within the investment portfolio of the GPFG, an assessment is made concerning the appropriate functional currency for use in the subsidiary's financial reporting, and for use in the consolidation into the consolidated financial statements of the investment portfolio. Normally the local currency will be indicative of the appropriate functional currency for the company, given that this is the currency of the economic environment in which the entity operates, and the currency for all of its transactions.

In cases where there is doubt related to which currency is the functional currency or whether the entity has operations, then the currency of its financing activities and the denomination of any income and expenses will be considered, together with the consideration of whether the entity is merely an extension of Norges Bank into the local market.

Assessment of degree of control

In the case of investments in entities or assets which entail a substantial ownership interest, an assessment is made to determine whether that interest represents control over the entity or the asset. This assessment is necessary to determine whether the investment should be accounted for as an investment in a financial asset, an associate, a jointly controlled entity/asset or a consolidated subsidiary. As part of the assessment of the degree of control, the ownership interest will be given significant consideration, along with the contractual terms in the shareholder and joint venture agreements that may suggest a greater or lesser degree of control than that based on an observation of the ownership interest taken in isolation. A total assessment of all relevant elements in each specific case forms the basis for a conclusion concerning whether or not the Bank has control over the investment.

Note 3 Net income from financial instruments

Amounts in NOK millions

Table 3.1 Net income from financial instruments before foreign exchanges gains/losses	Interest income/ expense	Dividends	Net income/ expense	Realised gains/ losses	Unrealised gains/ losses	Total 2012
Interest income from deposits and claims	19	-	-	-	-	19
Interest income from lending to banks	283	-	-	-	-	283
Interest income from lending associated with reverse repurchase agreements	47	-	-	-	-	47
Net income/expense and gains/losses from:						
– Equities	-	2 619	76	-63	13 118	15 750
– Bonds and other fixed-income securities	4 009	-	-	2 092	-177	5 924
– Financial derivatives	-1	-	-	-106	64	-43
Interest expense, borrowing associated with repurchase agreements	-3	-	-	-	-	-3
Interest expense on banks' and Treasury deposits:						-
– Of which interest expense paid to Treasury	-641	-	-	-	-	-641
– Of which interest expenses paid on sight deposits from banks	-513	-	-	-	-	-513
– Of which interest expenses paid on F-deposits from banks	-185	-	-	-	-	-185
Of which interest expenses paid on depots operated by banks	-17	-	-	-	-	-17
Net interest income, from claims on/liabilities to the International Monetary Fund	15	-	-	-	-	15
Tax expense	-	-	-13	-	-	-13
Other financial income/expenses*	98	-	1 229	-	-	1 327
Net income from financial instruments before foreign exchang gains/losses	**3 111**	**2 619**	**1 292**	**1 923**	**13 005**	**21 950**

* Other financial income/expenses is a new line as from the annual financial statements for 2012 as a consequence of the recognition in profit or loss of notes and coins after the expiry of the deadline for redemption (see Note 21 Notes and coins in circulation). Comparative amounts for 2011 have been restated.

Amounts in NOK millions

	2011					
	Interest income/ expense	Dividends	Net income/ expense	Realised gains/ losses	Unrealised gains/ losses	Total
Interest income from deposits and claims	111	-	-	-	-	111
Interest income from lending to banks	946	-	-	-	-	946
Interest income from lending associated with reverse repurchase agreements	105	-	-	-	-	105
Net income/expense and gains/losses from:						-
– Equities	-	2 332	43	246	-8 825	-6 204
– Bonds and other fixed-income securities	4 180	-	24	275	7 294	11 773
– Financial derivatives	-20	-	-	-18	129	91
Interest expense, borrowing associated with repurchase agreements	-28	-	-	-	-	-28
Interest expense on banks' and Treasury deposits:		-	-	-	-	-
– Of which interest expense paid to Treasury	-917	-	-	-	-	-917
– Of which interest expenses paid on sight deposits from banks	-996	-	-	-	-	-996
– Of which interest expenses paid on F-deposits from banks	-144	-	-	-	-	-144
Of which interest expenses paid on depots operated by banks	-24	-	-	-	-	-24
Net interest income, from claims on/liabilities to the International Monetary Fund	31	-	-	-	-	31
Tax expense	-	-	-22	-	-	-22
Other financial income/expenses*	90	-	-40	-	-	50
Net income from financial instruments before foreign exchang gains/losses	**3 334**	**2 332**	**5**	**503**	**-1 402**	**4 772**

Interest terms for loans to banks

Fixed-rate loans (F-loans) are an instrument primarily used to supply liquidity to the banking system. They are issued against collateral in the form of securities. The maturity on F-loans is determined by Norges Bank and varies depending on the projection of structural liquidity. Average maturity on F-loans to banks was 0.1 month in 2012 compared with 0.9 month in 2011.

The interest rates on F-loans are normally determined by multi-price auctions. In a multi-price auction, also referred to as an American auction or an ordinary auction, banks submit bids for a desired amount and interest rate. Norges Bank decides the aggregate amount of the allotment. The banks' interest rate bids are ranked in descending order. Banks that place bids within the aggregate amount will be awarded an amount at the interest rate submitted.

Interest terms for deposits from banks

Sight deposits: Banks can deposit unlimited reserves in Norges Bank via the standing deposit facility. The interest rate on deposits less than or equal to a bank's quota is equal to the key policy rate (sight deposit rate). Up until 3 October 2011, banks' sight deposits with Norges Bank bore the key policy rate. From 3 October 2011, banks receive interest only on a specific portion of sight deposits – a quota – at the key policy rate. Sight deposits in excess of this quota bear a lower interest – the reserve rate. In 2012, the reserve rate was 100 basis points lower than the key policy rate, the same for the corresponding period in 2011.

Banks have been divided into three groups, with all banks in a particular group allocated the same quota, except for settlement banks, which are allocated larger quotas.

Fixed-rate deposits: Norges Bank reduces the quantity of reserves in the banking system by providing banks with fixed-rate deposits (F-deposits). As in the case of F-loans, the interest rate is normally determined by multi-price auction. Banks submit bids for a desired amount and interest rate. Norges Bank decides the aggregate amount of the allotment. The banks' interest rate bids are ranked in ascending order. Banks that place bids within the aggregate amount will be awarded an amount at the interest rate submitted. The maturity on F-deposits is determined by Norges Bank and varies depending on the projection of structural liquidity. Norges Bank can provide F-deposits at a floating rate, i.e. the interest rate on the F-deposits depends on the benchmark rate in the money market. Average maturity for F-deposits from banks was 0.1 month in both 2012 and 2011.

Interest terms for deposits from the Treasury

Interest terms for deposits from the government are set in a special agreement between Norges Bank and the Ministry of Finance. The interest on deposits is calculated on the basis of money market rates weighted between Norwegian and foreign rates in proportion to investments in Norges Bank's balance sheet (excluding Investment for and Deposits krone account GPFG).

Interest on Treasury deposits in 2012 was paid at an annual rate of 0.75% in Q1, 0.50% in Q2 and 0.25% in Q3 and Q4. In 2011, interest was paid at annual rate of 0.50% in Q1 and Q2, and 0.75% in Q3 and Q4. The same interest rates apply to deposits from public sector account holders who receive interest on their deposits.

Tax expense

Tax expense comprises taxes in accordance with IAS 12 Income Taxes. The applicable taxes are withholding tax on dividend and interest income and capital gains tax. These give rise to tax expenses related to the long-term portfolio (see specification in Table 3.2. below).

For a description of the treatment of tax expenses, see Note 25 GPFG Note 4 Tax expense.

Amounts in NOK millions

Table 3.2 Tax expense, long-term portfolio — 2012

	Gross income before taxes	Income taxes deducted	Income taxes refunded	Tax expense	Net income after taxes
Dividend equities – withholding tax	2 595	47	-34	13	2 582
Realised gains/losses from equities – capital gains tax	-63	0	0	0	-63
Interest income from bonds and other fixed income instruments – withholding tax	3 720	0	0	0	3 720
Realised gains/losses from bonds and other fixed income instruments – capital gains tax	2 226	0	0	0	2 226
Total tax expense				**13**	

Amounts in NOK millions

	2011				
	Gross income before taxes	Income tax deducted	Income tax refunded	Tax expense	Net income after taxes
Dividend equities – withholding tax	2 267	55	-33	22	2 245
Realised gains/losses from equities – capital gains tax	246	0	0	0	246
Interest income from bonds and other fixed income instruments – withholding tax	4 040	1	-1	0	4 040
Realised gains/losses from bonds and other fixed income instruments – capital gains tax	309	0	0	0	309
Total tax expense				**22**	

Note 4 Management fee, GPFG

Table 4.1 shows Norges Bank's total operating expenses that are reimbursed by the Ministry of Finance as principal for the management of the investment portfolio of the GPFG. Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each of the portfolios managed by Norges Bank. All other costs included in the basis for calculation of the management fee are costs that are common to the management of the investment portfolio and the long-term reserves, and are allocated to the individual portfolio using a cost-allocation model based primarily on market values and asset-class composition. Performance-based fees to external managers are covered outside of the set limit, as part of the management fee. The management fee is a function of expenses presented in Norges Bank's income statement as Total other operating expenses.

Amounts in NOK millions

Table 4.1 Specification of the mangement fee	2012	2011
Salaries, social security and other personnel-related costs*	587	495
IT, information and decision support systems	222	214
Custody and settlement costs	351	406
Outsourced IT and analysis costs	218	254
Consulting and legal fees	56	73
Base fees to external managers	272	371
Other costs	90	95
Allocated common costs Norges Bank*	90	85
Management fee excluding performance-based fees	**1 886**	**1 993**
Performance-based fees to external managers	307	546
Total management fee	**2 193**	**2 539**

* As from the annual financial statements for 2012, pension costs that were previously presented as part of Allocated common costs Norges Bank are presented on the line Salaries, social security and other personnel-related costs. Comparative amounts for 2011 have been restated. Furthermore, training and recruitment expenses have been reclassified from Other costs to Salary, social security and other personnel related costs. Comparative amounts for 2011 have been restated.

Note 5 Other operating income

Amounts in NOK millions

Table 5.1 Other operating income	2012	2011
Services, banks	59	56
Services, government*	27	33
Rent, external	20	32
Other income	7	8
Other operating income	**113**	**129**

* In 2011, Services, government were shown net. This item is shown gross for 2012. Comparative amounts for 2011 have been restated.

Services for banks

Norges Bank performs settlement services for banks through Norges Bank's settlement system (NBO). To promote efficient and robust settlement of payments in Norges Bank, expenses for account maintenance and settlement services are covered by the annual fees for NBO. The assumption is that revenues will cover two-thirds of the overall cost of implementing and operating the settlement system. A third of expenses is attributable to central banking functions and covered by Norges Bank.

Services for the government

The Ministry of Finance is responsible for managing the government's debt securities and cash holdings. Pursuant to agreements between Norges Bank and the Ministry of Finance, some responsibilities associated with the management of the government's debt and cash holdings have been assigned to Norges Bank. Norges Bank's responsibilities are related to market operations in government bonds and Treasury bills. The Ministry of Finance covers Norges Bank's expenses for these services.

Note 6 Personnel expenses

Amounts in NOK millions

Table 6.1 Personnel expenses	2012	2011
Salaries and fees	671	600
Employer's social security contributions	89	85
Pension expense (see Note 22)	170	95
Restructuring costs (see Note 22)	0	2
Other personnel expenses	120	116
Personnel expenses	**1 050**	**898**

Norges Bank had 660 permanent employees at 31 December 2012, corresponding to 654.5 full-time equivalents (FTEs). At 31 December 2011, there were 629 permanent employees, corresponding to 624.7 FTEs.

Benefits to governing bodies and senior management

Supervisory Council

In 2012, the chair of the Supervisory Council received annual remuneration of NOK 48 400, the deputy chair received NOK 30 400 and the other members of the Council received NOK 23 600. Alternates received annual fixed remuneration of NOK 3 900 and NOK 2 250 for each meeting attended. Members of the Permanent Committee receive annual remuneration of NOK 48 400. Total remuneration to members and alternates of the Permanent Committee and the Supervisory Council totalled NOK 699 542 in 2012, compared with 646 000 in 2011.

Expenses for Norges Bank's Supervisory Council and the Office of the Supervisory Council amounted to NOK 13 340 870 in 2012, compared with NOK 13 139 757 in 2011. With regard to remuneration to members of the Supervisory Council and the director of the Office of the Supervisory Council, reference is made to the Supervisory Council's report to the Storting for 2012.

Executive Board – external members

Remuneration to members and alternates of the Executive Board is determined by the Ministry of Finance.

Table 6.2 Remuneration to the Executive Board

				2012
Name	Total remuneration paid	Executive Board	Audit Committee	Remuneration Committee
Lilselott Kilaas	256 000	190 000	66 000	-
Egil Matsen	245 000	190 000	55 000	-
Ida Helliesen	245 000	190 000	55 000	-
Eirik Wærness	210 000	190 000	-	20 000
Britt Rugland	210 000	190 000	-	20 000

				2011
Name	Total remuneration paid	Executive Board	Audit Committee	Remuneration Committee
Lilselott Kilaas	248 000	182 000	66 000	-
Asbjørn Rødseth	237 000	182 000	55 000	-
Ida Helliesen	237 000	182 000	55 000	-
Eirik Wærness	207 000	182 000	-	25 000
Britt Rugland	207 000	182 000	-	25 000

Alternates received a fixed annual remuneration of NOK 125 000. Total remuneration to members and alternates of the Executive Board, Audit Committee and Remuneration Committee was NOK 1 416 000 in 2012, compared with NOK 1 376 000 in 2011.

Governor and deputy governor

The salaries of the governor and deputy governor of Norges Bank are determined by the Ministry of Finance. In addition, they have a company car at their disposal, a free telephone and insurance covered by their employer. Governor Øystein Olsen is a member of Norges Bank's pension fund. The terms and conditions of his retirement benefits are the terms and conditions for the pension fund in force on the date in question. A full retirement pension for Deputy Governor Jan F. Qvigstad is 2/3 of final salary adjusted in line with pensions in the National Insurance scheme. Retirement benefits are payable from the date of retirement, albeit not before the age of 65.The period of service for full benefit is 12 years. The pension plan will be coordinated with other public pension plans, but this is not taken into account in the calculation of current earned pension benefits. Deputy Governor Qvigstad has a pension entitlement from his previous period of service at Norges Bank. Coordination of this entitlement would offset current estimated earned pension benefit.

Table 6.3 Remuneration to the governor and deputy governor

					2012
Executive	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	1 959 712	165 730	581 941	-
Deputy Governor	Jan F. Qvigstad	1 628 673	171 061	1 695 736	1 555 000

					2011
Executive	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	1 768 349	147 264	539 835	-
Deputy Governor	Jan F. Qvigstad	1 587 482	165 801	2 691 170	1 890 000

Salaries and retirement benefits for other senior executives at Norges Bank

Senior executives are entitled to the same retirement benefits and have the same borrowing rights as the Bank's other employees. Pension plans are discussed in Note 22 Pension benefit obligation and loans to employees are discussed in Note 16 Other financial assets.

Benefits to senior executives in Norges Bank's central banking operations

The Executive Board sets a salary interval for area directors in central banking operations. The governor determines annual salary within this interval.

On 1 June 2012, Norges Bank's central banking operations underwent a reorganisation that involved changes in designations, names and job titles from 2011.

Table 6.4 Remuneration to senior executives					2012
	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Amund Holmsen [1)]	820 650	13 376	180 240	2 815 000
Executive Director, Monetary Policy	Birger Vikøren [2)]	834 710	15 758	193 496	1 093 518
Executive Director, Markets and Banking Services	Kristin Gulbrandsen [3)]	1 456 843	26 040	396 660	2 129 577
Executive Director, Corporate and Shared Services	Jannecke Ebbesen	1 389 511	25 883	348 589	-
Executive Director, General Secretariat	Jon Nicolaisen [4)]	1 463 147	21 970	419 473	150 000
Director, Internal Audit	Ingunn Valvatne	1 433 046	36 462	426 548	1 232 000
Director, Communications and External Relations	Siv Meisingseth [5)]	517 537	10 047	175 510	2 164 461
General Counsel	Marius Ryel [6)]	1 461 524	24 122	428 564	-

Benefits disclosed pertain to the period during which the employee was a member of the executive management group.

1) Amund Holmsen became Executive Director of Financial Stability on 1 June 2012
2) Birger Vikøren became Executive Director of Monetary Policy on 1 June 2012
3) Kristin Gulbrandsen became Executive Director of Markets and Banking Serivces on 1 June 2012
4) Jon Nicholaisen became Executive Director of the General Secretariat on 1 June 2012.
5) Siv Meisingseth was on leave until 1 August 2012.
6) Marius Ryel became General Counsel on 1 June 2012.

Mette Fossum Beyerwas a member of the executive management group as acting Director of Communications and External Relations until 1 August 2012. Renumeration received for this position in 2012 was NOK 661 622 in salary paid, NOK 12 431 in other benefits and NOK 284 161 in pension benefits earned.

					2011
Director	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
Norges Bank Financial Stability	Kristin Gulbrandsen	1 402 644	27 947	309 115	2 196 475
Norges Bank Monetary Policy	Jon Nicolaisen	1 402 932	20 452	307 819	250 000
Norges Bank Administration	Jannecke Ebbesen	1 329 918	13 337	256 160	-
Legal Department	Marius Ryel	1 403 062	21 887	324 002	-
Communications Department	Mette Fossum Beyer [1)]	337 500	4 738	352 868	-
Internal Audit	Ingunn Valvatne	1 372 014	36 889	321 895	1 274 000

1) M. Fossum Beyer is serving as Acting Communications Director, substituting for S. Meisingseth, who is on leave.

Benefits to senior executives in Norges Bank Investment Management (NBIM)

The Executive Board sets a salary interval for the chief executive officer (CEO) of NBIM. The governor determines annual salary within this interval. Salaries for other members of the NBIM management team are determined by the CEO of NBIM in consultation with the Executive Board and based on annual assessments.

Table 6.5 Benefits to senior executives in NBIM

2012	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
CEO	Yngve Slyngstad	5 930 377	46 933	542 241	704 662
Deputy CEO and Chief of Staff	Trond Grande	3 791 524	19 549	426 830	-
CIO Equities	Petter Johnsen	4 903 500	60 400	490 350	-
CIO Real Estate	Karsten Kallevig	3 800 367	31 235	424 906	-
Chief Treasurer	Jessica Irschick	4 903 500	208 987	490 350	-
Chief Risk Officer	Jan Thomsen	3 433 215	12 532	407 460	-
Chief Operating Officer	Age Bakker	3 059 321	16 097	457 104	-

2011	Name	Salary paid	Value of other benefits	Pension benefits earned	Employee loan
CEO	Yngve Slyngstad	5 751 162	25 620	382 809	805 328
Deputy CEO and Chief of Staff	Trond Grande [1]	3 609 575	23 676	292 331	-
CIO Equities	Petter Johnsen [2]	3 228 750	50 587	322 875	-
CIO Real Estate	Karsten Kallevig [3]	2 812 500	23 965	214 821	-
Chief Treasurer	Jessica Irschick	4 520 250	38 789	452 025	-
Chief Risk Officer	Jan Thomsen [4]	3 296 924	17 656	303 120	-
Chief Operating Officer	Age Bakker	2 760 630	16 382	345 161	-

Benefits disclosed pertain to the period during which the employee was a member of the leader group.

1) Trond Grande became Deputy CEO on 1 February 2011 and Chief of Staff on 1 April 2011 after serving as Chief Risk Officer.
2) Petter Johnsen became CIO Equities on 1 April 2011.
3) Karsten Kallevig became CIO Real Estate on 1 April 2011.
4) Jan Thomsen became Chief Risk Officer on 1 April 2011, after serving as Chief Compliance Officer.

The table above shows the NBIM leader group at year-end 2011. Dag Dyrdal was a member of the leader group as Chief Strategic Relations Officer until 1 April 2011. Remuneration received for this position in 2011 was NOK 569 709 in salary paid, NOK 6 977 in other benefits and NOK 86 452 in earned pension benefits. Mark Clemens was a member of the leader group as Chief Administrative Officer until 1 April 2011. Remuneration received for this position in 2011 was NOK 582 900 in salary paid, NOK 4 642 in other benefits and NOK 76 542 in earned pension benefits. Mark Clemens also had an employee loan in the amount of NOK 766 668. Bengt Ove Enge was a member of the leader group as Chief Investment Officer until 30 June 2011. Remuneration received for this position in 2011 was NOK 2 202 763 in salary paid, NOK 6 459 in other benefits and NOK 234 027 in earned pension benefits.

Note 7 Other operating expenses

Amounts in NOK millions

7.1 Other operating expenses	2012	2011
IT, information and decision support systems	290	261
Base fees to external managers	272	369
Performance-based fees to external managers	307	546
Custody and settlement costs	377	441
Outsourced IT and analysis costs	298	320
Consulting and legal fees	145	153
Other expenses	235	271
Total other operating expenses	**1 924**	**2 361**

Amounts in NOK thousand, exclusive VAT

7.2 Fees, external auditor	2012	2011
Statutory audit*	10 074	9 914
Other assurance services	2 908	1 984
Tax advice	16	595
Other services	660	1 317
Total fees, external auditor	**13 658**	**13 810**

* Includes limited reviews of the GPFG's quarterly financial reporting. Comparative amounts for 2011 have been restated.

Audit expenses in subsidiaries

Norges Bank has established subsidiaries whose activities exclusively constitute investments as part of the management of the investment portfolio of the GPFG.

Amounts in NOK thousands

7.3 Fees, external auditors subsidiaries	2012	2011
Statutory audit	1 537	186
Other assurance services	-	-
Tax advice	246	-
Other services	85	93
Total fees, external auditors subsidiaries	**1 868**	**279**

Note 8 Foreign exchange reserves – Financial assets and financial liabilities by portfolio and currency

Norges Bank's foreign exchange reserves comprise Norges Bank's foreign exchange assets. Norges Bank's foreign exchange reserves are divided between a long-term portfolio managed by NBIM and a money market portfolio and a petroleum buffer portfolio managed by Markets and Banking Services in central banking operations. The portfolios are managed under different mandates and have different risk profiles.

The petroleum buffer portfolio is used for regular purchases of foreign exchange for the GPFG. This portfolio receives funds from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the foreign exchange market.

Amounts in NOK millions

Table 8.1 Foreign exchange reserves by portfolio			31 Dec. 2012	
			PORTFOLIOS	
	Long-term	Money market	Petroleum buffer	Total
FINANCIAL ASSETS				
Deposits in banks	107	3 565	0	3 672
Lending associated with reverse repurchase agreements	1 546	3 361	7 481	12 388
Unsettled trades	1	-	-	1
Equities	96 520	-	-	96 520
Equities lent	2 821	-	-	2 821
Bonds and other fixed income instruments	125 496	27 239	-	152 735
Bonds lent	-	-	-	-
Financial derivatives	6	0	0	6
Other financial assets	14	-	-	14
Total financial assets	**226 511**	**34 165**	**7 481**	**268 157**
FINANCIAL LIABILITIES				
Short-term borrowing	0	-	-	0
Borrowing associated with repurchase agreements	0	-	-	0
Cash collateral received	1 160	-	-	1 160
Unsettled trades	-	-	1 450	1 450
Financial derivatives	4	0	0	4
Other financial liabilities	2	-	1 013	1 015
Total financial liabilities	**1 166**	**0**	**2 463**	**3 629**
Net foreign exchange reserves	**225 345***	**34 165**	**5 018**	**264 528**

* The value of net foreign exchange reserves in the long-term portfolio does not include claims on the investment portfolio of the GPFG. The net value the total long-term portfolio under management was NOK 227.4bn at 31 December 2012.

Amounts in NOK millions

	31 Dec. 2011			
	PORTFOLIOS			
	Long-term	Money market	Petroleum buffer	Total
FINANCIAL ASSETS				
Deposits in banks	69	11 618	26	11 713
Lending associated with reverse repurchase agreements	1 313	11 231	3 420	15 964
Unsettled trades	162	-	-	162
Equities	90 778	-	-	90 778
Equities lent	0	-	-	0
Bonds and other fixed income instruments	132 023	21 713	-	153 736
Bonds lent	71	-	-	71
Financial derivatives	2	1	-	3
Other financial assets	42	-	-	42
Total financial assets	**224 460**	**44 563**	**3 446**	**272 469**
FINANCIAL LIABILITIES				
Short-term borrowing	**-**	**-**	**-**	**-**
Borrowing associated with repurchase agreements	137	-	-	137
Cash collateral received	72	-	-	72
Unsettled trades	-	9 722	-	9 722
Financial derivatives	50	1	-	51
Other financial liabilities	3	-	-	3
Total financial liabilities	**262**	**9 723**	**0**	**9 985**
Net foreign exchange reserves	**224 198***	**34 840**	**3 446**	**262 484**

* The value of net foreign exchange reserves in the long-term portfolio does not include claims on the investment portfolio of the GPFG. The net value the total long-term portfolio under management was NOK 221.9bn at 31 December 2011.

Amounts in NOK millions

Table 8.2 Foreign exchange reserves by currency								31 Dec. 2012
	USD	CAD	EUR	GBP	AUD	JPY	Other	Total
FINANCIAL ASSETS								
Deposits in banks	2 123	1	1 445	31	1	57	14	3 672
Lending associated with reverse repurchase agreements	6 913	-	5 089	-	-	386	-	12 388
Unsettled trades	-	-	-	-	1	-	-	1
Equities	50 051	4 602	12 052	8 741	3 452	7 098	10 524	96 520
Equities lent	861	51	293	42	225	845	504	2 821
Bonds and other fixed income instruments	76 337	-	51 832	13 343	-	11 214	9	152 735
Bonds lent	-	-	-	-	-	-	-	-
Financial derivatives	5	-	0	1	-	-	-	6
Other financial assets	7	0	4	2	-	-	1	14
Total financial assets	**136 297**	**4 654**	**70 715**	**22 160**	**3 679**	**19 600**	**11 052**	**268 157**
FINANCIAL LIABILITIES								
Short-term borrowing	0	0	0	0	0	0	0	0
Borrowing associated with repurchase agreements	-	-	-	-	-	-	-	-
Cash collateral received	1 160	-	-	-	-	-	-	1 160
Unsettled trades	-	-	1 450	-	-	-	-	1 450
Financial derivatives	0	-	0	4	-	-	-	4
Other financial liabilities	1 015	-	-	-	-	-	-	1 015
Total financial liabilities	**2 175**	**-**	**1 450**	**4**	**-**	**0**	**-**	**3 629**
Net foreign exchange reserves	**134 122**	**4 654**	**69 265**	**22 156**	**3 679**	**19 600**	**11 052**	**264 528**

Amounts in NOK millions

								31 Dec. 2011
	USD	CAD	EUR	GBP	CHF	JPY	Other	Total
FINANCIAL ASSETS								
Deposits in banks	6 796	12	4 853	57	0	-18	13	11 713
Lending associated with reverse repurchase agreements	10 581	-	5 383	-	-	-	0	15 964
Unsettled trades	25	-	0	-	-	137	0	162
Equities	46 879	4 473	10 893	8 037	3 076	7 889	9 531	90 778
Equities lent	0	-	-	-	-	-	-	0
Bonds and other fixed income instruments	73 145	-	52 640	14 053	-	13 897	1	153 736
Bonds lent	71	-	-	-	-	-	-	71
Financial derivatives	2	-	1	0	-	-	-	3
Other financial assets	2	0	35	4	1	-	0	42
Total financial assets	**137 501**	**4 485**	**73 805**	**22 151**	**3 077**	**21 905**	**9 545**	**272 469**
FINANCIAL LIABILITIES								
Short-term borrowing	-	-	-	-	-	-	-	-
Borrowing associated with repurchase agreements	-	-	-	-	-	137	-	137
Cash collateral received	72	-	-	-	-	-	-	72
Unsettled trades	2 924	-	6 798	-	-	-	-	9 722
Financial derivatives	47	-	1	3	-	-	-	51
Other financial liabilities	3	-	-	-	-	-	-	3
Total financial liabilities	**3 046**	**-**	**6 799**	**3**	**-**	**137**	**-**	**9 985**
Net foreign exchange reserves	**134 455**	**4 485**	**67 006**	**22 148**	**3 077**	**21 768**	**9 545**	**262 484**

Note 9 International reserves

Norges Bank regularly reports International reserves to Statistics Norway and the International Monetary Fund (IMF). International reserves, as defined by the IMF, comprise Norges Bank's foreign exchange reserves, claims on and liabilities to the IMF, special drawing rights (SDRs), gold and other specified marketable reserve assets.

Table 9.1 below shows a comparison of Norges Bank's foreign exchange reserves with its international reserves at the balance sheet date:

Amounts in NOK millions

Table 9.1 Foreign exchange reserves and international reserves

EIENDELER	31 Dec. 2012 Foreign exchange reserves	31 Dec. 2011 Foreign exchange reserves	31 Dec. 2012 International reserves	31 Dec. 2011 International reserves
FINANCIAL ASSETS				
Deposits in banks	3 672	11 713	3 672	11 713
Lending associated with reverse repurchase agreements	12 388	15 964	12 388	15 964
Unsettled trades	1	162	-	-
Equities	96 520	90 778	96 520	90 778
Equities lent	2 821	-	2 821	-
Bonds and other fixed income instruments	152 735	153 736	152 735	153 736
Bonds lent	-	71	-	71
Financial derivatives	6	3	6	3
Claims on the International Monetary Fund*	-	-	32 947	35 007
Other financial assets	14	42	4	0
Total financial assets	**268 157**	**272 469**	**301 093**	**307 272**
TOTAL ASSETS	**268 157**	**272 469**	**301 093**	**307 272**
FINANCIAL LIABILITIES				
Short-term borrowing	0	0	-	-
Borrowing associated with repurchase agreements	0	137	-	-
Cash collateral received	1 160	72	-	-
Unsettled trades	1 450	9 722	-	-
Financial derivatives	4	51	4	51
Other financial liabilities	1 015	3	1 013	-
Liabilities to the International Monetary Fund	-	-	11 464	12 361
Total financial liabilities	**3 629**	**9 985**	**12 481**	**12 412**
TOTAL LIABILITIES	**3 629**	**9 985**	**12 481**	**12 412**
TOTAL FOREIGN EXCHANGE RESERVES	**264 528**	**262 484**		
TOTAL INTERNATIONAL RESERVES			**288 612**	**294 860**

* As from 2012, loans made through the New Arrangements to Borrow are included in claims on the IMF. Comparative amounts for 2011 have been restated.

Note 10 Repurchase and reverse repurchase agreements

Norges Bank uses the markets for repurchase and reverse repurchase agreements in its financing activities internally and through securities lending programmes (See Note 12 External agency securities lending).

See Note 25 GPFG Note 7 Repurchase and reverse repurchase agreements for an account of activities pertaining to transactions of this type, including presentation of these positions and of transferred securities in the balance sheet. Table 10.1 and Table 10.2 show outstanding reverse repurchase and repurchase agreements, respectively, as at 31 December 2012, with comparative amounts for 2011. Both tables are specified by portfolio.

Amounts in NOK millions

Table 10.1 Portfolio distribution, lending associated with reverse repurchase agreements	31 Dec. 2012	31 Dec. 2011
Lending associated with the long-term portfolio	1 546	1 313
Lending associated with the money market portfolio	3 361	11 231
Lending associated with the petroleum buffer portfolio	7 481	3 420
Total lending associated with reverse repurchase agreements	**12 388**	**15 964**

Amounts in NOK millions

Table 10.2 Portfolio distribution, borrowing associated with repurchase agreements	31 Dec. 2012	31 Dec. 2011
Borrowing associated with the long-term portfolio	0	137
Borrowing associated with the money market portfolio	0	0
Borrowing associated with the petroleum buffer portfolio	0	0
Total borrowing associated with repurchase agreements	**0**	**137**

Table 10.3 shows total outstanding repurchase and reverse repurchase agreements at year-end 2012, with comparative amounts for 2011, and corresponding securities collateral or lent securities. Transferred and received securities are shown as measured at fair value. In order to show the total exposure for the contracts, unsettled trades have been shown separately and are included under received and posted collateral/lent securities. This securities collateral has not yet been transferred and therefore is not included in the lines Bonds posted as collateral or lent and Bonds/Equities received as collateral in the table, while the corresponding cash amount to be transferred is included in Borrowing associated with repurchase agreements and Lending associated with reverse repurchase agreements.

Amounts in NOK millions

Table 10.3 Outstanding repurchase and reverse repurchase agreements	31 Dec. 2012		31 Dec. 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Repurchase agreements				
Borrowing associated with repurchase agreements (cash borrowed or received as collateral)	0	0	137	137
Bonds posted as collateral or lent (asset)	-	-	-	-
Unsettled trades (asset)*	-	-	137	137
Net overcollateralisation (undercollateralisation) repurchase agreements	**0**	**0**	**-**	**-**
Reverse repurchase agreements				
Reverse repurchase agreements outside of securities lending programme	11 228	11 228	15 916	15 916
Reverse repurchase agreements through securities lending programme (reinvestment of cash collateral)	1 160	1 160	48	48
Lending associated with reverse repurchase agreements (cash lent or invested)	**12 388**	**12 388**	**15 964**	**15 964**
Bonds received as collateral		11 248		9 939
Equities received as collateral		141		
Total collateral received reverse repurchase agreements		**11 389**		**9 939**
Unsettled trades (liability)**		1 450		6 323
Net overcollateralisation (undercollateralisation) reverse repurchase agreements		**451**		**298**
Net overcollateralisation (undercollateralisation) repurchase and reverse repurchase agreements		**451**		**298**

* Cash not yet received, securities not transferred to counterparty. Transaction recognised in Borrowing associated with repurchase agreements.

** Cash not yet transferred, securities not received from counterparty. Transaction recognised in Lending associated with reverse repurchase agreements.

Table 10.3 shows that outstanding repurchase agreements were reduced to 0 compared with 2011, while outstanding reverse repurchase agreements were reduced by 22% compared with 2011. Total overcollateralisation across these instrument types, including additional collateral, was NOK 451m at 31 December 2012, compared with NOK 298m at the previous year-end.

Note 11 Equities, bonds and other fixed income instruments

Amounts in NOK millions

Table 11.1 Equities	31 Dec. 2012			31 Dec. 2011		
	Fair value excluding dividends	Accrued dividends	Fair value including dividends	Fair value excluding dividends	Accrued dividends	Fair value including dividends
Equities:						
Listed equities	99 218	124	99 342	90 620	158	90 778
OTC equities	200	0	200	71	0	71
Total equities	**99 418**	**124**	**99 542**	**90 691**	**158**	**90 849**
Of which equities lent			*2 821*			-

Amounts in NOK millions

Table 11.2 Bonds and other fixed income instruments				**31 Dec. 2012**
	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value i ncluding accrued interest
Government bonds	133 166	147 703	1 307	149 010
Government-related bonds	19	12	-	12
Corporate bonds	326	89	1	90
Securitised bonds	1 794	1 384	38	1 422
Treasury bills	2 229	2 201	-	2 201
Total bonds and other fixed income instruments	**137 534**	**151 389**	**1 346**	**152 735**
Of which bonds lent				-

* Nominal values have been translated into NOK at the closing rate at the balance sheet date. The nominal value comprises the face value of the instrument or principal.

Amounts in NOK millions

				31 Dec. 2011
	Nominal value*	Fair value excluding accrued interest	Accrued interest	Fair value i ncluding accrued interest
Government bonds	120 029	131 221	1 103	132 324
Government-related bonds	192	97	5	102
Inflation-linked bonds	-	-	-	-
Corporate bonds	425	155	2	157
Securitised bonds	21 380	17 187	318	17 505
Treasury bills	3 719	3 719	-	3 719
Total bonds and other fixed income instruments	**145 745**	**152 379**	**1 428**	**153 807**
Of which bonds lent				*71*

* Nominal values have been translated into NOK at the closing rate at the balance sheet date. The nominal value comprises the face value of the instrument or principal.

Note 12 External agency securities lending

For the long-term portfolio, Norges Bank has entered into securities lending agreements with external agents, giving these agents the right to lend securities held by the investment portfolios managed by Norges Bank to other market participants with borrowing needs. Both equities and bonds are lent through securities lending programmes.

See Note 25 GPFG Note 9 External agency securities lending for a description of such securities lending programmes, including how securities lent, collateral received, reinvestments and net income from these programmes are presented in the income statement and balance sheet. Equities lending has increased again in 2012, as financial markets became somewhat calmer through the year, while at year-end, there was no lending of bonds in the portfolio.

Net income related to equities lending within the long-term portfolio amounted to NOK 12m in 2012, while the corresponding income from bond lending was 0 in 2012, since there was no lending of this type of instrument that year (see also Note 3 Net income from financial instruments). Corresponding amounts for year-end 2011 were NOK 44m and NOK 24m, respectively.

Table 12.1 and Table 12.2 below present an overview of holdings in the long-term portfolio in external agent securities lending programmes at year-end 2012 and 2011.

Amounts in NOK millions

Table 12.1 Securities lent	31 Dec. 2012		31 Dec. 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities lent	2 821	2 821	71	71
Collateral received related to securities lending	1 160	3 030	72	72
Net overcollateralisation	**-**	**209**	**-**	**1**

Amounts in NOK millions

Table 12.2 Reinvestment of cash collateral related to securities lending	31 Dec. 2012	31 Dec. 2011
Reinvestment related to securities lending		
Reverse repurchase agreements	1 160	49
Total reinvestment in the form of bonds and other fixed income instruments	**-**	**23**
Total reinvestment of cash collateral	**1 160**	**72**

Note 13 Financial derivatives

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a cost-efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities, bond or the fixed income markets in general, or to specific markets or companies.

Table 13.1 is a specification of financial derivative holdings at market value as at 31 December 2012 and 31 December 2011, classified as assets or liabilities. Table 13.2 shows exposure expressed as the the notional amounts of financial derivatives for long and short positions. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. The sum of the absolute amounts of long and short positions is the gross exposure, which provides information about the extent to which different types of financial derivatives are used. The net position is the difference resulting from subtracting short positions from long positions. This is an indication of the total risk exposure from each type of financial derivative.

Amounts in NOK millions

Table13.1 Specification of financial derivatives – Fair value

	31 Dec. 2012			31 Dec. 2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Foreign exchange contracts	-	-	-	-	-	-
Listed futures contracts	5	-	5	3	49	-46
Swap contracts	1	4	-3	-	2	-2
Total financial derivatives	**6**	**4**	**2**	**3**	**51**	**-48**

Amounts in NOK millions

Table 13.2 Financial derivatives – Exposure

	2012		Average 2012		2011		Average 2011	
	Long	Short	Long	Short	Long	Short	Long	Short
Foreign exchange contracts	1 539	-	2 515	-	-	-	2 385	-
Listed futures contracts	-	672	1 680	3 527	2 224	7 050	6 370	3 303
Swap contracts	-	3	-	4	-	5	6	1 038
Total financial derivatives	**1 539**	**675**	**4 195**	**3 531**	**2 224**	**7 055**	**8 761**	**4 341**

For a detailed description of the various financial derivatives, see Note 25 GPFG Note 10 Financial derivatives. Table 13.3 shows received and posted collateral related to positions in financial derivatives in the long-term portfolio.

Amounts in NOK millions

Table 13.3 Collateral related to financial derivatives	31 Dec. 2012	31 Dec. 2011
Futures contracts and equity swaps		
Fair value futures contracts	5	-46
Fair value equity swaps	-3	-2
Deposits with clearing brokers (collateral posted)	94	55
Bonds posted as collateral to clearing brokers	-186	-176

Note 14 International Monetary Fund (IMF)

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, sustain economic growth, promote high employment and reduce poverty around the world. The IMF gives advice to member countries and provides temporary funding in the event of balance of payments problems. Norges Bank administers Norway's financial rights and fulfils the obligations ensuing from participation in the IMF.

Amounts in NOK millions

Table 14.1 Claims on and liabilities to the IMF	31 Dec. 2012	31 Dec. 2011
Financial assets		
Special Drawing Rights	12 855	13 995
Quota in the IMF	16 126	17 304
Loan to the IMF, New Arrangements to Borrow (NAB)	3 966	3 708
Bilateral loan to the IMF	-	-
Loans to the IMF's arrangements for low-income countries, the Poverty Reduction and Growth Trust (PRGT)	1 368	1 106
Claims on the IMF	**34 315**	**36 113**
Financial liabilities		
Krone liability to the IMF	11 464	12 361
Equivalent value of allocated Special Drawing Rights	13 381	14 359
Liabilities to the IMF	**24 845**	**26 720**

Special Drawing Rights and Equivalent value of allocated Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset created by the IMF in 1969. The value of SDRs is calculated on the basis of a currency basket comprising US dollars, euros, sterling and Japanese yen. The composition of the SDR is evaluated every five years. SDRs are periodically allocated to IMF member countries, most recently in 2010. Equivalent value of allocated SDRs in the IMF shows total allocations of SDRs since the scheme entered into force.

After being allocated SDRs, IMF members may acquire SDRs in two ways, either by purchasing SDRs from other member countries in a voluntary arrangement or when the IMF asks member countries in a strong position to purchase SDRs from member countries in a weaker position. SDRs cannot be used for direct purchases of goods and services. Net purchases and sales of SDRs in the period result in changes in the item Special Drawing Rights, which shows the actual holdings of SDRs.

As at 31 December 2012, a total of SDR 1 563.1m had been allocated to Norway. Holdings amounted to SDR 1 501.6m, compared with SDR 1 523.5m at end-2011.

Amounts in NOK millions

Table 14.2 Special Drawing Rights	31 Dec. 2012	31 Dec. 2011
Special Drawing Rights in the IMF	12 855	13 995
Equivalent value of Special Drawing Rights in the IMF	13 381	14 359

Reserve tranche position in the IMF

IMF quotas

The IMF allocates quotas to member countries, which primarily reflect member countries' relative size in the world economy. The quota determines the member country's financial contribution to the IMF and provides the basis for determining the amount of financing the member can obtain in the event of balance of payments problems. 75% of the quota is paid to the IMF in the country's own currency, while the remainder (25%) is normally paid in SDRs or a widely used foreign currency. Norway's quota at 31 December 2012 was SDR 1 883.7m, unchanged from 2011.

IMF quotas – The 14th General Review of Quotas

In 2010, the IMF approved a quota reform as part of the 14th General Review of Quotas. Norway has ratified the agreement, but the reform has not come into effect, since it is yet to be ratified by a sufficient number of member countries. Once the reform comes into effect, quotas (member countries' deposits) will approximately double. Norway's quota will increase from SDR 1 883.7m to SDR 3 754.7m. On the same date that Norway pays in the quota increase, Norway's commitment to furnish funds for the NAB (see the section Lending below) will be reduced from SDR 3 871m to SDR 1 967m.

NOK liability

The IMF has deposited its NOK holdings with Norges Bank. The IMF translates all transactions on this account from NOK to SDRs and keeps its account in SDRs. The IMF's claim on Norges Bank is in SDRs, and its NOK holdings with Norges Bank are adjusted to eliminate any foreign exchange rate risk the IMF would have on its NOK holdings with Norges Bank. At 31 December 2012, the NOK liability to the IMF was SDR 1 339.1m compared with SDR 1 345.6m at end-2011.

Reserve tranche position

The quota in the IMF less the NOK liability to the IMF deposited with Norges Bank is called, under the IMF definition, the reserve, or reserve tranche, position.

Amounts in NOK millions

Table 14.3 Reserve position	31 Dec. 2012	31 Dec. 2011
Quota in the IMF	16 126	17 304
NOK liability to the IMF	11 464	12 361
Reserve position in the IMF	**4 662**	**4 943**

Lending and loan resource commitments to, and under the auspices of, the IMF

Lending

Loans to the New Arrangements to Borrow (NAB) at 31 December 2012 totalled SDR 463.3m or NOK 3 966m. The corresponding amount for end-2011 was SDR 403.6, or NOK 3 708m. Total loan resource commitments to the NAB are SDR 3 871m.

Loans to the IMF's Poverty Reduction and Growth Trust (PRGT) at 31 December 2012 totalled SDR 159.4m SDR or NOK 1 364m. The corresponding amount for end-2011 was SDR 120m, or NOK 1 106m. Loan resource commitments to the PRGT are SDR 300m.

Loan resource commitments

On 12 October 2012, a bilateral borrowing agreement was signed between the IMF and Norges Bank. Under the agreement, the IMF will be provided with a borrowing facility in the form of a drawing arrangement of up to SDR 6bn, or NOK 51.4bn as at 31 December 2012. The loan is part of a broader international effort to ensure the IMF sufficient resources to meet the borrowing needs of its member countries in times of crisis. Thirty-nine countries have signed borrowing agreements or have pledged funding totalling around NOK 2 600bn.

Net interest income on claims on/liabilities to the IMF

Amounts in NOK millions

14.4 Net interest income, claims on/liabilities to the IMF	2012	2011
Interest income		
Interest on Special Drawing Rights	14	54
Interest on the quota in the IMF	16	60
Interest on loans to the IMF, New Arrangements to Borrow (NAB)	4	9
Interest on bilateral loans to the IMF	-	3
Interest on loans to the IMF arrangements for low-income countries, the Poverty Reduction and Growth Trust (PRGT)	8	5
Interest income, IMF	**42**	**131**
Interest expenses		
Interest on NOK liability to the IMF	12	45
Interest on equivalent value of allocated Special Drawing Rights	15	55
Interest expenses, IMF	**27**	**100**
Net interest income, claims on/liabilities to the IMF	**15**	**31**

Interest on Special Drawing Rights and Interest on equivalent value of allocated Special Drawing Rights
Member countries earn interest income from the IMF on their holdings of Special Drawing Rights. Interest income is recognised as Interest on Special Drawing Rights. Member countries are also charged for interest expenses by the IMF on the equivalent value of allocated Special Drawing Rights. Interest expenses are recognised as Interest on equivalent value of allocated Special Drawing Rights. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

Interest on the quota in the IMF and Interest on NOK liability to the IMF
Interest on the reserve position (as defined above) is calculated by the IMF. Interest is calculated net by the IMF, but presented gross in Norges Bank's financial statements as Interest on the quota in the IMF and Interest on NOK liability to the IMF. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

Other income related to the IMF

Income on the IMF's sale of gold holdings
In recent years, the IMF has sold portions of its gold holdings. A portion of the profit from gold sales is to be transferred to the PRGT programme. These transfers must be made directly by member countries after they have provided assurances that they will return a corresponding amount to the PRGT programme. After obtaining such assurances, the IMF has therefore distributed Norway's share of NOK 49m to Norges Bank on 23 October 2012. The transaction gives rise to this income on Norges Bank's income statement, while the actual payment to the PRGT programme will be made by the Ministry of Finance.

Note 15 Lending to banks

Amounts in NOK millions

Table 15.1 Lending to banks	31 Dec. 2012	31 Dec. 2011
Fixed-rate loans to banks	12 006	25 241
Lending to banks	**12 006**	**25 241**

See Note 3 Net income from financial instruments for a description of fixed-rate loans (F-loans) to banks and Note 24 Risk for a discussion of credit risk associated with lending.

Note 16 Other financial assets

Amounts in NOK millions

Table 16.1 Other financial assets	31 Dec. 2012	31 Dec. 2011
Receivables from the GPFG related to management fee	2 193	2 539
Receivables from the GPFG related to investments	2 039	-
Loan to Seðlabanki Íslands	1 461	3 720
Loans to employees	594	494
Other financial assets	173	205
Other financial assets	**6 460**	**6 958**

Loan to Iceland

As at 31 December 2012, Seðlabanki Íslands had drawn NOK 1 461m under a bilateral loan agreement with Norges Bank. As at 31 December 2011, Seðlabanki Íslands had drawn NOK 3 720. The loan is guaranteed by the Icelandic and Norwegian governments.

Loans to employees

The Bank's loan scheme for its employees comprises residential mortgages and consumer loans. Mortgages are provided in accordance with guidelines from the Supervisory Council as first mortgages within 85% of assessed value, limited to NOK 2 440 000 and a maximum term of 30 years. Consumer loans are limited to a maximum of four times the employee's monthly salary. The loan schemes apply to all employees. The interest rate is linked to the norm rate (the norm rate for loans on favourable terms from an employer). The Ministry of Finance sets the norm rate up to six times a year. In 2012, the interest rate was 2.75% from January to April and 2.25% from May to December. In 2011, the interest rate was 2.75% for the entire year.

Note 17 Bank for International Settlements (BIS)

The Bank for International Settlements (BIS) is located in Basel, Switzerland, and was established in 1930 to manage German war reparations after the First World War and to promote central bank cooperation in general. The BIS is an active forum for discussion and information sharing for central banks and the international financial and supervisory community bodies and carries out research and compiles statistics in those areas. The BIS acts as a bank for central banks, and its mission is to serve central banks in their pursuit of monetary and financial stability by fostering international cooperation in those areas. This means above all that the BIS coordinates transactions for central banks and on behalf of international organisations and provides loans during financial crises.

The BIS is a limited liability company owned by central banks. Norges Bank has been a shareholder since its founding.

Shares in the BIS

Norges Bank has 8 000 voting shares (with a face value of SDR 5 000) in the BIS. In addition, a further 564 non-voting shares (with a face value of SDR 5 000) were purchased in 2005, for a total of 8 564 shares.

The shares are carried at fair value under the item Equities. When the shares were issued, the BIS required payment of only 25% of the share capital, with the remaining 75% a contingent liability not recognised in the balance sheet.

Amounts in NOK millions

Table 17.1 Shares in the BIS	31 Dec. 2012	31 Dec. 2011
Shares in the BIS	200	71
Share capital in the BIS not paid up, not recognised*	275	295
Dividend received from the BIS	24	22

* A small portion of the share capital in the BIS not paid up that was previously not recognised is as from 2012 also treated as Share capital in the BIS not paid up, not recognised. Comparative amounts for 2011 have been restated.

Note 18 Other non-financial assets

Amounts in NOK millions

Table 18.1 Other non-financial assets	31 Dec. 2012	31 Dec. 2011
Non-current assets	1 529	1 461
Gold	291	291
Art and numismatic collections	82	82
Other assets	39	21
Other non-financial assets	**1 941**	**1 855**

Non-current assets

The table below shows a specification of non-current assets broken down into intangible assets and property, plant and equipment 2012 and 2011.

Amounts in NOK millions

Table 18.2 Non-current assets — **2012**

	Intangible assets	Property, plant and equipment			
	Software	Buildings	Land	Other	Total
Cost at 1 Jan.	238	2 492	60	106	2 896
+ Additions	20	134	-	3	157
- Disposals	5	-	-	2	7
-/+ Adjustments	-	-	-	-	-
Cost at 31 Dec.	**253**	**2 626**	**60**	**107**	**3 046**
- Accumulated depreciation and impairment	169	1 258	0	90	1 517
Carrying amount at 31 Dec.	**84**	**1 368**	**60**	**17**	**1 529**
Depreciation for the year	**27**	**50**	**0**	**11**	**88**
Impairment for the year	**0**	**0**	**0**	**0**	**0**
Depreciation schedule, no. of years	5-6	5-75	none	5-10	

Amounts in NOK millions

2011

	Intangible assets	Property, plant and equipment			
	Software	Buildings	Land	Other	Total
Cost at 1 Jan.	230	2 489	60	109	2 888
+ Additions	16	30	-	5	51
- Disposals	8	27	-	8	43
-/+ Adjustments	-	-	-	-	-
Cost at 31 Dec.	**238**	**2 492**	**60**	**106**	**2 896**
- Accumulated depreciation and impairment	147	1 207		81	1 435
Carrying amount at 31 Dec.	**91**	**1 285**	**60**	**25**	**1 461**
Depreciation for the year	**29**	**51**	**0**	**13**	**93**
Impairment for the year	**0**	**0**	**0**	**0**	**0**
Depreciation schedule, no. of years	5-6	5-75	none	5-10	

Buildings

Bankplassen 4:

Bankplassen 4 is being leased to the government for 80 years until 21 November 2066 (Museum of Contemporary Art). The contract of lease is dated 21 November 1986. The deadline for non-renewal is 21 November 2065. The building is not recognised in Norges Bank's balance sheet.

Other

Norges Bank is self-insured for owned buildings and fixtures.

Note 19 Other financial liabilities

Amounts in NOK millions

Table 19.1 Other financial liablities	31 Dec. 2012	31 Dec. 2011
Current liability Norges Bank and the investment portfolio of the GPFG	1 013	2 370
Other financial liabilities	914	787
Other financial liabilities	**1 927**	**3 157**

Note 20 Deposits from banks etc.

Amounts in NOK millions

Table 20.1 Deposits from banks etc.	31 Dec. 2012	31 Dec. 2011
Sight deposits from banks	35 220	41 506
Fixed-rate deposits from banks	-	50 524
Other deposits	116	104
Deposits from banks etc.	**35 336**	**92 134**

See Note 3 Net income from financial instruments for a description of sight deposits and fixed-rate deposits with associated interest rate terms.

Note 21 Notes and coins in circulation

Notes and coins in circulation are recognised at 31 December 2012 in the amount of NOK 53.8bn and correspond to the total face value of all notes and coins put into circulation. The corresponding amount at 31 December 2011 was NOK 54.8bn.

Norges Bank is obliged to redeem notes and coins for 10 years following the decision to withdraw them as legal tender. In 2012, invalidated banknotes and coins were redeemed in the amount of NOK 1.9m, compared with NOK 3.8m in 2011. The amount was recognised as an expense under Other financial income/expenses.

The deadline for redeeming banknotes in Series VI expired in 2012. At 31 December, the face value of outstanding notes in Series VI was NOK 547.6m. This amount was recognised as income under Other financial income/expenses. Unredeemed invalidated coins from four older coin series were also recognised as income as part of tightened redemption practices. These coin series had a face value of 704.6m. This amount was recognised as income under Other financial income/expenses. No invalidated notes and coins were recognised as income in 2011.

Note 22 Pension benefit obligation

Norges Bank has funded and unfunded pension and other benefit obligations. All funded and unfunded plans are included in the Bank's actuarial settlement and are carried at fair value.

Norges Bank's funded pension benefit obligations are covered by Norges Bank's own pension fund, which is organised as a separate legal entity. Retirement benefits are equal to 2/3 of the employee's salary at the time of retirement. The period of service for full benefits is 30 years. Employees contribute 2% of their gross annual salary into the pension fund. Norges Bank's contribution for 2012 and 2011 was covered partly by cash payments and partly by capital saved in the premium fund. Benefits from the pension fund are coordinated with benefits from the National Insurance scheme.

The basis for retirement benefits covered by the funded plan is limited to an amount equivalent to 12 times the basic pension (G). An unfunded pension plan funded out of current income was established as from 2007 to cover that portion of pensionable salaries in excess of 12G for those employees who already had an agreement entitling them to pension over and above this limit. For those whose employment began after 1 January 2007, the basis for retirement benefits is limited to 12G. The pension plan complies with public service pension requirements.

At 31 December 2012, the benefit obligation of Norges Bank's funded plans is NOK 2 515m, compared with NOK 2 404 at 31. December 2011. Assumptions concerning mortality and other demographic factors are based on the standard K 2005 basis for group pension insurance. The IR 73 rate is used as a basis for calculating disability provisions. A 3% supplement for future administration costs is priced into the pension benefit obligation. Pension benefits pertaining to the individual employee are calculated on the basis of pension benefits earned or received as at 31 December 2012. The pension benefit obligation is equivalent to the calculated cash value of benefits earned.

At 31 December 2012, the Bank's funded pension plan covers 2 322 persons, of whom 966 are drawing retirement benefits, 652 are active members (including all those affected by restructuring) and 704 are members who have left the Bank with vested rights. At 31 December 2011, the plan covered 2 349 persons, of whom 988 were drawing retirement benefits, 640 were active members and 721 were members who have left the Bank with vested rights.

Norges Bank's benefit obligations

Norges Bank has funded pension plans associated with membership in Norges Bank's pension fund. In addition, the Bank has unfunded plans funded out of current income. These are special and allocated pensions, the unfunded portions of pensions for employees with salaries higher than 12G earned after 1 January 2007, contractual early retirement pensions calculated on the basis of an expected 15% take-up rate and early retirement pensions and redundancy pay agreements related to restructuring. The benefit obligation related to restructuring is the present value of all agreements, including agreements with disbursements in 2012 or later.

Economic assumptions underlying the calculations:

Table 22.1 Economic assumptions	2012	2011
Discount rate*	3.90%	2.60%
Pension adjustment after the age of 67	2.50%	2.50%
Basic pension rate adjustment and adjustment of vested rights	3.25%	3.28%
Expected wage growth	3.50%	3.50%
Expected return on plan assets	4.00%	4.10%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0

* For 2012, a discount rate was applied derived from corporate bond (covered bond) yields but for 2011 a discount rate was applied derived from government bond yields.

For 2012, Norges Bank has chosen to apply a discount rate derived from corporate bond yields (in Norway, the covered bond market has been used as a basis), while for 2011, a discount rate was applied derived from government bond yields. This change is primarily responsible for approximately NOK 800m of the year's change in actuarial gains and losses under total comprehensive income.

Demographic assumptions underlying the calculations: Standard FNO/Storebrand Pensjonstjenester with 5% reduction in mortality relative to the Financial Supervisory Authority of Norway's margins of safety.

Amounts in NOK millions

Table 22.2 Specification of benefit obligations	31 Dec. 2012	31 Dec. 2011
Funded pension benefit obligation		
Funded plans through the pension fund	164	1 387
Unfunded benefit obligations		
Special pensions and allocated pensions	75	94
Benefit obligations associated with restructuring	29	49
Unfunded portion of pension, for salaries in excess of 12G	41	51
Contractual early retirement expected take-up rate	21	25
Norsk Kontantservice AS, part of lump-sum premium	0	3
Total benefit obligations	**330**	**1 609**

Benefit obligation specified by funded and unfunded plans:

Amounts in NOK millions

Table 22.3 Specification of funded and unfunded plans			31 Dec. 2012
	Funded plan	Unfunded plans	Sum
Accrued benefit obligations	3 252	165	3 417
Fair value of plan assets	-3 088	-	-3 088
Net benefit obligation/(-) plan assets	**164**	**165**	**329**

Amounts in NOK millions

			31 Dec. 2011
	Funded plan	Unfunded plans	Total
Accrued benefit obligations	4 182	222	4 404
Fair value of plan assets	-2 795	-	-2 795
Net benefit obligation/(-) plan assets	**1 387**	**222**	**1 609**

Plan assets in funded plan are allocated as follows:

Table 22.4 Allocation of plan assets for funded (defined-benefit) plan	2012	2011
Bonds	70%	75%
Equities	25%	25%
Real estate	5%	-
Total	**100%**	**100%**

Pension expense for employees in Norway

Pension expense has been calculated in accordance with IAS 19 Employee Benefits and includes current service cost, interest expense and expected return on plan assets. Norges Bank's share of the lump-sum premiums for employees of Norsk Kontantservice AS previously employed by Norges Bank is included in pension expense.

The change in special and allocated benefits is included in the Bank's overall pension expense. Pension expense is shown in the table below.

Amounts in NOK millions

Table 22.5 Pension expense		2012		2011
Pension expense, funded plan, which comprises:		161		82
Present value of current service cost	159		103	
Interest expense on benefit obligation	104		120	
Expected return on plan assets	-93		-131	
Recognised actuarial loss (gain)	-		-	
Recognised plan amendments	-		-	
Members' contributions	-9		-10	
Administration expenses				
Special pensions and allocated pensions		6		10
Unfunded portion of pension for salaries in excess of 12 G		3		3
Norsk Kontantservice AS, employees previously employed by Norges Bank		0		-
Norsk Kontantservice AS, employees previously employed by Norges Bank		**170**		**95**
Net actuarial gain (loss) pensions		**1 220**		**-1 118**
Restructuring costs		**-**		**2**
Actuarial gain (loss) restructuring		**3**		**-10**
Total actuarial gain (loss)		**1 223**		**-1 128**

Pension plans for locally employed staff of foreign offices

Locally employed staff at Norges Bank's offices in London and New York have a defined-contribution pension plan in accordance with local provisions in addition to what has been established by the authorities. As employer, Norges Bank contributes up to 8% of fixed salary for employees in New York and up to 10% of fixed salary for employees in London to the plans in line with market practice. The plans are managed externally, within rules determined by Norges Bank. Recognised expenses for the plans in London and New York amounted to NOK 6.9m in 2012 and NOK 5.2m in 2011. Locally employed staff at Norges Bank's offices in Singapore and Shanghai have no pension plan beyond what has been established by the authorities, which is in line with market practice.

Restructuring expense

Restructuring expense is related to study packages, redundancy pay and early retirement pensions.

Note 23 Fair value measurement of financial instruments

23.1 Long-term portfolio

For a discussion of the control environment and valuation techniques for the long-term reserves, see Note 25 GPFG Note 14 Fair value measurement.

Pricing uncertainty

All equities, bonds and financial derivatives have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation risk. Investments allocated to Level 2 are valued using models with observable inputs. These holdings have some pricing uncertainty. Holdings allocated to Level 3 are priced using models with considerable use of unobservable inputs, which implies substantial uncertainty regarding the establishment of fair value. These investments too, are valued by external professional price providers who are regarded as giving the best estimate of fair value and where the total valuation from different pricing providers varies only to a limited extent.

Table 23.1 groups the investments into categories of assessed pricing uncertainty as at 31 December 2012:

Amounts in NOK millions

Table 23.1 Specification of investments by level of valuation uncertainty

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Equities	**99 331**	**90 769**	**6**	**3**	**4**	**6**	**99 341**	**90 778**
Total bonds	**123 973**	**116 153**	**1 486**	**15 104**	**38**	**837**	**125 497**	**132 094**
Government bonds	123 973	114 281	0	49	0	-	123 973	114 330
Government-related bonds	0	3	7	83	5	15	12	101
Inflation-linked bonds	0	0	0	0	0	-	0	0
Corporate bonds	0	0	57	135	33	22	90	157
Securitised bonds	0	1 869	1 422	14 837	0	800	1 422	17 506
Total financial derivatives	**5**	**-46**	**-3**	**-2**	**0**	**-**	**2**	**-48**
Assets	5	2	1	0	-	-	6	2
Liabilities	0	-48	-4	-2	-	-	-4	-50
Total	**223 309**	**206 876**	**1 489**	**15 105**	**42**	**843**	**224 840**	**222 824**

The table above comprises the balance sheet lines Equities, Equities lent, Bonds and other fixed income instruments, Bonds lent and Financial derivatives (asset and liability). Other balance sheet items are thus not included.

Almost all equity holdings are classified as Level 1. Valuation of bonds is more uncertain and complex than valuation of equities. Norges Bank carries out analyses at each reporting date to identify the extent to which there have been transactions and price transparency with related market liquidity for different types of bonds as well as for a number of individual holdings. All government bonds have been allocated to Level 1 and pricing is thus almost entirely based on quoted market prices. The few remaining government-related and corporate bonds are allocated to Levels 2 and 3 on the basis of a varied and in part low degree of liquidity and price transparency for these holdings. Remaining securitised bonds are allocated to Level 2 on the basis of some degree of market activity and price transparency for these holdings.

Changes in Level 3 holdings

The table below shows a reconciliation of changes in carrying amounts for all Level 3 holdings in 2012 and 2011.

Amounts in NOK millions

Table 23.2 Specification of changes in Level 3 holdings

	1 Jan. 2012	Net gains/losses	Purchases	Sales	Settled	Transferred from Level 1 or 2	Transferred from Level 1 or 2	Foreign exchange gains/losses	31 Dec. 2012
Equities	6	2	3	0	-1	4	-2	-8	4
Total bonds	837	-90	162	-817	-17	2	-7	-32	38
Total	**843**	**-88**	**165**	**-817**	**-18**	**6**	**-9**	**-40**	**42**

Amounts in NOK millions

	1 Jan. 2011	Net gains/losses	Purchases	Sales	Settled	Transferred from Level 1 or 2	Transferred from Level 1 or 2	Foreign exchange gains/losses	31 Dec. 2011
Equities	-	2	2	-	-3	4	-	1	6
Total bonds	2 667	159	1	-1 725	-194	89	-14	-146	837
Total	**2 667**	**161**	**3**	**-1 725**	**-197**	**93**	**-14**	**-145**	**843**

Holdings allocated to Level 3 in the fair value hierarchy were reduced by NOK 801m to only NOK 42m during 2012. The reduction in Level 3 bonds was primarily due to sales, and US securitised bonds not guaranteed by federal agencies accounted for most of these sales.

Sensitivity for Level 3 holdings

Amounts in NOK millions

Table 23.3 Additional specification of Level 3 sensitivities — 2012

	Specification of Level 3 at 31 Dec. 2012	Unfavourable changes	Favourable changes
Equities and units	**4**	**-1**	**1**
Total bonds	**38**	**-6**	**4**
Government-related bonds	5	-1	0
Corporate bonds	33	-5	4
Securitised bonds	-	-	-
Total	**42**	**-7**	**5**

Amounts in NOK millions

2011

	Specification of Level 3 at 31 Dec. 2011	Unfavourable changes	Favourable changes
Equities and units	**6**	**-1**	**1**
Total bonds	**837**	**-91**	**83**
Government-related bonds	15	-2	1
Corporate bonds	22	-3	2
Securitised bonds	800	-86	80
Total	**843**	**-92**	**84**

Norges Bank's analyses indicate that valuation risk in the long-term portfolio was further reduced during 2012, primarily due to changes in portfolio composition. The total exposure regarded as being particularly uncertain in relation to valuation (Level 3) was reduced by nearly 95% during 2012, and only a small number of such holdings remain in the portfolio at year-end. The estimated valuation risk of Level 3 holdings at year-end 2012 was NOK 7m in the event of unfavourable changes and NOK 5m in the event of favourable changes. Total valuation risk for Level 3 holdings is expected to be less than this, as the valuation of all holdings will not move in the same direction on the basis of a change in a single parameter. The technique used to calculate the sensitivity of bond values is based on the availability of independent price sources and begins with the highest and lowest available price for a specific bond. Where a higher or lower price was not available, a standard sensitivity parameter was used. The level of the resulting valuation change is based on the bond type and the availability, reliability and variation of prices.

23.2 Money market portfolio

The money market portfolio is the most liquid portion of the Bank's foreign exchange reserves. In accordance with the guidelines, the portfolio is invested in a manner permitting it within a single trading day to be used for foreign exchange market transactions without realising any appreciable losses.

The benchmark portfolio is composed of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. Managers are to seek a reasonable return within the constraints set by liquidity requirements and the risk framework. There are restrictions on the choice of instruments and currencies in the portfolio, and there are guidelines for how much the actual portfolio may deviate from the benchmark.

The money market portfolio comprises short money market instruments and German and US government securities, denominated in EUR and USD, respectively, with a maturity of up to one year.

Control environment

The control environment for fair value measurement of financial instruments is organised around guidelines which are supported by work and control procedures.

The valuation environment has been established, and is adjusted, in accordance with best market practice for valuation. The operational implementation of best market practice principles is done in a manner to ensure a transparent, scalable and comparable valuation of all holdings on a daily basis through the use of sophisticated processes using both internal and external data solutions.

Prices for financial instruments from independent price providers are based on observable prices. On a daily basis, the valuation process is subject to numerous controls, focusing on defined thresholds and sensitivities. The levels of these thresholds and sensitivities are monitored and adjusted in accordance with prevailing market conditions. At each month-end, additional extensive controls are performed to ensure compliance with established pricing procedures and the valuation policy's fair value measurement principles. This includes verifying that the external fund accountant uses external prices as required by the fair value hierarchy applicable at the time in question and verifying that the resulting prices reflect fair value as at the date concerned, i.e. the amount the holding could be exchanged for between knowledgeable and willing parties in an arm's length transaction.

Valuation techniques

Norges Bank has defined hierarchies for the independent price sources that serve as a basis for valuation. Holdings that are included in the benchmark portfolio are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively by reputable independent external price providers. Prices are verified based on comparative analyses of prices in accordance with the established hierarchies with prices from available alternative price sources. When alternative price sources are considered to be more representative of fair value, prices are adjusted to bring the valuation closer to expected fair value.

100% of the money market portfolio's investments as at year-end 2012 comprised highly liquid holdings, and are therefore associated with low valuation risk.

Inputs used, observable as well as unobservable, include the following elements:

- Bond and note prices – prices based on price quotes
- Credit spreads – these are obtained from the credit derivative market
- Yield curves – benchmark yield curves are often the foundation of the valuation matrix and are obtained from: (1) interbank rates at the short end, (2) the first eight settlement dates for money market futures and (3) swap market rates
- Money market and bond futures – official closing prices from exchanges are obtained via clearing brokers
- Foreign exchange rates – WMFX rates at 16:00 GMT obtained from Reuters for use in determining spot prices and translating amounts into NOK.

Pricing uncertainty

All government bonds and notes in the money market portfolio have been allocated to categories reflecting assessed pricing uncertainty. Level 1 comprises investments that are valued on the basis of observable market prices in active markets and are considered to have very limited valuation risk. Table 23.4 groups the investments into categories of assessed pricing uncertainty as at 31 December 2012 for the money market portfolio.

Amounts in NOK millions

Table 23.4
Specification of investments by level of pricing uncertainty

	Level 1	
	31 Dec. 2012	**31 Dec. 2011**
Government bonds	25 041	17 938
Treasury notes	2 201	3 720
Total	**27 242**	**21 658**
Assets	27 242	21 658
Liabilities	-	-
Total	**27 242**	**21 658**

All investments in the money market portfolio are classified as Level 1 positions with a low valuation risk, as there are normally official closing prices from a stock exchange based on active market trading that correctly reflect fair value.

23.3 Petroleum buffer portfolio

The purpose of the petroleum buffer portfolio is to ensure the GPFG an adequate supply of fresh capital. Funds accumulate in the portfolio though transfers of foreign currencies from the State's Direct Financial Interest in petroleum activities (SDFI) and through foreign exchange purchases Norges Bank undertakes in the markets on the basis of the Ministry of Finance's monthly allocations to the GPFG. Funds are normally transferred each month. No benchmark index has been set for the petroleum buffer portfolio.

The petroleum buffer portfolio comprises deposits in banks and lending associated with reverse repurchase agreements. Lending follows the same guidelines and procedures that apply to the money market portfolio (see section 23.2 for a further discussion).

23.4 Other equity investments

Norges Bank also has holdings of financial instruments in the form of equities in addition to the above-mentioned portfolios. These concern investments made by the Bank in its role Norway's central bank to discharge Norway's international obligations in this area. The obligations involve long-term commitments that do not have economic gain as an objective and are not, by their nature, financial investments.

Pricing uncertainty

The shares in the BIS are categorised under Level 3 in the fair value hierarchy, and valuation is particularly uncertain owing to a lack of activity in the market. These shares are valued using models that use a substantial degree of non-observable inputs.

Amounts in NOK millions

Table 23.5 Specification of investments by level of pricing uncertainty

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Equities	-	-	-	-	**200**	**71**	**200**	**71**

Change in Level 3 holdings

Equity holdings allocated to Level 3 in the fair value hierarchy increased by NOK 129.1m to NOK 200m during 2012. The entire increase in Level 3 holdings is due to a fair value adjustment at 31 December 2012.

Note 24 Risk

Norges Bank's foreign exchange reserves

Norges Bank's foreign exchange reserves are divided between a long-term portfolio managed by NBIM and a money market portfolio managed by Markets and Banking Services in central banking operations. The portfolios are managed under different mandates and have different risk profiles.

In addition, a petroleum buffer portfolio is used for regular transfers of foreign exchange to the investment portfolio of the GPFG. This portfolio receives funds from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the foreign exchange market. The petroleum buffer portfolio was managed by NBIM until 1 June 2012, when management responsibility was moved to Markets and Banking Services in central banking operations.

24.1 Long-term portfolio

The composition of the holdings in the long-term portfolio and associated risk is primarily determined by the benchmark defined by Norges Bank's Executive Board.

In the investment mandate for the portfolio issued by Norges Bank's Executive Board, there are a number of guidelines and restrictions regarding the combined equity and bond asset class, as well as for the individual asset classes. These restrictions regulate to what degree Norges Bank can engage in active investment management while remaining within the legally established capital allocations. For a discussion of Norges Bank's and NBIM's governance structure and the framework for investment risk, see Note 25 GPFG Note 15 Risk.

MARKET RISK MEASUREMENT

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, foreign currency exchange rates and credit spreads. Norges Bank measures risk in both absolute terms for the actual portfolio, and the relative market risk for investments in the portfolio.

Continuous monitoring, measurement and assessment of market risk are performed along multiple risk dimensions, employing a number of methodologies and approaches. Combining different and complementary risk measures provides a better insight into the risk profile of the holdings in the portfolio.

Asset class by region

The long-term portfolio is invested across several asset classes and regions as shown in the table below.

Table 24.1 Specification of allocation by asset class and region

		Market value in percent by region	Market value in percent by asset class	Assets minus liabilities
		31 Dec. 2012	31 Dec. 2012	31 Dec. 2012
Equities	Americas and Africa	55.9%		
	Europe	26.6%		
	Asia and Oceania	17.5%		
Total equities			43.6%	99 230
Bonds	Americas and Africa	43.0%		
	Europe	47.9%		
	Asia and Oceania	9.1%		
Total bonds			56.4%	128 153

		Market value in percent by region	Market value in percent by asset class	Assets minus liabilities
		31 Dec. 2011	**31 Dec. 2011**	**31 Dec. 2011**
Equities	Americas and Africa	56.6%		
	Europe	26.0%		
	Asia and Oceania	17.4%		
Total equities			40.9%	90 720
Bonds	Americas and Africa	43.9%		
	Europe	45.6%		
	Asia and Oceania	10.5%		
Total bonds			59.1%	131 149

Concentration risk

The long-term portfolio contains substantial investments in bonds issued by sovereigns. It is also normal for private companies to issue both equities and bonds.

Table 24.2 below shows the largest holdings of bonds issued by sovereigns, including government bonds issued in local currency or in foreign currency and inflation-linked bonds in local currency.

Amounts in NOK millions

Table 24.2 Largest holdings within the segment government bonds

		Market value
	2012	**2011**
US	55 136	53 723
France	22 493	14 181
Germany	21 787	18 427
UK	13 342	14 053
Japan	11 214	13 897
Greece	5	51
Argentina	1	3

Table 24.3 below shows the long-term portfolio's largest non-government bonds and equities holdings by issuer.

Covered bonds issued by financial institutions are included in the bonds column.

Amounts in NOK millions

Table 24.3 Largest holdings excluding sovereigns, both bonds and equities				31 Dec. 2012
	Sector	Bonds	Equities	Total
Apple Inc	Technology		1 642	1 642
ExxonMobil Corp	Oil & Gas		1 310	1 310
Royal Dutch Shell PLC	Oil & Gas		753	753
Microsoft Corp	Technology		742	742
General Electric Co	Manufacturing		737	737
International Business Machines Corp	Technology		726	726
Nestlé SA	Consumer goods		708	708
Chevron Corp	Oil & gas		708	708
Samsung Electronics Co Ltd	Consumer goods		689	689
HSBC Holdings PLC	Financials		648	648

Amounts in NOK millions

				31 Dec. 2011
	Sector	Bonds	Equities	Total
ExxonMobil Corp	Oil & Gas	-	1 404	1 404
Banco Bilbao Vizcaya Argentaria SA	Financials	1 249	146	1 395
Bank of Scotland PLC	Financials	1 344	-	1 344
Apple Inc	Technology	-	1 297	1 297
CaixaBank	Financials	1 153	19	1 172
Ayt Cedulas Cajas Global	Financials	1 152	-	1 152
Caja de Ahorros y Pensiones de Barcelona	Financials	832	-	832
Royal Dutch Shell PLC	Oil & Gas	-	831	831
WM Covered Bond Program	Financials	825	-	825
Banco Santander SA	Financials	555	222	777

Volatility and correlation risk

For a discussion of techniques for measuring volatility and correlation risk in the long-term portfolio, see Note 25 GPFG Note 15 Risk.

Table 24.4 Portfolio risk in terms of expected volatility, in percent					Expected volatility			
	31 Dec. 2012	Min 2012	Max 2012	Avg. 2012	31 Dec. 11	Min 2011	Max 2011	Avg. 2011
Portfolio	7.1	7.1	8.4	7.3	8.4	8.4	11	10.4
Equities	13.6	13.4	15.7	14	15.4	15.4	20.3	19
Bonds	10.2	10.1	12.3	10.7	12.4	12.4	14.7	13.8

Basis points					Expected relative volatility			
	31 Dec. 2012	Min 2012	Max 2012	Avg. 2012	31 Dec. 2011	Min 2011	Max 2011	Avg. 2011
Portfolio	47	43	71	50	68	27	90	51
Equities	7	5	11	6	8	6	46	12
Bonds	13	11	47	19	47	46	88	62

Risk measured by the risk model declined for the portfolio as a whole and in both asset classes in 2012. For the portfolio as a whole, measured risk at year-end was 7.1%. This means that for the portfolio, annual fluctuations in value of just above NOK 16bn can be expected under normal market conditions. The reduction over the year is primarily an effect of the model's use of three years' historical data, whereby the historical data from the volatile period at the beginning of 2009 was no longer included in the data at year-end. The portfolio's expected relative volatility also declined somewhat through 2012.

For a discussion of strengths and weaknesses of the model for measuring volatility and correlation risk for the long-term portfolio, see Note 25 GPFG Note 15 Risk.

Credit risk

For a discussion of measuring credit risk for the long-term portfolio, see Note 25 GPFG Note 15 Risk. In the table below, 0.1% of the actual portfolio is categorised as Lower rating at end-2012, down from 0.2% at end-2011. There was a change in composition of the bond portfolio on the basis of credit rating at year-end 2012, compared with the end of 2011, primarily whereby the proportion of AAA bonds was reduced to 71.9% from 84.2% of the portfolio, and the proportion of AA was increased to 26.9% from 13.7%. The reason was a downgrade of bonds issued by French government bodies from AAA to AA.

Table 24.5 is a breakdown of the actual bond portfolio by credit rating category as at 31 December 2012.

Amounts in NOK millions

Table 24.5 Bond portfolio specified by credit rating						31 Dec. 2012
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	90 266	33 707	-	-	-	123 973
Government-related bonds	-	-	-	-	12	12
Inflation-linked bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	9	81	90
Securitised bonds	-	-	-	1 421	-	1 421
Total bonds and other fixed income instruments	**90 266**	**33 707**	**-**	**1 430**	**93**	**125 496**

Amounts in NOK millions

						31 Dec. 2011
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	100 384	13 897	-	-	49	114 330
Government-related bonds	-	-	20	2	79	101
Inflation-linked bonds	-	-	-	-	-	0
Corporate bonds	-	-	-	57	100	157
Securitised bonds	10 820	4 194	1 877	614	1	17 506
Total bonds and other fixed income instruments	**111 204**	**18 091**	**1 897**	**673**	**229**	**132 094**

Table 24.6 below is a breakdown of the actual bond portfolio by credit rating and currency.

Table 24.6 Bond portfolio by credit rating and currency, in percent

31 Dec. 2012

	AAA	AA	A	BBB	Lower rating	Total
USD	44.0	0.0	0.0	0.0	0.0	44.0
EUR	17.4	18.0	0.0	1.1	0.0	36.5
GBP	10.6	0.0	0.0	0.0	0.0	10.6
JPY	0.0	8.9	0.0	0.0	0.0	8.9
CHF	0.0	0.0	0.0	0.0	0.0	0.0
Total	**72.0**	**26.9**	**0.0**	**1.1**	**0.0**	**100.0**

31 Dec. 2011

	AAA	AA	A	BBB	Lower rating	Total
EUR	42.7	0.0	0.0	0.0	0.1	42.8
USD	30.9	3.2	1.4	0.5	0.1	36.1
GBP	10.6	0.0	0.0	0.0	0.0	10.6
JPY	0.0	10.5	0.0	0.0	0.0	10.5
Total	**84.2**	**13.7**	**1.4**	**0.5**	**0.2**	**100.0**

Credit risk in the portfolio may be managed by the use of credit derivatives.
At end-2012, there were no credit derivatives in the portfolio (see Note 13 Financial derivatives).

Counterparty risk

For a discussion of what counterparty risk is, and how it arises and is measured, managed and reported for the long-term portfolio, see Note 25 GPFG Note 15 Risk. Table 24.7 is a breakdown of exposure by type of activity/instrument regarded as having counterparty risk. Counterparty risk measured both as gross and net exposure increased in 2012. The biggest change for counterparty risk measured by net exposure was for external agency securities lending, which increased to NOK 153m at end-2012, from a very low exposure level at the end of 2011.

Amounts in NOK millions

Table 24.7 Counterparty risk by type of position					31 Dec. 2012
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	106	111	-	-	111
OTC derivatives including foreign exchange contracts	-3	1	-	-	1
Repurchase and reverse repurchase agreements*	-34	3	0	-	3
Securities lending transactions**	-209	431	-	278	153
Bonds posted as collateral for futures trades	186	198	-	-	198
Total		**744**	**0**	**278**	**466**

Amounts in NOK millions

					31 Dec. 2011
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	67	56	-	-	56
OTC derivatives including foreign exchange contracts	1	1	-	-	1
Repurchase and reverse repurchase agreements*	-23	44	8	-	36
Securities lending transactions**	-1	1	-	1	0
Bonds posted as collateral for futures trades	176	178	-	-	178
Total		**280**	**8**	**1**	**271**

* The column Carrying amount adjusted for collateral takes into account all positions in the repurchase market, including reinvestments of cash collateral. The internal measurement and controls of counterparty risk for these types of instruments do not include these reinvestments.

** The column Carrying amount adjusted for collateral includes securities lent and collateral received and is adjusted for unrealised losses connected to reinvestments in the form of bonds.

Norges Bank's counterparties have a credit rating from an independent credit rating agency. Only in instances when the counterparty risk is considered very low can an internal credit evaluation be used as the basis for counterparty approval. Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators. Table 24.8 below shows Norges Bank's counterparties classified according to credit rating category.

Table 24.8 Counterparties by credit rating	31 Dec. 2012		31 Dec. 2011	
	Norges Bank's counterparties (excluding brokers)	Brokers	Norges Bank's counterparties (excluding brokers)	Brokers
AAA	-	3	-	3
AA	30	50	29	43
A	46	39	56	43
BBB	-	4	21	14
BB	-	-	3	2
B	-	-	9	12
Total	**76**	**96**	**118**	**117**

Leverage

For a discussion of leverage in the long-term portfolio, see Note 25 GPFG Note 15 Risk. During 2012, the portfolio had no leverage.

Sale of securities Norges Bank does not own

Sale of securities not owned by Norges Bank (short sales) can only be done if the Bank has established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and at year-end 2012, no securities had been sold in this.

24.2 Risk in the money market portfolio

Purpose of the portfolio

The money market portfolio is to be invested in such a way that it can be used at short notice as a monetary policy instrument or to promote financial stability. The portfolio is also used to meet Norges Bank's international obligations, including transactions with the IMF and loans to individual countries.

Pursuant to the decision of the Executive Board in 2012, the size of the portfolio is to be between SDR 3.5bn and SDR 4.5bn and investments in government securities are to have residual maturity of less than one year. The benchmark portfolio is to comprise USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The benchmark portfolio comprises 75% USD and 25% EUR.

Market risk

Market risk is risk related to changes in the value of the portfolio due to changes in interest rates and/or foreign exchange rates. Norges Bank measures the money market portfolio's absolute and relative market risk.

Absolute market risk

Absolute risk is estimated on the basis of the actual portfolio, as the standard deviation of the return. The model uses expected standard deviation, based on the composition of the portfolio and assumptions regarding sensitivities to fluctuations in relevant market factors and correlations between these factors. A parametric weighted method is employed. The standard deviation is a statistical term that indicates the magnitude of variation that can be expected in the return on the portfolio.

The expected annual standard deviation in the actual portfolio was 0.06% in local currency at year-end 2012. This means that in two out of every three years the value of the portfolio is expected to fluctuate within +/-0.06% of total market value at that time.

Market risk was at the same level as at year-end 2011, which is low compared with the historical market risk for comparable portfolios.

Relative market risk

Market risk in the money market portfolio is also measured by expected relative volatility. This is a statistically defined risk measure that indicates the size of the expected deviation that can normally be expected between the return on the benchmark portfolio and the return on the actual portfolio. Corresponding estimates of absolute market risk are parametrically weighted using a method of estimating relative market risk.

The Executive Board has issued guidelines for how much the actual portfolio may deviate from the benchmark portfolio. The limit for expected relative market volatility has been set at 1.0%, and the Bank uses a model that takes into account market fluctuations. Average expected relative volatility was measured at 0.03% in 2012.

Table 24.9 Key figures for risk and exposure

		Actual	
Risk	**Limits**	**31 Dec. 2012**	**31 Dec. 2011**
Market risk	Maximum 1.0% relative volatility*	0.02	0.03
	Alternative method**	0.04	0.04
Asset allocation	Cash (Minimum 10%)	20.24	25.28
	Securities	79.76	74.72
Currency allocation	USD	74.94	75.72
	EUR	24.96	24.18
	JPY	0.05	0.06
	GBP	0.05	0.05
Duration, benchmark portfolio		0.30	0.19

* Norges Bank uses daily observations to calculate expected relative volatility where recent observations are given greater weight than older observations. With this method, in the event of abrupt increases in market volatility, relative volatility will promptly indicate that risk exposure in the portfolio should be reduced. Exponentially weighted daily observations have a half-life of 33 days.

** In addition to the calculation using weighted daily observations, Norges Bank also calculates historical relative volatility based on unweighted monthly observations.

Credit risk

Credit risk is the risk of losses if issuers of fixed income instruments default on their payment obligations to Norges Bank. Another form of credit risk is counterparty risk, which arises through derivative and foreign exchange contracts. Settlement risk, which arises in connection with the purchase and sale of securities since not all transactions take place in real time, also gives rise to counterparty risk.

The limits for exposure to a particular bank (exposure limits) include time deposits and foreign exchange trading (spot, forward and swap transactions). Maximum exposure to the most creditworthy banks has been set at NOK 1bn. Unsecured investments may be made with counterparties with a minimum long-term rating of AA-/Aa3/AA-, respectively, from at least one of the three major rating agencies: Fitch, Moody's or Standard & Poor's. Transactions are not permitted with a counterparty if any of the three agencies have rated that counterparty lower than A-/A3/A-.

Investments where the counterparty has posted collateral in the form of cash or securities may be undertaken if the counterparty has a long-term rating no lower than A-/A3/A- from at least one of the three agencies Fitch, Moody's or Standard & Poor's.

The tables below show third party agreements, investments and collateral at 31 December 2012 and 2011.

Table 24.10 Third party agreements, investments and collateral

	Rating S & P	2012	2011
Market value third party agreements		3 360	4 908
Collateral			
Sovereigns	AAA	2 298	2 737
	AA+	-	77
	AA	19	-
	AA-	1 952	-
Supranational bodies		1 159	2 331
Total collateral		3 529	5 145

24.3 Risk in the petroleum buffer portfolio

The purpose of the petroleum buffer portfolio is to ensure the GPFG an adequate supply of fresh capital. Funds accumulate in the portfolio though transfers of foreign currencies from the State's Direct Financial Interest in petroleum activities (SDFI) and through foreign exchange purchases Norges Bank undertakes in the markets on the basis of the Ministry of Finance's monthly allocations to the GPFG. Funds are normally transferred each month. No benchmark index has been set for the petroleum buffer portfolio.

The petroleum buffer portfolio comprises deposits in banks and lending associated with reverse repurchase agreements. Lending follows the same guidelines and procedures that apply to the money market portfolio (see section 23.2 for a further discussion).

24.4 Other risk

Liquidity risk

Liquidity risk is the risk that Norges Bank will encounter difficulties meeting its obligations associated with financial liabilities to be settled in cash or another financial asset. As a central bank, Norges Bank is not exposed to this type of liquidity risk in local currency.

Credit risk associated with lending to banks

Norges Bank extends loans with fixed maturities (F-loans) and overnight loans (D-loans) to banks. D-loans may be intraday and overnight. Loans to banks are extended against collateral in the form of securities pledged to Norges Bank, or F-deposits with Norges Bank or collateral in the form of intraday deposits with Sveriges Riksbank or Danmarks Nationalbank. Average maturity of F-loans was 0.1 month in 2012, compared with 0.9 month 2011.

Norges Bank stipulates more detailed terms for pledging securities and fund units as collateral for loans in Norges Bank pursuant to Section 9 of the Regulation on banks' access to loans and deposits in Norges Bank etc. The current guidelines have been issued in Norges Bank's Circular No. 1/8 February 2012.

The rules for pledging collateral are intended to limit Norges Bank's risk associated with lending to banks and facilitate appropriate levels of bank borrowing. Risk is limited, since only high quality securities are eligible and since the amount of the borrowing facility is lower than the market value of the collateral (haircut).

At 31 December 2012, collateral was pledged in an amount at least equivalent to the value of lending to banks.

Credit risk associated with loans to the International Monetary Fund (IMF)

Norges Bank's loans to the IMF have been made to bolster the IMF General Arrangements to Borrow (GAB), which follow IMF guidelines. Norges Bank is not directly exposed to risk in the loan portfolio managed by the IMF. The IMF has never realised a loss on its loans under the GAB. The IMF has preferred creditor status, which means that the IMF has priority over all other creditors. If the IMF should incur a loss on its loans, this will initially affect the IMF's own assets and, if necessary, paid-in quota subscriptions. In Norges Bank's assessment, the risk related to IMF loans is minimal, and no loan loss provisions have been recognised with regard to these loans.

Credit risk associated with the loan to Iceland

The loan is guaranteed by the Icelandic and Norwegian governments. Norges Bank has no appreciable credit risk associated with the loan.

Note 25 GPFG

Income Statement

Amounts in NOK millions

	Note	2012	2011
Profit/loss on the portfolio excluding foreign exchange gains and losses			
Interest income from bank deposits		102	162
Interest income, lending associated with reverse repurchase agreements		219	1 004
Net income/expenses and gains/losses from:			
– Equities and units		349 779	- 172 507
– Bonds and other fixed-income instruments		98 337	92 346
– Financial derivatives		- 269	- 5 693
– Financial assets real estate	11	514	86
– Investment properties	11	67	- 130
Share of the profit/loss in jointly controlled entities real estate	11	- 250	- 31
Interest expense, borrowing associated with repurchase agreements		- 130	- 629
Other interest income and interest expense		1	- 286
Tax expense	4	- 864	- 516
Other expenses	5, 6	- 80	- 52
Profit/loss on the portfolio before foreign exchange gains and losses	**3**	**447 426**	**- 86 246**
Foreign exchange gains and losses		- 219 559	49 205
Profit/loss on the portfolio		**227 867**	**- 37 041**
Management fee	5	- 2 193	- 2 539
Profit/loss for the period		**225 674**	**- 39 580**
Statement of Comprehensive Income			
Profit/loss for the period		225 674	- 39 580
Translation reserve arising from consolidation of foreign subsidiaries		- 5	- 3
Total comprehensive income		**225 669**	**- 39 583**

Balance sheet

Amounts in NOK millions

	Note	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010
ASSETS				
Financial assets				
Deposits in banks		5 864	7 276	6 303
Lending associated with reverse repurchase agreements	7	61 440	79 820	255 501
Unsettled trades		1 677	2 272	4 864
Equities and units	8	2 212 951	1 806 798	1 733 378
Equities lent	8, 9	115 041	137 130	162 483
Bonds and other fixed-income instruments	8	1 447 182	1 324 255	1 038 793
Bonds lent	8, 9	5 325	3 256	215 090
Financial derivatives	10	1 447	2 227	3 068
Financial assets real estate	11	4 841	4 415	-
Jointly controlled entities real estate	11	7 431	2 546	-
Other financial assets	12	4 411	3 244	1 358
Total financial assets		**3 867 610**	**3 373 239**	**3 420 838**
Non-financial assets				
Investment properties	11	9 777	4 062	-
Other non-financial assets		5	6	-
Total non-financial assets		**9 782**	**4 068**	**-**
TOTAL ASSETS	13, 14, 15	**3 877 392**	**3 377 307**	**3 420 838**
LIABILITIES AND OWNER'S CAPITAL				
Financial liabilities				
Short-term borrowing		202	11	2 939
Borrowing associated with repurchase agreements	7	19 013	19 280	132 992
Cash collateral received	9, 10	33 001	36 926	172 309
Unsettled trades		4 442	3 310	20 358
Short-sale bonds	8	-	-	809
Financial derivatives	10	2 600	5 957	9 372
Other financial liabilities	12	2 365	251	4 639
Management fee payable		2 193	2 539	2 959
Total financial liabilities	13, 14, 15	**63 816**	**68 274**	**346 377**
Owner's capital		3 813 576	3 309 033	3 074 461
Total liabilities and owner's capital		**3 877 392**	**3 377 307**	**3 420 838**

Statement of cash flows

Amounts in NOK millions

	2012	2011
Operating activities		
Interest received on deposits in banks	99	179
Net cash flow in connection with reverse repurchase agreements	17 111	170 095
Net cash flows arising from purchase and sale of equities and units	-229 436	-239 987
Net cash flows arising from purchase and sale of bonds and other fixed-income instruments	-166 501	-21 094
Payments made to acquire financial assets real estate	-205	-4 270
Payments made to acquire investment properties	-6 102	-4 301
Payments made to acquire jointly controlled entities real estate	-5 404	-2 620
Net cash flows arising from financial derivatives	-3 090	-9 147
Net cash flow from financial assets real estate		
Dividends received from investments in equities and units	64 403	49 208
Interest received on bonds and other fixed-income instruments	49 062	48 036
Income received in connection with equity and bond lending	2 424	2 230
Income received from investments in financial assets real estate	177	130
Dividends received from investments in jointly controlled entites real estate	84	-
Income received from investments in investment properties	244	60
Interest paid on short-term borrowing from banks	-4	-21
Net cash flows related to repurchase agreements	2 878	-114 347
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	-3 926	-135 382
Net cash flow related to other financial assets, other financial liabilities and other non-financial assets	1 161	-5 587
Payment of other expenses	-163	-248
Management fee paid to Norges Bank*	-2 539	-2 959
Net cash outflow from operating activities	**-279 727**	**-270 025**
Financing activities		
Inflow from the Norwegian government**	277 862	274 155
Net cash inflow from financing activities	**277 862**	**274 155**
Net change in cash and cash equivalents		
Cash and cash equivalents at 1 January	7 265	3 363
Net cash payments in the period	-1 865	4 130
Net foreign exchange gains and losses on cash and cash equivalents	262	-228
Cash and cash equivalents at 31 December	**5 662**	**7 265**
Cash and cash equivalents comprise:		
Bank deposits	5 864	7 276
Short-term borrowing	-202	-11
Total cash and cash equivalents at 31 December	**5 662**	**7 265**

* Management fee shown in the cash flow statement for a period is the settlement of the fee that was accrued and expensed in the previous year.

** The inflow includes only the transfers that have been settled during the period. Inflows in the statement of changes in owner's capital are based on accrued inflows.

Statement of changes in owner's capital

Amounts in NOK millions

	Inflows from owner	Retained earnings	Translation reserve foreign subsidiaries	Deposits in krone account*
1 January 2011	2 504 711	569 750	.	3 074 461
Total comprehensive income	.	- 39 580	- 3	- 39 583
Inflows during the period*	274 155	.	.	274 155
31 December 2011	**2 778 866**	**530 170**	**- 3**	**3 309 033**
1 January 2012	2 778 866	530 170	- 3	3 309 033
Total comprehensive income	.	225 674	- 5	225 669
Inflows during the period*	278 874		.	278 874
31 December 2012	**3 057 740**	**755 844**	**- 8**	**3 813 576**

* Of the total inflows to the krone account of the GPFG in 2012, NOK 2.5bn was used to pay the 2011 accrued management fee to Norges Bank and NOK 276.4bn was transferred to the investment portfolio. Comparative amounts for 2011 are NOK 3.0bn and NOK 271.2bn, respectively.

The GPFG forms part of the central government accounts. The fund's assets are placed for asset management as a deposit with Norges Bank. In the central government accounts the following explanation of differences that arise between these accounts and the financial reporting of the investment portfolio as part of the financial statements of Norges Bank is included.

Due to different accounting frameworks, owner's capital for the GPFG according to Norges Bank's financial statements will deviate slightly each year from the equity capital of the GPFG as stated in the central government accounts. This is because the transfers to the GPFG through the year are based on estimates of income to the GPFG. Actual recognised income (net accrual) in the central government accounts will not be known until after year-end. In the central government accounts, the difference between the net accrual and the transfers is shown as receivables/payables between the GPFG and the Treasury. In cases of excessive transfers to the GPFG, the Treasury has a receivable from the GPFG, and, correspondingly, the equity capital for the GPFG as stated in the central government accounts is lower than as reported in Norges Bank's financial statements. On the other hand, in cases of insuffticent transfers to the GPFG compared to recognised income, the GPFG has a receivable from the Treasury, and, correspondingly, equity capital for the GPFG as stated in the central government accounts is higher than reported in Norges Bank's financial statements. See Chapter 3 of the central government accounts for further information.

GPFG Note 1

The accounting policies for the financial reporting for the investment portfolio of the GPFG appear in Note 1 Accounting policies.

GPFG Note 2

Significant estimates and critical accounting judgements for the financial reporting for the investment portfolio of the GPFG appear in Note 2 Significant estimates and critical accounting judgements.

GPFG Note 3 Profit/loss on the portfolio before foreign exchange gains and losses

Amounts in NOK millions

Table 3.1 Specification profit/loss on the portfolio before foreign exchange gains and losses, 2012

	Interest income/ expense	Dividends	Net income/ expense	Realised gains/losses	Unrealised gains/losses	Total
Interest income from bank deposits	102	.	.	.	.	102
Interest income, lending associated with reverse repurchase agreements	219	.	.	.	.	219
Net income/expense and gains/losses from:						
- Equities and units*	.	63 295	2 439	-11 079	295 124	349 779
- Bonds and other fixed-income instruments*	46 612	.	11	32 908	18 806	98 337
- Financial derivatives	-204	.	0	-3 395	3 330	-269
- Financial assets real estate	.	.	170	.	344	514
- Investment properties	0	0	244	0	-177	67
Share of the profit/loss in jointly controlled entities real estate	0	30	.	0	-280	-250
Interest expense repurchase agreements	-130	0	0	0	0	-130
Other interest borrowing associated with income and interest expense	1	0	0	0	0	1
Tax expense	0	0	-864	0	0	-864
Other expenses	0	0	-80	0	0	-80
Profit/loss on the portfolio before foreign exchange gains and losses	**46 600**	**63 325**	**1 920**	**18 434**	**317 147**	**447 426**

* Net income/expense equities and units and bonds and other fixed-income instruments is from security lending activities.

Amounts in NOK millions

Table 3.2 Specification profit/loss on the portfolio before foreign exchange gains and losses, 2011

	Interest income/ expense	Dividends	Net income/ expense	Realised gains/losses	Unrealised gains/losses	Total
Interest income from bank deposits	162	.	.	.	.	162
Interest income, lending associated with reverse repurchase agreements	1 004	.	.	.	.	1 004
Net income/expense and gains/losses from:						
- Equities and units*	.	50 372	1 869	27 079	-251 827	-172 507
- Bonds and other fixed-income instruments*	48 691	.	349	4 600	38 706	92 346
- Financial derivatives	-1 407	.	.	-6 358	2 072	-5 693
- Financial assets real estate	.	.	-52	-	138	86
- Investment properties	.	.	60	-	-190	-130
Share of the profit/loss in jointly controlled entities real estate	.	-	.	-	-31	-31
Interest expense repurchase agreements	-629	.	.	.	.	-629
Other interest borrowing associated with income and interest expense	-286	.	.	.	.	-286
Tax expense	.	.	-516	.	.	-516
Other expenses	.	.	-52	.	.	-52
Profit/loss on the portfolio before foreign exchange gains and losses	**47 535**	**50 372**	**1 658**	**25 321**	**-211 132**	**-86 246**

* Net income/expense equities and units and bonds and other fixed-income instruments is from security lending activities.

GPFG Note 4 Tax expense

Tax expense comprises income tax.
Norges Bank, including the GPFG, is not subject to tax in Norway. However, Norges Bank must pay taxes related to investments in some foreign markets. This tax burden primarily follows from local tax rules, but is often offset by tax treaties between the Norwegian government and the government of the country where the investment is made.

Tax expenses comprise taxes which are not refunded to Norges Bank for the investment portfolio of the GPFG, either under local tax rules and regulations, or under tax treaties.Taxes are recognised in profit or loss as incurred and when it is not probable that they will be refunded. Taxes which Norges Bank considers refundable, but where refunds have not yet been received, are presented in the balance sheet as Other financial assets (see GPFG Note 12 Other financial assets for further information). If at a later date Norges Bank deems it less probable that the reclaim will be honoured, the refund will be reversed.

Tax expenses comprise taxes in accordance with IAS 12 Income Taxes. The applicable taxes are withholding tax on dividend and interest income, capital gains tax and income tax payable by real estate subsidiaries. Equities that are lent out on the ex-dividend date do not give rise to income taxes.

Other tax related expenses are also incurred as part of the asset management, and are typically tax related transaction costs, for instance stamp duty and transaction fees. These are mainly deducted from the income statement line for the relevant type of investment, while some such costs are presented as Other expenses. Such fees and taxes are classified as transaction costs, not as income taxes.

Under the real estate asset class various types of municipal taxes and fees will arise depending on type of property and market. These costs are not income taxes under IAS 12. The costs are considered to be property management costs, and are expensed as they incur.

Table 4.1 shows the different types of income/gains that trigger tax expenses, the tax deducted upon recognition of income, the tax refunded and the net tax expense. Both income before tax (gross) and income after tax (net) are presented.

Amounts in NOK millions

Table 4.1 Tax expense per asset class and type of income — 2012

	Gross income before taxes	Income taxes deducted	Income taxes refunded	Tax expense	Net income after taxes
Dividends from equities – withholding tax	63 295	2 112	-1 258	854	62 442
Realised gains/losses from equities – capital gains tax	-11 079	0	-	0	-11 079
Interest income from bonds and other fixed income instruments – withholding tax	46 612	63	-58	5	46 607
Realised gains/losses from bonds and other fixed income instruments – capital gains tax	32 908	-	-	-	32 908
Income tax in real estate subsidiaries	550	5	-	5	545
Tax expense excl jointly controlled entities				**864**	
Income tax in jointly controlled entities	-250	2	-	2	
Total tax expense				**866**	

Amounts in NOK millions

	2011				
	Gross income before taxes	Income taxes deducted	Income taxes refunded	Tax expense	Net income after taxes
Dividends from equities – withholding tax	50 372	1 583	-1 079	504	49 869
Realised gains/losses from equities – capital gains tax	27 079	12	-	12	27 067
Interest income from bonds and other fixed income instruments – withholding tax	48 691	60	-60	-	48 691
Realised gains/losses from bonds and other fixed income instruments – capital gains tax	4 600	-		-	4 600
Income tax in real estate subsidiaries	-43	0	-	0	-43
Tax expense excl jointly controlled entities				**516**	
Income tax in jointly controlled entities	-31	0	-	0	
Total tax expense				**516**	

Income tax in real estate subsidiaries comprises the tax incurred by wholly owned subsidiaries of the GPFG. Income taxes incurred by Jointly controlled entities real estate, form part of the Share of the profit/loss in jointly controlled entities real estate and are not presented separately on the line Tax expense. This tax expense has been included in the table to provide a full overview of income taxes payable in the real estate asset class. Any income taxes related to Financial assets real estate are deducted from the net operating income before the cash flow is recognised as income in the GPFG's income statement. Holding companies related to the investment are subject to tax, and income taxes incurred by these companies are included in the consolidated income statement as a Tax expense.

GPFG Note 5 Management costs

Management costs comprise operating expenses relating to the management of the investment portfolio of the GPFG. The majority of these expenses are incurred centrally in Norges Bank as asset manager, while in addition administrative expenses are incurred by subsidiaries related to real estate investments. Operating expenses incurred centrally by Norges Bank, see Table 5.1, shall be covered up to a certain limit by way of the management fee paid by the Ministry of Finance . These expenses are indirectly charged to the investment portfolio's income statement by way of the Management fee, after Profit/loss on the portfolio. Administrative expenses in subsidiaries, see Table 5.2, are charged directly to the profit/loss on the portfolio. Expenses incurred other than the management costs, such as interest expenses, transaction costs, tax expenses and expenses related to property management, are deducted before Profit/loss on the portfolio. Most transaction costs are deducted on the income statement line for the relevant type of investment, while other transaction costs are presented as Other expenses (see GPFG Note 6). Income taxes payable abroad are presented on a separate line in the income statement (see GPFG Note 4 Tax expense). Property management expenses are partly deducted on the income statement line for the relevant type of investment, while such costs incurred by subsidiaries are presented as Other expenses (see GPFG Note 6).

Table 5.1 gives a specification of Norges Bank's operating expenses relating to the management of the GPFG, which are covered by the management fee from the Ministry of Finance.

Amounts in NOK millions

Table 5.1 Specification management fee	2012	2012 Percent	2011	2011 Percent
Salary, social security and other personnel related costs*	587		495	
IT, information and decision support systems	222		214	
Custody and settlement costs	351		406	
Outsourced IT and analysis costs	218		254	
Consulting and legal fees	56		73	
Base fees to external managers	272		371	
Other costs*	90		95	
Allocated common costs Norges Bank*	90		85	
Management fee excluding performance-based fees	**1 886**	**0,05**	**1 993**	**0,06**
Performance-based fees to external managers	307		546	
Total management fee	**2 193**	**0,06**	**2 539**	**0,08**

* As from the annual financial statements for 2012, pension costs that were previously presented as part of Allocated common costs Norges Bank are presented on the line Salary, social security and other personnel related costs. Costs related to training and recruitment have been moved from Other costs, to Salary, social security and other personnel related costs. Comparative amounts for 2011 have been restated.

Table 5.1 shows Norges Bank's total operating expenses that are reimbursed by the Ministry of Finance as the principal for the management of the investment portfolio of the GPFG. Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each of the portfolios managed by NBIM. All other costs included in the basis for calculation of the management fee are costs that are common to the management of the investment portfolio and the long term reserves, and are allocated to the individual portfolio using a cost allocation model based primarily on market values and asset class composition. Performance-based fees to external managers are covered outside of the set limit, as part of the management fee. The management fee is a function of expenses presented in Norges Bank's income statement as Total other operating expenses.

Table 5.2 specifies operating expenses in real estate related subsidiaries.

Amounts in NOK millions

Table 5.2 Specification operating expenses, subsidiaries real estate	2012	2011
Salary, social security and other personnel related costs	11	2
IT, information and decision support systemts, out-sourced administrative services	6	2
Consulting and legal fees	9	11
Fees related to real estate asset management (external)*	10	3
Other costs, subsidiaries	9	5
Total operating expenses, real estate subsidiaries	**45**	**23**

* As from the annual financial statements for 2012, fees comprising real estate management which are paid by subsidiaries are not included in Fees related to real estate asset management in Table 5.2. These are presented as Property management expenses in subsidiaries in Table 6.1 (see GPFG Note 6 Other expenses). Comparative amounts for 2011 have been restated.

Table 5.2 presents expenses incurred by subsidiaries that are established as part of the investment portfolio of the GPFG, relating to administration of these companies. These expenses are consolidated into the income statement of the investment portfolio to the GPFG, and are paid using funds belonging to the portfolio. The subsidiaries' operating expenses are not included in Norges Bank operating expenses as they are excluded from consolidation into Norges Bank's financial statements (cf. Section 2-3, fourth paragraph, of the regulation concerning annual financial reporting for Norges Bank). These expenses are presented as Other expenses in the income statement for the investment portfolio, and are charged directly to Profit/loss on the portfolio. See GPFG Note 6 Other expenses for further information.

Within the real estate asset class there are additional costs relating to property management, which are included in the income statement lines Net income/expenses – gains/losses on investment properties and Share of profit/loss in jointly controlled entities real estate. These costs are incurred by the entity that owns the property, and are considered to be expenses linked directly to the income from and management of the properties. In some cases such expenses, in the form of fees related to property management, will be incurred by subsidiaries and will be presented as Other expenses (see GPFG Note 6).

GPFG Note 6 Other expenses

Amounts in NOK millions

Table 6.1 Specification other expenses	2012	2011
Operating expenses, real estate subsidiaries	45	23
Property management expenses in subsidiaries	9	3
Other expenses, investment portfolio excluding subsidiaries*	26	26
Total other expenses	**80**	**52**

* As from the annual financial statements for 2012, income taxes previously presented as part of Other expenses are presented as Tax expense (see GPFG Note 4). Comparative amounts for 2011 have been restated. These relate to capital gains tax on equity investments in China, and corporate tax payable by real estate subsidiaries.

Other expenses comprise expenses in subsidiaries related to the administration of subsidiaries, expenses in subsidiaries related to property management and other expenses related to the asset management. Expenses relating to property management comprise expenses directly related to income from and management of properties, that may be incurred by subsidiaries. Other expenses are paid using funds belonging to the investment portfolio of the GPFG, and are charged directly to the Profit/loss on the portfolio, before the management fee.

Expenses relating to the administration of subsidiaries within the real estate asset class, amounting to NOK 45m in 2012, are specified in Table 5.2 in GPFG Note 5 Management costs.

Other expenses, investment portfolio excluding subsidiaries in Table 6.1 mainly include transaction related expenses incurred in the asset management, and can be related to all asset classes. Negative expenses normally comprise reversals of previous provisions.

GPFG Note 7 Repurchase and reverse repurchase agreements

Norges Bank uses the markets for repurchase and reverse repurchase agreements in its financing activities internally and under securities lending programmes (see GPFG Note 9 External agency securities lending). At any time, the Bank will have lent part of its holdings in bonds through repurchase agreements, against receiving cash (repos and sell buy backs). This may be in the form of financing of asset management (borrowing of cash), or lending of securities with the aim of reinvesting received cash at higher interest and thus creating additional income/returns. In addition, the Bank is party to reverse repurchase agreements where the counterparty has transferred bonds or equities to the Bank and where the Bank has transferred cash to the counterparty (reverse repo, buy sell backs and triparties). Such contracts are used in connection with placing liquidity and also through agency securities lending as reinvestments of cash collateral received in connection with securities lending. Rules have been laid down regarding the types of securities eligible as collateral. To be eligible as collateral, bonds shall have a credit rating of at least A or the equivalent from the rating agencies Fitch, Moody's or Standard & Poor's.

For repurchase agreements, the lent security is not derecognised. Cash received is recognised as Deposits in banks, with a corresponding liability to pay back the cash, recognised as Borrowing associated with repurchase agreements. For reverse repurchase agreements the security received as collateral is not recognised in the balance sheet, while transferred cash is derecognised from Deposits in banks. A corresponding receivable is recognised as an asset, Lending associated with reverse repurchase agreements.

In addition to collateral including a margin related to each transaction the Bank has established a process for monitoring changes in the net market value of outstanding contracts by comparing the collateral market value with the transaction value per counterparty. Additional collateral in the form of either securities or cash is posted or received if the exposure is above a threshold value. Within the investment portfolio of the GPFG, the Bank had not received or posted such cash collateral at year-end. In the financial statements, posted and received additional collateral in the form of securities is treated in the same manner as other security collateral.

In 2012 there was less use of reverse repurchase agreements, while the volume of repurchase agreements remained unchanged.

Table 7.1 shows total outstanding repurchase and reverse repurchase agreements in the investment portfolio of the GPFG at year-end 2012, with comparative amounts for 2011, and corresponding securities collateral or lent securities. Transferred and received securities are shown as measured at fair value. In order to show the total exposure for the contracts, unsettled trades have been shown separately and included under received and posted collateral/lent securities. This securities collateral has not yet been transferred and therefore is not included in the lines Bonds posted as collateral or lent and Bonds/Equities received as collateral in Table 7.1, while the corresponding cash amount to be transferred is included in Borrowing associated with repurchase agreements and Lending associated with reverse repurchase agreements.

Amounts in NOK millions

Table 7.1 Specification repurchase and reverse repurchase agreements

	31 Dec. 2012		31 Dec. 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Repurchase agreements				
Borrowing associated with repurchase agreements (cash borrowed or received as collateral)	19 013	19 013	19 280	19 280
Bonds posted as collateral or lent (asset)	18 495	18 495	17 551	17 551
Unsettled trades (asset)*	328	328	1 410	1 410
Net over collateralisation (under collateralisation) repurchase agreements	**190**	**190**	**319**	**319**
Reverse repurchase agreements				
Reverse repurchase agreements outside of securities lending programme	26 479	26 479	44 393	44 393
Reverse repurchase agreements through securities lending programmes (reinvestment of cash collateral)	34 961	34 961	35 427	35 427
Lending associated with reverse repurchase agreements (total cash lent or placed)	**61 440**	**61 440**	**79 820**	**79 820**
Bonds received as collateral	-	55 392	-	67 399
Equities received as collateral	-	3 562	-	13 161
Total collateral received under reverse repurchase agreements	**-**	**58 954**	**-**	**80 560**
Unsettled trades (liability)**	2 385	2 385	1 537	1 537
Net over collateralisation (under collateralisation) reverse repurchase agreements		**-101**		**2 277**
Additional collateral repurchase and reverse repurchase agreements				
Cash collateral posted (additional collateral)	-	-	-	-
Bond collateral posted	-	1	-	-
Bond collateral received	-	-	-	72
Total additional collateral	**-**	**1**	**-**	**72**
Net over collateralisation (under collateralisation) repurchase and reverse repurchase agreements		**90**		**2 668**

* Cash not received, security not transferred to counterparty. The transaction has been recognised in the balance sheet as Borrowing associated with repurchase agreements.

** Cash not transferred, security not received from counterparty. The transaction has been recognised in the balance sheet as Lending associated with reverse repurchase agreements.

Total overcollateralisation across these instrument types, including additional collateral, is NOK 90m at 31 December 2012, compared with NOK 2 668m at the previous year-end.

GPFG Note 8 Equities and units / Bonds and other fixed-income instruments

Amounts in NOK millions

Table 8.1 Specification equities and units

31 Dec. 2012	Fair value excluding dividends	Accrued dividends	Fair value including dividends
Equities and units			
Listed equities and units	2 325 469	2 523	2 327 992
Total equities and units	**2 325 469**	**2 523**	**2 327 992**
Of which equities lent			*115 041*

31 Dec. 2011	Fair value excluding dividends	Accrued dividends	Fair value including dividends
Equities and units			
Listed equities and units	1 940 789	3 139	1 943 928
Total equities and units	**1 940 789**	**3 139**	**1 943 928**
Of which equities lent			*137 130*

Amounts in NOK millions

Table 8.2 Specification bonds and other fixed-income instruments

31 Dec. 2012	Nominal value*	Fair value excl. accrued interest	Accrued interest	Fair value incl. accrued interest
Government bonds				
Government bonds issued in local currency	771 983	846 538	7 338	853 876
Total government bonds	**771 983**	**846 538**	**7 338**	**853 876**
Government-related bonds				
Sovereign bonds	8 161	9 131	187	9 318
Bonds issued by local authorities	32 557	33 856	433	34 289
Bonds issued by supranational bodies	30 316	33 316	439	33 755
Bonds issued by federal agencies	81 857	87 927	1 128	89 056
Total government related bonds	**152 891**	**164 230**	**2 187**	**166 418**
Inflation-linked bonds				
Inflation-linked bonds issued by government authorities	30 642	41 520	235	41 755
Total inflation-linked bonds	**30 642**	**41 520**	**235**	**41 755**
Corporate bonds				
Bonds issued by utilities	18 005	20 637	333	20 970
Bonds issued by financial institutions	60 720	61 212	1 100	62 312
Bonds issued by industrial companies	102 216	111 762	1 396	113 158
Total corporate bonds	**180 941**	**193 611**	**2 829**	**196 440**
Securitised bonds				
Covered bonds	175 318	183 155	3 515	186 670
Mortgage-backed securities	5 518	3 304	13	3 317
Asset-backed securities	2 794	1 156	2	1 158
Commercial mortgage-backed securities	9 424	2 860	13	2 873
Total securitised bonds	**193 054**	**190 475**	**3 543**	**194 018**
Total bonds and other fixed-income instruments	**1 329 511**	**1 436 374**	**16 132**	**1 452 507**
Of which bonds lent				*5 325*
Of which short-sale bonds				-

Amounts in NOK millions

31 Dec. 2011	Nominal value*	Fair value excl. accrued interest	Accrued interest	Fair value incl. accrued interest
Government bonds				
Government bonds issued in local currency	554 293	605 600	6 965	612 565
Total government bonds	**554 293**	**605 600**	**6 965**	**612 565**
Government-related bonds				
Sovereign bonds	12 592	13 184	279	13 463
Bonds issued by local authorities	26 016	27 855	527	28 382
Bonds issued by supranational bodies	33 629	35 819	505	36 324
Bonds issued by federal agencies	94 454	97 488	1 507	98 995
Total government related bonds	**166 691**	**174 346**	**2 818**	**177 164**
Inflation-linked bonds				
Inflation-linked bonds issued by government authorities	83 105	105 175	541	105 716
Total inflation-linked bonds	**83 105**	**105 175**	**541**	**105 716**
Corporate bonds				
Bonds issued by utilities	19 709	21 781	376	22 157
Bonds issued by financial institutions	85 842	78 589	1 643	80 232
Bonds issued by industrial companies	77 733	84 583	1 369	85 952
Total corporate bonds	**183 284**	**184 953**	**3 388**	**188 341**
Securitised bonds				
Covered bonds	223 642	219 041	4 761	223 802
Mortgage-backed securities	48 581	11 046	80	11 126
Asset-backed securities	7 061	4 244	8	4 252
Commercial mortgage-backed securities	13 539	4 524	21	4 545
Total securitised bonds	**292 823**	**238 855**	**4 870**	**243 725**
Total bonds and other fixed-income instruments	**1 280 196**	**1 308 929**	**18 582**	**1 327 511**
Of which bonds lent				*3 256*
Of which short-sale bonds				-

*Nominal value amounts have been translated into NOK using the exchange rate on the balance sheet date.

At end-2012, the holdings in bonds issued by the sovereigns Italy and Spain amounted to NOK 32bn (fair value). Bonds issued by the government of Greece amounted to NOK 0.19bn. The investment portfolio had no holdings of Portuguese or Irish government debt. Total holdings at 31 December 2011 of bonds issued by these governments amounted to NOK 57bn.

GPFG Note 9 External agency securities lending

Norges Bank has entered into agreements with external agents regarding securities lending, giving these agents the right to lend securities held by Norges Bank to other market participants with borrowing needs. Both equities and bonds are lent. The purpose of the lending activity is to create additional returns for the investment portfolio of the GPFG from its securities holdings. When a security is lent out, the borrower transfers collateral to the agent in the form of cash or securities. The collateral includes a margin and is held on behalf of Norges Bank. Agreements with agents have provisions reducing the Bank's counterparty risk in cases where collateral has been received in the form of cash or government bonds. These provisions ensure that the Bank will be compensated if the counterparty is unable to return the borrowed securities or if the collateral posted for the loan is insufficient to cover losses in the event of borrower default. Norges Bank bears this risk itself in cases where collateral has been received in the form of equities. Reinvestments by the agent of cash collateral received take the form of reverse repurchase agreements (including buy sell backs and triparties, see GPFG Note 7 Repurchase and reverse repurchase agreements).

Securities lent are presented on separate lines in the balance sheet. Cash collateral received is recognised as an asset as Deposits in banks with a corresponding liability, Cash collateral received, since Norges Bank has the right to make use of this cash. Collateral received in the form of securities is not recognised in the balance sheet, because these are not reused (rehypothecated), but left in custody. Reinvestments in the form of reverse repurchase agreements are recognised in the balance sheet in the same manner as ordinary investments.

Norges Bank earns a net income based on these securities lending programmes. The net income comprises the pure lending fee, from which costs related to cash collateral received are deducted, as well as interest income and realised returns from reinvestments. The agent's portion, which is a consideration for carrying out the transactions, is also deducted. Net income from securities lending is presented on the income statement lines Net income/expenses and gains/losses from equities and units and Net income/expenses and gains/losses from bonds and other fixed income instruments. Net income related to equities lending within the investment portfolio of the GPFG amounted to NOK 2 439m in 2012, while the corresponding income from bond lending amounted to NOK 11m in 2012. Corresponding amounts for 2011 were NOK 1 869m and NOK 349m, respectively.

Tables 9.1 and 9.2 present an overview of holdings in external agent securities lending programmes at year-end 2012 and 2011.

Amounts in NOK millions

Table 9.1 Securities lent		
		31 Dec. 2012
	Carrying amount	Fair value
Securities lent		
Equities lent	115 041	115 041
Bonds lent	5 325	5 325
Total securities lent	**120 366**	**120 366**
Collateral received		
Cash collateral received	32 688	32 688
Equities received as collateral	-	76 679
Bonds received as collateral	-	17 254
Total collateral related to securities lending	**32 688**	**126 621**
Net overcollateralisation	**-**	**6 255**

Amounts in NOK millions

		31 Dec. 2011
	Carrying amount	Fair value
Securities lent		
Equities lent	137 130	137 130
Bonds lent	3 256	3 256
Total securities lent	**140 386**	**140 386**
Collateral received		
Cash collateral received	36 405	36 405
Equities received as collateral	-	102 170
Bonds received as collateral	-	11 337
Total collateral related to securities lending	**36 405**	**149 912**
Net overcollateralisation	**-**	**9 526**

Amounts in NOK millions

Table 9.2 Reinvestments of cash collateral related to securities lending		
	31 Dec. 2012 Carrying amount	**31 Dec. 2011** Carrying amount
Reinvestment related to securities lending		
Reverse repurchase agreements	34 961	35 427
Total reinvestments of cash collateral	**34 961***	**35 427**

* This amount includes unsettled trades in the amount of NOK 2 386m.

GPFG Note 10 Financial derivatives

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a cost efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities, bond or the fixed income markets in general, or to specific markets or companies.

Table 10.1 is a specification of financial derivatives holdings at market value as at 31 December 2012 and 31 December 2011, classified as assets or liabilities. Table 10.2 shows exposure expressed as the notional amount of financial derivatives for long and short positions. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. The sum of the absolute amount of long and short positions is the gross exposure, which provides information about the extent to which different types of financial derivatives are used. The net position is the difference resulting from subtracting short positions from long positions. This is an indication of the total risk exposure from each type of financial derivative.

Amounts in NOK millions

Table 10.1 Specification financial derivatives						Fair value
	31 Dec. 2012			31 Dec. 2011		
	Asset	Liability	Net	Asset	Liability	Net
Foreign exchange contracts	**88**	**145**	**-57**	**1 603**	**964**	**639**
Listed futures contracts	**221**	**91**	**130**	**5**	**224**	**-219**
Interest rate swaps	703	2 120	-1 417	463	4 639	-4 176
Credit default swaps	-	-	-	2	-	2
Equity swaps	435	244	191	154	130	24
Total swap contracts	**1 138**	**2 364**	**-1 226**	**619**	**4 769**	**-4 150**
Options	**-**	**-**	**-**	**-**	**-**	**-**
Total financial derivatives	**1 447**	**2 600**	**-1 153**	**2 227**	**5 957**	**-3 730**

Amounts in NOK millions

Table 10.2 Financial derivatives – exposure								
	31 Dec. 2012		Average 2012		31 Dec. 2011		Average 2011	
	Long	Short	Long	Short	Long	Short	Long	Short
Foreign exchange contracts	**49 729**	**-**	**81 006**	**-**	**132 848**	**-**	**64 778**	**-**
Listed futures contracts	**1**	**9 323**	**302**	**10 708**	**1**	**14 682**	**5 228**	**9 851**
Interest rate swaps	4 293	13 271	5 333	15 849	8 163	18 956	20 106	52 806
Credit default swaps	-	-	728	5	1 645	12	19 373	280
Equity swaps	838	132	458	217	30	335	25	550
Total swap contracts	**5 131**	**13 403**	**6 519**	**16 071**	**9 838**	**19 303**	**39 504**	**53 636**
Options	**-**	**-**	**-**	**-**	**-**	**-**	**14 464**	**11 987**
Total financial derivatives	**54 861**	**22 726**	**87 827**	**26 779**	**142 687**	**33 985**	**123 974**	**75 474**

Exchange-listed futures contracts

Futures contracts are listed contracts to exchange a specified asset (security, index, interest rate or other) at an agreed price, with future delivery, normally settled in cash, and with initial and daily margin settlement of gains and losses. Exposure is the notional amount of the contracts, and reflects whether Norges Bank receives (long positions) or pays (short positions) payments in the event of the underlying increasing in value.

Over-the-counter (OTC) financial derivatives

Foreign exchange contracts

This item consists of foreign currency exchange contracts (forwards) with normal settlement for future delivery. Contract exposure is the sum of the notional amount of the contracts at any given point in time. With a foreign exchange contract both a long and a short position are held, as one buys one currency and sells another. All positions are shown as long positions.

Interest rate swaps

Interest rate swaps are agreements between two parties to exchange interest payment streams based on different interest rate calculation methods; typically one party pays a floating rate of interest and the other pays a fixed rate.

Exposure is the notional amount of the contract and the direction (long/short) indicates whether Norges Bank is receiving (long) or is paying (short) a fixed rate of interest.

Credit default swaps

In a credit default swap, the seller of protection receives a periodic premium or lump sum from the purchaser of protection as compensation for assuming the credit risk. The purchaser receives payment from the seller only if the credit protection of the underlying credit is triggered (a credit event). A credit event might, for example, be a default on the underlying credit or bond loan. The protection normally expires after the first credit event.

The underlying credit for credit default swaps are corporate bonds, securities issued by sovereigns and corporate bond indices.

Exposure direction (long/short) indicates whether Norges Bank has purchased or sold protection for all or part of the credit risk associated with the various types of underlying assets.

Equity swaps

Equity swaps are agreements between two counterparties to exchange cash flows based on changes in the underlying security (the equity leg) and normally a floating interest rate. In addition to the periodic cash flow, the buyer will receive payments in connection with dividends and corporate events. A variant of equity swaps are Contracts for Difference (CFD), where the buyer and the seller on an on-going basis will settle between them the difference between the present value of the underlying equity or index, and the value at the transaction date. If the difference is positive the seller will pay to the buyer, while if the difference is negative the buyer will pay to the seller.

Exposure corresponds to the notional amount of the contracts, and reflects whether Norges Bank shall receive (long) or pay (short) the return from the underlying equity, or for CFDs whether Norges Bank is receiving (long) or is paying cash as the value of the equity or index increases compared with the value at the transaction date.

Options

The buyer of an option pays for the right to buy or sell an asset at an agreed price at or within a certain time in the future, while the seller has the obligation to buy or sell the asset at the agreed price and time. Options include swaptions which are agreements which grant the buyer the right to enter into a swap.

Exposure is the notional amount of the contracts. Options written by Norges Bank are reported as sold. Options where Norges Bank has paid a premium are reported as purchased contracts.

Amounts in NOK millions

Table 10.3 Collateral related to financial derivatives	31 Dec. 2012	31 Dec. 2011
OTC financial derivatives*		
Net fair value OTC financial derivatives (carrying amount)	-1 474	-3 535
Cash collateral received related to OTC positions	313	521
Futures contracts and equity swaps		
Fair value futures contracts	130	-219
Fair value equity swaps	191	24
Deposits with clearing brokers (collateral posted)	166	433
Bonds posted as collateral with clearing brokers	1 301	762

* Foreign exchange contracts, interest rate swaps and credit default swaps.

Norges Bank posts or receives cash collateral in connection with positions in foreign exchange contracts and OTC financial derivatives (interest rate swaps, credit default swaps and swaptions). Follow-up against collateral thresholds is done per counterparty, and if the net market value of positions held by the counterparty exceeds the given threshold limits, the party with the negative position is required to post additional collateral with the other party. The thresholds vary with credit rating. At year-end 2012, the Bank had received cash collateral from counterparties related to OTC positions in the amount of NOK 313m. Norges Bank had not posted any cash collateral related to negative market value positions at year-end 2012 or year-end 2011 on behalf of the investment portfolio of the GPFG, on account of the Bank's high credit-worthiness.

GPFG Note 11 Real estate

The real estate asset class in the investment portfolio of the GPFG comprises unlisted investments classified as financial assets, jointly controlled entities and investment properties.

Financial assets real estate comprises the right to 25% of the net operating income generated from properties in and around Regent Street, London, United Kingdom. Investment properties are directly held properties. Jointly controlled entities real estate comprise ownership interests in investment properties and other assets (net) in jointly controlled entities.

Tables 11.1 and 11.2 show the profit/loss on the portfolio and assets and liabilities for the asset class.

Amounts in NOK millions

Table 11.1 Income statement – real estate asset class

	2012	2011
Profit/loss on the portfolio excluding foreign exchange gains and losses, real estate asset class		
Interest income from bank deposits	0	1
Net income/expenses and gains/losses from:		
- Financial assets real estate	514	86
- Investment properties	67	-130
Share of the profit/loss in jointly controlled entities real estate	-250	-31
Other interest income and interest expense	25	-1
Tax expense	-5	-
Other expenses	-56	-4
Profit/loss on the portfolio before foreign exchange gains and losses, real estate asset class	**296**	**-79**

Amounts in NOK millions

Table 11.2 Assets and liabilities – real estate asset class

	31 Dec. 2012	31 Dec. 2011
ASSETS		
Financial assets		
Deposits in banks	253	138
Financial assets real estate	4 841	4 415
Jointly controlled entities real estate	7 431	2 546
Other financial assets	2 911	14
Total financial assets	**15 437**	**7 113**
Non-financial assets		
Investment properties	9 777	4 062
Other non-financial assets	5	6
Total non-financial assets	**9 782**	**4 068**
TOTAL ASSETS	**25 219**	**11 181**
Financial Liabilities, excl. management fee payable		
Other financial liabilities	96	52
Total financial liabilities, excl. management fee payable	**96**	**52**
Net assets before management fee payable, real estate asset class	**25 123**	**11 129**

Total net assets for the asset class at 31 December 2012 was NOK 25 123m, an increase from NOK 11 129m at end-2011. This includes Other financial assets of NOK 2 911m, of which NOK 2 845m is a receivable relating to an investment in a jointly controlled entity in Germany, which was completed on 1 January 2013, but for which the consideration had been paid at the end of 2012.

Table 11.3 is a specification of the main income statement lines for this asset class, broken down by net rental income, fair value changes and other income and expenses.

Amounts in NOK millions

Table 11.3 Specification Net income/expenses and gains/losses from Financial assets real estate, Investment properties and Share of the profit/loss in jointly controlled entities real estate

2012	Financial assets real estate	Investment properties*	Jointly controlled entities real estate**	Total
Gross rental income	177	270	255	702
Direct property expenses	-	-27	-19	-46
Net rental income	**177**	**244**	**236**	**657**
Expensed transaction costs Financial assets real estate***	-7	-	-	-7
Net income/expenses	**170**	**244**	**236**	**650**
Fair value changes – properties****/financial assets real estate	344	-177	-90	77
Fair value changes – financial liability	-	-	-327	-327
Net income/expenses and gains/losses from Financial assets real estate and Investment properties	**514**	**67**		
Other income/expenses in jointly controlled entities real estate			-69	
Share of the profit/loss in jointly controlled entities real estate			**-250**	

Amounts in NOK millions

2011	Financial assets real estate	Investment properties*	Jointly controlled entities real estate**	Total
Gross rental income	130	74	53	257
Direct property expenses	-	-14	-	-14
Net rental income	**130**	**60**	**53**	**243**
Expensed transaction costs Financial assets real estate***	-182	-	-	-182
Net income/expenses	**-52**	**60**	**53**	**61**
Fair value changes – properties****/financial assets real estate	138	-190	-71	-123
Fair value changes – financial liability	-	-		
Net income/expenses and gains/losses from Financial assets real estate and Investment properties	**86**	**-130**		
Other income/expenses in jointly controlled entities real estate			-13	
Share of the profit/loss in jointly controlled entities real estate			**-31**	

* Income, expenses, gains and losses from directly held investment properties.

** Share of income, expenses, gains and losses in jointly controlled entities real estate.

***These transaction costs are expensed on recognition and classified as expenses, as the asset is classified under the fair value option.

**** For investment properties and jointly controlled entities real estate transaction costs are presented as fair value changes.

Recognised fair value changes for the newly acquired properties correspond to transactions costs attributed to the individual property. The values used for properties and the financial asset at the end of 2012 result in recognition of a positive value change of NOK 77m for 2012. This includes expensed transaction costs of NOK 119m. In addition, a loss was recognised related to the fair value measurement of a liability item in a jointly controlled entity.

For additional information on fair value measurement, see Note 2 Significant estimates and critical accounting judgements and GPFG Note 14 Fair value measurement.

Table 11.4 is a specification of the changes in the carrying amounts for the main balance sheet items within the real estate asset class, Financial assets real estate, Investment properties and Jointly controlled entities real estate.

Amounts in NOK millions

Table 11.4 Changes in carrying amounts for the main balance sheet items within the real estate asset class **2012**

	Financial assets real estate	Jointly controlled entities real estate	Investment properties	Total
Carrying amounts for the main balance sheet items within the real estate asset class as at 1 Jan. 2012	**4 415**	**2 546**	**4 062**	**11 023**
Additions and improvements	199	5 404	6 102	11 705
Fair value changes – properties/financial assets real estate	344	-90	-177	77
Fair value changes – financial liability	.	-327	.	-327
Operating profit from investments accounted for under the equity method	.	167	.	167
Paid dividend and changes in equity capital	.	-103	.	-103
Other assets (net) in jointly controlled entities	.	-18	.	-18
Foreign currency translation effect	-117	-149	-210	-476
Carrying amounts for the main balance sheet items within the real estate asset class as at 31 Dec. 2012	**4 841**	**7 431**	**9 777**	**22 049**

Amounts in NOK millions

2011

	Financial assets real estate	Jointly controlled entities real estate	Investment properties	Total
Carrying amounts for the main balance sheet items within the real estate asset class as at 1 Jan. 2011	**-**	**-**	**-**	**-**
Additions and improvements	4 088	2 620	4 301	11 009
Fair value changes – properties/financial assets real estate	138	-71	-190	-123
Operating profit from investments accounted for under the equity method	.	40	.	40
Foreign currency translation effect	189	-43	-49	97
Carrying amounts for the main balance sheet items within the real estate asset class as at 31 Dec. 2011	**4 415**	**2 546**	**4 062**	**11 023**

The table shows that investments (additions) and improvements amounting to NOK 11 705m were made in 2012, compared with NOK 11 009m the year before. Of this total, new investments amounted to NOK 11 618m. NOK 11 499m of the additions and improvements were completed and recognised in the fourth quarter of 2012. This pertained to investments in United Kingdom, Switzerland and France and comprised both jointly controlled entities and investment properties. In addition to this, an increase in fair value was a significant contributor to the change in the carrying amount for Financial assets real estate, while for both Investment properties and Jointly controlled entities real estate decreases in fair value related to properties and an increase in value of debt contributed to a reduction in carrying amounts.

In addition to new investments that were recognised in the balance sheet by year-end, agreements were signed during the fourth quarter of 2012 to purchase property in Germany and to purchase a portfolio of logistics properties in Europe. These will be classified as jointly controlled entities real estate and the transactions will be completed in the first quarter of 2013.

In the first quarter of 2013 an agreement was signed to purchase property in the US. The transaction is expected to be completed during the first quarter of 2013 and the investment will be classified as an associate and accounted for under the equity method.

Table 11.5 shows total assets and liabilities in jointly controlled entities as at 31 December 2012.

Amounts in NOK millions

Tabell 11.5 Jointly controlled entities, total assets and liabilities*

	31 Dec. 2012	31 Dec. 2011
Other assets	563	170
Investment properties	22 863	5 006
Current debt	373	84
Long-term debt	11 809	-
Equity capital	11 245	5 092

* One hundred percent of the balance sheet carrying amounts in jointly controlled entities, prepared in accordance with IFRS.

For an overview of subsidiaries and jointly controlled entities in the investment portfolio, see GPFG Note 16 Subsidiaries and jointly controlled entities.

Table 11.6 shows how real estate investments are distributed by country, sector and development. The table also shows the vacancy rate, including and excluding development.

Table 11.6 Distribution of real estate investments — **31 Dec. 2012**

Country	Office	Retail	Residential	Industrial	Other	Development	Receivable*	Total
France	24.7%	8.1%	0.0%	0.0%	0.0%	0.1%	0.0%	32.9%
Switzerland	5.3%	25.2%	0.1%	0.0%	0.1%	0.9%	0.0%	31.7%
United Kingdom	24.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	24.2%
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.2%	11.2%
Total	**54.2%**	**33.3%**	**0.1%**	**0.0%**	**0.1%**	**1.0%**	**11.2%**	**100.0%**

* The receivable comprises the investment in Germany (Berlin and Frankfurt), which was completed 1 January 2013.

Vacancy	5.1%
Vacancy (excluding development)	2.0%

31 Dec. 2011

Country	Office	Retail	Residential	Industrial	Other	Development	Total
France	37.8%	21.2%	0.2%	0.0%	0.6%	0.1%	60.0%
United Kingdom	24.5%	14.2%	0.2%	0.0%	0.4%	0.8%	40.0%
Total	**62.3%**	**35.4%**	**0.4%**	**0.0%**	**1.0%**	**0.9%**	**100.0%**

Vacancy	8.1%
Vacancy (excluding development)	7.2%

GPFG Note 12 Other financial assets/Other financial liabilities

Other financial assets and Other financial liabilities are specified in Tables 12.1 and 12.2.

Amounts in NOK millions

Table 12.1 Other financial assets	31 Dec. 2012	31 Dec. 2011
Withholding tax	355	744
Accrued income from external agency securities lending	132	106
Receivables from other portfolios under common management*	-	2 371
Other receivables, subsidiaries real estate	2 911	23
Other receivables	1 013	0
Other financial assets	**4 411**	**3 244**

* Receivables from separate portfolios under common management comprise the net value of deposits and loans in the money market and repurchase and reverse repurchase agreements vis-a-vis other portfolios managed by Norges Bank. These related party transactions were carried out at arm's length.

Amounts in NOK millions

Table 12.2 Other financial liabilities	31 Dec. 2012	31 Dec. 2011
Tax due on foreign equities gains	100	-
Other liabilities abroad	131	199
Other liabilities, subsidiaries real estate	95	52
Liabilities to other portfolios under common management*	2 039	-
Other financial liabilities	**2 365**	**251**

* Liabilities to separate portfolios under common management comprise the net value of deposits and loans in the money market and repurchase and reverse repurchase agreements vis-a-vis other portfolios managed by Norges Bank. These related party transactions were carried out at arm's length.

GPFG Note 13 Currency distribution

Amounts in NOK millions

Table 13.1 Currency distribution of the balance sheet as at 31 December 2012 and 31 December 2011								31 Dec. 2012
	USD	CAD	EUR	GBP	CHF	JPY	Other	Total
Deposits in banks	245	-103	529	80	3 213	78	1 822	5 864
Lending associated with reverse repurchase agreements	41 530	3 092	13 367	262	0	2 032	1 157	61 440
Unsettled trades	86	0	345	14	0	68	1 164	1 677
Equities and units	697 508	54 036	487 884	344 881	138 301	105 699	384 643	2 212 951
Equities lent	16 339	1 143	30 495	3 049	3 822	18 858	41 334	115 041
Bonds and other fixed-income instruments	526 363	43 368	452 740	96 793	21 048	103 284	203 586	1 447 182
Bonds lent	5 325	0	0	0	0	0	0	5 325
Financial derivatives	1 167	82	214	442	-	-6 341	5 883	1 447
Financial assets real estate	0	0	0	4 841	0	0	0	4 841
Jointly controlled entities real estate	0	0	4 583	2 848	0	0	0	7 431
Other financial assets	1 176	0	3 107	31	29	0	68	4 411
Total financial assets	**1 289 740**	**101 618**	**993 262**	**453 243**	**166 413**	**223 677**	**639 656**	**3 867 610**
Investment properties	-	-	3 697	-	6 080	-	-	9 777
Other non-financial assets	-	-	5	-	-	-	-	5
Total assets	**1 289 740**	**101 618**	**996 964**	**453 243**	**172 493**	**223 677**	**639 656**	**3 877 392**
Short-term borrowing	-31	1	1	219	0	2	10	202
Borrowing associated with repurchase agreements	4 228	2 107	8 101	0	0	0	4 578	19 013
Cash collateral received	32 688	0	313	0	0	0	0	33 001
Unsettled trades	239	0	2 426	17	0	74	1 686	4 442
Financial derivatives	-5 261	0	589	1 548	17	-2 787	8 494	2 600
Other financial liabilities	-36	20	1 332	990	-12	-	73	2 365
Management fee payable	-	-	-	-	-	-	2 193	2 193
Total financial liabilities	**31 826**	**2 128**	**12 761**	**2 773**	**5**	**-2 712**	**17 033**	**63 815**

Amounts in NOK millions

								31 Dec. 2011
	USD	CAD	EUR	GBP	CHF	JPY	Other	Total
Deposits in banks	1 866	85	270	94	755	78	4 128	7 276
Lending associated with reverse repurchase agreements	51 096	5 353	5 938	7 820	-	3 497	6 116	79 820
Unsettled trades	539	-	24	3	-	880	826	2 272
Equities and units	592 945	49 222	432 975	279 278	117 154	83 784	251 440	1 806 798
Equities lent	38 030	834	1 175	20 292	2 532	25 949	48 318	137 130
Bonds and other fixed-income instruments	463 286	27 845	560 223	151 410	4 249	67 444	49 798	1 324 255
Bonds lent	3 256	-	-	-	-	-	-	3 256
Financial derivatives	2 372	-39	694	242	-13	20	-1 049	2 227
Financial assets real estate	-	-	-	4 415	-	-	-	4 415
Jointly controlled entities real estate	-	-	2 546	-	-	-	-	2 546
Other financial assets	161	272	2 949	-334	68	87	41	3 244
Total financial assets	**1 153 551**	**83 572**	**1 006 794**	**463 220**	**124 745**	**181 739**	**359 618**	**3 373 239**
Investment properties	-	-	4 062	-	-	-	-	4 062
Other non-financial assets	-	-	6	-	-	-	-	6
Total assets	**1 153 551**	**83 572**	**1 010 862**	**463 220**	**124 745**	**181 739**	**359 618**	**3 377 307**
Short-term borrowing	-14	0	0	25	0	0	0	11
Borrowing associated with repurchase agreements	10 888	-	105	-	-	2 452	5 835	19 280
Cash collateral received	36 405	-	521	-	-	-	-	36 926
Unsettled trades	223	4	17	10	7	876	2 173	3 310
Financial derivatives	595	60	1 365	3 461	5	186	285	5 957
Other financial liabilities	198	-	41	12	-	-	-	251
Management fee payable	.	.	.	.	.	.	2 539	2 539
Total financial liabilities	**48 295**	**64**	**2 049**	**3 508**	**12**	**3 514**	**10 832**	**68 274**

GPFG Note 14 Fair value measurement

Control environment

The control environment for fair value measurement of financial instruments and investment property is organised around a formalised and documented accounting and valuation policy and guidelines which are supported by work and control procedures. The policy document lays down valuation policies and outlines treatment procedures by the NBIM valuation committee.

The valuation environment has been adapted in accordance with market standards and established practices for valuation. This is implemented in practice through daily valuation of all holdings, except for real estate investments, where valuations are performed on a quarterly basis. These processes are scalable with regard to market changes and are based on internal and external data solutions.

In general, all holdings and investments are valued by external, independent valuation specialists. Valuation providers have been chosen on the basis of thorough analyses performed by the Norges Bank units responsible for the valuation. Valuation providers are followed up on an ongoing basis through regular discussions, controls and price challenges for individual securities. For a large portion of holdings, prices from independent price providers are based on quoted market prices. For holdings that are insufficiently liquid for valuation to be based on quoted prices, widely accepted models are used. Here observable inputs are used to the degree possible, but in some cases, owing to illiquid markets, unobservable inputs are used.

The valuation process is subject on a daily basis to numerous controls by Norges Bank's valuation departments as well as by the external fund accountant. Controls are based on defined thresholds and sensitivities, which are monitored and adjusted in accordance with prevailing market conditions. At each month-end for financial instruments and at the end of each quarter for real estate investments, more extensive controls are performed to ensure valuation in accordance with fair value. As part of this review, particular attention is paid to illiquid financial instruments and real estate investments, i.e. investments deemed to pose valuation challenges. Illiquid instruments are identified using sector and currency classifications, price differences between different external price providers, degree of coverage of the instrument by external price vendors, credit rating indicators, bid/ask spreads, and activity in the market.

A valuation memo and report are prepared at each quarter end documenting the results of the controls performed and the most important sources of uncertainties in the valuations.

The valuation committee, which comprises the NBIM leader group, meets every quarter prior to the publication of the financial reporting. The committee reviews the documentation, discusses major pricing issues and approves the valuation.

Valuation techniques

Equities and units, bonds and other fixed income instruments, and financial derivatives

Norges bank has defined hierarchies for price sources used for valuation. Holdings that are included in the benchmark index are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively through the use of other reputable external price providers' prices. In Norges Bank, analyses are done as part of the extended controls at month-end in which prices according to the hierarchy are compared with alternative price sources. Adjustments are made when alternative prices are considered to be more representative of fair value.

In the price hierarchy, equities are valued almost exclusively on the basis of official closing prices from stock exchanges or last traded exchange prices, and are thus quoted market prices. Over half (72%) of the holdings in bonds are also valued using quoted market prices, and only 0.34% of the bond portfolio now comprise instruments classified as Level 3 holdings. 89% of the investments for the GPFG as at year-end 2012 comprised holdings traded in active markets and which are therefore associated with low valuation risk (Level 1).

Portions of the bond portfolio and most interest rate derivatives are valued by price providers using models because the instruments are not traded in active markets. Observable inputs are used in the models as much as possible. The models are generally a combination of market standard and proprietary models but based on standard valuation principles. Model types vary according to the asset class or sub-class under review. For bonds these will include credit spreads based on quoted prices for comparable instruments, non-adjusted and option-adjusted discounted cash flow models for bonds containing embedded options, and models with discount margins for floating-rate bonds. In the OTC derivative market, option pricing models as well as implicit yield curves and credit spreads are mainly used.

Inputs used in the different valuation models, observable as well as unobservable, include the following elements:

- Bond prices – prices based on price quotes and relevant market activity.
- Credit spreads – obtained from the credit derivative market as well as trades of more liquid bonds.
- Yield curves – often the foundation of the valuation model obtained from various fixed income markets.
- Foreign exchange rates – obtained from exchanges and trading markets for use in the valuation of spot, forward and futures contracts.
- Equity prices – obtained from exchanges or standard data sources.
- Prepayment rates – early repayment of principal. Estimates based on both historical and expected levels can have a material effect on the valuation of individual types of bonds, obtained from various market sources.
- Default and recovery estimates – assumptions regarding expected default and loss given default are important inputs in the models that price structured instruments. Data sources are the same as for prepayment rates.
- Structuring and cash flow details per tranche – analysis of structured bonds produces estimated cash flows which are an essential input for such instruments. Data sources are the same as for prepayment rates.
- Volatility – the extent to which the price of a security fluctuates is a key input in the valuation of options. Data sources are the same as for prepayment rates.
- Correlation – the extent to which changes in one variable are interdependent with changes in another variable. Data sources are the same as for prepayment rates.
- Counterparty risk – prices are based on an assumption of risk-free counterparties. This is a reasonable assumption, owing to the existence of netting agreements and the use of collateral.

Real estate investments

Investments in the real estate asset class comprise financial assets real estate, investment property and jointly controlled entities (see GPFG Note 11 Real estate for further information). For all these investments assets and liabilities are measured, in full or in part, at fair value. Financial assets real estate and investment properties are measured at fair value, both where the investment portfolio has a direct ownership interest in the property and where the property is held through jointly controlled entities. At each reporting date, real estate investments' carrying amounts are adjusted to reflect their fair values as estimated by external independent valuation specialists using the discounted cash flow method or the income method, unless it is deemed that a recent transaction price is a better estimate of fair value. For valuation of any liabilities or financial derivatives in the real estate asset class, reference is made to the section above.

Real estate valuations are by their nature predisposed to significant forward looking judgements, key assumptions and estimates in respect of the individual property type, location, expected future cash flows (such as tenants' contracts, future revenue streams, and the overall repair and condition of the subject property) as well as applicable discount rates. Such estimates generally reflect recent comparable market transactions of properties having similar location, nature and quality characteristics. In addition, and as applicable, development risks (such as future construction costs and letting risks) are considered when determining the fair value of properties under development. Standard assumptions are used that are in accordance with international valuation standards. As a result, the valuations reflect best local market estimates at the valuation date and are sensitive to fluctuations to key assumptions. Events of assumptions not being achieved may have a material effect on the value of the real estate portfolio.

The discounted cash flow method involves the projection of a series of periodic cash flows to either an operating or a development property. To this projected cash flow series, an appropriate risk adjusted market discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income, less vacancy, collection losses, direct and indirect operating expenses and other obligations, to arrive at the net operating income. A series of periodic net operating incomes, along with an estimate of the terminal value are discounted to present value. The terminal value is the capitalised estimate of the net cash flow at disposition that is anticipated at the end of the projection period. The aggregate of these net present values equals the market value of the property or the financial asset.

The income method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of a market yield or return requirements. Properties valued using this method capitalise rental income using a market yield, and may include allowances for market adjustments (e.g. vacancy, lease incentives, and refurbishments) to the rental income.

Valuation uncertainty

All equities, bonds, financial derivatives and real estate investments have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation risk. Investments allocated to Level 2 are valued using models with observable inputs. These holdings have some pricing uncertainty. Holdings allocated to category 3 are priced using models with considerable use of unobservable inputs, which implies substantial uncertainty regarding the establishment of fair value. These investments, too, are valued by external professional valuers who are regarded as giving the best estimate of fair value and where the total valuation from different pricing providers varies only to a limited extent.

Table 14.1 groups the investments into categories of assessed valuation uncertainty as at 31 December 2012 and 2011.

Amounts in NOK millions

Table 14.1 Specification of investments by level of valuation uncertainty

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Equities and units	**2 325 185**	**1 942 777**	**1 184**	**995**	**1 623**	**156**	**2 327 992**	**1 943 928**
Government bonds	759 914	600 790	93 962	11 775	-	-	853 876	612 565
Government-related bonds	122 187	98 370	43 652	78 148	579	646	166 418	177 164
Inflation-linked bonds	40 050	98 431	1 705	7 285	-	-	41 755	105 716
Corporate bonds	5 239	3 513	190 764	184 543	437	285	196 440	188 341
Securitised bonds	113 739	75 277	76 293	157 087	3 986	11 361	194 018	243 725
Total bonds	**1 041 129**	**876 381**	**406 376**	**438 838**	**5 002**	**12 292**	**1 452 507**	**1 327 511**
Financial derivatives (assets)	221	5	1 226	2 222	-	-	1 447	2 227
Financial derivatives (liabilities)	-91	-224	-2 509	-5 733	-	-	-2 600	-5 957
Total financial derivatives	**130**	**-219**	**-1 283**	**-3 511**	**-**	**-**	**-1 153**	**-3 730**
Financial assets real estate	-	-	-	-	4 841	4 415	4 841	4 415
Jointly controlled entities real estate	-	-	-	-	7 431	2 546	7 431	2 546
Investment properties	-	-	-	-	9 777	4 062	9 777	4 062
Total real estate	**-**	**-**	**-**	**-**	**22 049**	**11 023**	**22 049**	**11 023**
Total	**3 366 444**	**2 818 939**	**406 277**	**436 322**	**28 674**	**23 471**	**3 801 395**	**3 278 732**

Table 14.1 comprises the balance sheet lines Equities and units, Equities lent, Bonds and other fixed income instruments, Bonds lent, Short-sale bonds, Financial derivatives (asset and liability), Financial assets real estate, Jointly controlled entities real estate and Investment properties. Other balance sheet items are thus not included.

Almost all equity holdings are classified as Level 1. Equities classified as Level 2 mainly comprise relatively illiquid holdings, which are priced on the basis of similar more liquid shares issued by the same company. Equities classified as Level 3 comprise a small number of holdings, the valuation of which is particularly uncertain due to a lack of market activity, equities whose trading has been suspended and unlisted equities of companies whose board of directors have stated an intention to make an initial public offering of shares. The increase in Level 3 for equities in 2012 is due to an unlisted investment made this year, counteracted by some sales, currency effects and repayment of equity capital.

Valuation of bonds is more uncertain and complex than valuation of equities. Norges Bank carries out analyses for each reporting date to identify the extent to which there have been transactions and price transparency with related market liquidity for different types of bonds as well as for a number of individual securities. Most government bonds and inflation-linked bonds have been allocated to Level 1, and pricing is thus primarily based on quoted market prices. Some emerging market government bonds and bonds issued by European sovereigns with substantial unresolved debt issues are allocated to Level 2. Extensive analyses of pricing and liquidity have been done for this segment. Government-related bonds are allocated to Levels 1, 2 and a few to Level 3 on the basis of variation in the degree of trading and price transparency in the markets. Most corporate bonds belong to Level 2, with some exceptions allocated to Levels 1 and 3. Covered bonds are primarily categorised in Level 1 at this year-end, owing to a high degree of liquidity and price transparency in the markets. Other securitised bonds are allocated to Levels 2 and 3 on the basis of varied and in part limited price transparency. Thus, a substantial portion of securitised bonds are still allocated to Level 3 owing to limited activity in the market for these instruments, and the use of unobservable inputs in pricing as well as complex models.

All real estate investments have been allocated to Level 3, as key assumptions, estimates and judgements factor prominently in property valuation models. External valuations have been obtained for all properties and the financial asset as at 31 December 2012. All real estate investments are measured at the fair value estimated by the external valuers, with the exception of newly acquired properties where the purchase price excluding transaction cost is considered to be the best estimate of fair value. Received valuations for the newly acquired properties differ slightly from the purchase price, however factors indicating that the value of the properties has changed materially since the transaction date have not been observed. It is therefore the assessment of management that the consideration paid in the recent transactions is the best estimate of fair value as at 31 December 2012.

Changes in Level 3 holdings

Table 14.2 shows a reconciliation of changes in carrying amounts for all Level 3 holdings in 2012 and 2011.

Amounts in NOK millions

Table 14.2 Specification of changes in Level 3 holdings

	1 Jan. 2012	Net gains/ losses	Purchases	Sales	Settlements	Transferred from Level 1 or 2	Transferred to Level 1 or 2	Foreign exchange gains and losses	31 Dec. 2012
Equities and bonds	**12 448**	**1 530**	**3 498**	**-7 200**	**-1 996**	**378**	**-940**	**-1 093**	**6 625**
Total real estate	**11 023**	**-204**	**11 705**	**-**	**-**	**-**	**-**	**-476**	**22 049**
Financial assets real estate*	4 415	344	199	-	-	-	-	-117	4 841
Jointly controlled entities real estate**	2 546	-371	5 404	-	-	-	-	-149	7 431
Investment properties*	4 062	-177	6 102	-	-	-	-	-210	9 777
Total	**23 471**	**1 326**	**15 203**	**-7 200**	**-1 996**	**378**	**-940**	**-1 569**	**28 674**

Amounts in NOK millions

	1 Jan. 2011	Net gains/ losses	Purchases	Sales	Settlements	Transferred from level 1 or 2	Transferred to level 1 or 2	Foreign exchange gains and losses	31 Dec. 2011
Equities and bonds	**25 350**	**-746**	**733**	**-11 283**	**-2 857**	**2 283**	**-805**	**-227**	**12 448**
Total real estate	**-**	**-83**	**11 009**	**-**	**-**	**-**	**-**	**97**	**11 023**
Financial assets real estate*	-	138	4 088	-	-	-	-	189	4 415
Jointly controlled entities real estate**	-	-31	2 620	-	-	-	-	-43	2 546
Investment properties*	-	-190	4 301	-	-	-	-	-49	4 062
Total	**25 350**	**-829**	**11 742**	**-11 283**	**-2 857**	**2 283**	**-805**	**-130**	**23 471**

* Net gains/losses from Financial assets real estate and Investment properties are fair value changes recognised during the reporting period. For Financial assets real estate, Purchases do not include transaction costs, because this investment has been classified under the fair value option, and Net gains/losses does not include expensed transaction costs.

** Net gains/losses for Jointly controlled entities real estate includes Share of the profit/loss in jointly controlled entities real estate. Fair value changes from investment properties owned by the jointly controlled entities are thus included in net gains/losses.

Holdings allocated to Level 3 in the valuation hierarchy increased by NOK 5 203m to NOK 28 674m during 2012. The decrease of level 3 equities and bonds of NOK 5 823m is due to a reduction in Level 3 bonds. This was more than counterbalanced by the addition of NOK 11 026m in real estate investments. Sales were the primary reason for the reduction in bonds, and US securitised bonds not guaranteed by federal agencies accounted for most of these sales.

Sensitivity for Level 3 holdings

Amounts in NOK millions

Table 14.3 Additional specification Level 3 and sensitivities

	Sensitivities 31 Dec. 2012			Sensitivities 31 Dec. 2011		
	Specification of Level 3 holdings 31 Dec. 2012	Unfavourable changes	Favourable changes	Specification of Level 3 holdings 31 Dec. 2011	Unfavourable changes	Favourable changes
Equities and units	**1 623**	**-486**	**178**	**156**	**-42**	**30**
Government-related bonds	579	-61	36	646	-65	39
Corporate bonds	437	-57	39	285	-27	25
Securitised bonds	3 986	-619	391	11 361	-1 390	1 270
Total bonds	**5 002**	**-737**	**466**	**12 292**	**-1 482**	**1 334**
Financial assets real estate	4 841	-257	261	4 415	-278	288
Jointly controlled entities real estate	7 431	-459	582	2 546	-132	143
Investment properties	9 777	-363	888	4 062	-210	228
Total real estate	**22 049**	**-1 079**	**1 731**	**11 023**	**-620**	**659**
Total	**28 674**	**-2 302**	**2 375**	**23 471**	**-2 144**	**2 023**

Norges Bank's analyses indicate that valuation risk increased during 2012, viewing Level 3 in isolation. The total exposure regarded as being particularly uncertain in relation to valuation increased by NOK 5 203m during 2012, to a year-end exposure of NOK 28 674m. This is mainly due to the increase in the size of the real estate portfolio during 2012. On the other hand, the composition of level 3 holdings transitioned during the year towards more holdings with a lesser degree of perceived valuation risk. While US securitised bonds have an average perceived valuation uncertainty of around 15%, real estate holdings are viewed as having approximately 5% average valuation uncertainty. Nevertheless, the total downside valuation risk increased by NOK 158m to NOK 2 302m as at year-end 2012 because of significant new real estate investments. The overall calculated sensitivity to favourable model input changes was slightly higher, at NOK 2 375m. It should be noted that the total valuation risk present in the Level 3 holdings is expected to be less than this as the valuation of all holdings will not move in the same direction with a change of a single unobservable input parameter. For example, while faster mortgage prepayments will have a positive impact on the valuation of some of the bonds held, they will have a negative impact on other bond values, so that the impacts on the total valuation will partly offset one another.

The valuation risk for equities has increased during 2012, and the table shows a NOK 486m lower value in the event of unfavourable changes, and a NOK 178m higher value in the event of favourable changes. The most important parameters causing this sensitivity are cash flow estimates and the discount rate.

The technique used to calculate the sensitivity of bond values is based on the availability of independent price sources and begins with the highest and lowest available price for a specific bond. Where a higher or lower price was not available, a standard sensitivity parameter was used. The level of the resulting valuation change is based on the bond type and the availability, reliability and variation of prices.

Securitised bonds show a sensitivity to changes to unobservable inputs which amounts to 27% of the overall valuation uncertainty, with a NOK 619m lower value in the event of unfavourable changes and a NOK 391m higher value in the event of favourable changes. The key parameters changed in this case are various collateral performance-related parameters, including expected severities, delinquencies, and prepayment speed assumptions, in addition to the estimated yield spread applied to the expected cash flows of the bond in question.

Property values are particularly sensitive to changes in the rate of return (discount rate) and assumptions impacting future revenues. Under an unfavourable scenario changing the rate of return by +0.20 percentage points on a relative basis, and future market rents by -2.0% on an absolute basis is expected, all else being equal, to change the value of the real estate portfolio by about 4.9% or NOK 1 079m. Under a favourable scenario changing the rate of return by -0.20 percentage points on a relative basis, and future market rents by +2.0% on an absolute basis, is expected, all else being equal to change the value of the real estate portfolio by about 7.9% or NOK 1 731m. The reason for a larger estimated upside than downside is that alternative valuations for new investments at year-end indicate a probable value increase.

GPFG Note 15 Risk

GPFG investment mandate

See Note 1 for a description of the framework for management of the GPFG. Within the regulations of the mandate for management given by the Ministry of Finance, Norges Bank shall manage the krone deposit in its own name by investing the funds in a portfolio of equities, fixed income securities and real estate, defined as the investment portfolio.

The Bank shall seek to obtain the highest possible return after expenses measured in the currency basket of the benchmark. The Ministry's strategic benchmark index is divided into asset classes. The fixed income benchmark specifies a defined allocation between government bonds and corporate bonds, and a sub-benchmark for each. Bonds in the government bond benchmark are weighted based on the GDP of the relevant countries concerned, while the bonds in the benchmark for corporate bonds are weighted according to market capitalisation. The currency distribution follows from these weighting principles. The benchmark for equities is constructed on the basis of market capitalisation for shares in the countries included in the benchmark, where selected companies are excluded from the investment universe. The investment portfolio may not invest in securities issued by Norwegian entities or issued in Norwegian kroner. These securities are also excluded from the benchmark. Positions in financial derivatives are included in the relevant asset classes, but are shown separately in the income statement and balance sheet for the investment portfolio of the GPFG.

Norges Bank's governance structure

The Executive Board of Norges Bank has delegated the responsibility for the management of the GPFG to the Chief Executive Officer (CEO) of Norges Bank Investment Management (NBIM).

The CEO of NBIM is authorised by a job description and an investment mandate. The Executive Board has issued principles for risk management at NBIM, principles for ownership management, principles for organisation and management of NBIM, and principles for compensation to NBIM employees. NBIM must adhere to internationally recognised standards in the areas of valuation, performance measurement and management, measurement and control of risk. Reporting to the Executive Board is done monthly, and more extensively quarterly. The Governor of Norges Bank and the Executive Board should be notified without delay in the event of particular events or significant matters.

NBIM governance structure

Within NBIM, investment responsibilities are further delegated through investment mandates. Responsibility for processes and personnel is delegated through job descriptions, while process requirements are detailed in policies and guidelines. The composition of the NBIM leader group and the delegation of authority shall ensure segregation of duties between investment management, treasury and trading, operations, risk management and compliance.

The investment risk committee complements the delegation of responsibility by advising on investment risk management, and the investment universe committee advises on the portfolio's investment universe.

Internal risk reporting requirements are issued by the CEO through job descriptions to personnel in the risk area. The CEO receives daily, weekly and monthly reporting. The CEO should notified without delay of particular events or serious breaches of the investment mandate.

NBIM's framework for investment risk

In the investment mandate for the GPFG given to Norges Bank, there are a number of limits and restrictions for the combined equity and bond asset class, as well as for the individual asset classes. Real estate investments are covered in the investment mandate by separate regulations. These regulations provide Norges Bank with a framework for establishing an asset class with diversified exposure to global real estate markets.

Segregation of roles and responsibilities is a cornerstone of process design at NBIM. Processes such as the management of investment mandates, portfolio hierarchy and counterparties are delegated to the chief risk officer (CRO). Changes or additions to existing investment mandates in NBIM, the portfolio hierarchy or new counterparties require approval by the CRO, or a person authorised by the CRO.

The Executive Board's principles for risk management are detailed further in NBIM through policies and guidelines. Responsibility for an effective organisation and process related to risk management is delegated to the CRO to ensure a robust risk management process within NBIM.

Risk management at NBIM is defined as management of market risk, credit risk, counterparty risk, operational risk and risk related to environmental, social and governance factors. The first three items listed are defined by NBIM as investment risk. In NBIM the investment area has responsibility for managing the portfolio and individual mandate risk, while the risk management area independently measures, manages and reports investment risk across the portfolio, asset classes and other levels within the portfolio that reflect the investment process.

Investment risk – market risk
NBIM defines market risk as the risk of a loss or a change in the market value of the portfolio or in parts of the portfolio as a result of changes in financial market variables. Market risk for the equities and fixed income portfolios is measured by NBIM along the following dimensions: absolute and relative exposure as compared to the benchmark, volatility and correlation risk, systematic factor risk and liquidity risk. Market risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – credit risk
NBIM defines credit risk as the risk of loss due to an issuer being unable to meet its payment obligations. Within credit risk, NBIM measures risk as single issuer credit risk where the probability of default and loss given default are taken into account, and portfolio credit risk where credit risk takes into account the correlation in credit losses between the instruments and the issuers. Credit risk is actively taken to generate investment returns in line with the investment mandates' objectives.

Investment risk – counterparty risk
NBIM defines counterparty risk as the risk of loss related to the possible bankruptcy of a counterparty or other similar event leading to counterparty defaulting. Counterparty risk can be divided into credit risk associated with the bankruptcy of a counterparty, settlement risk and custodian risk. Counterparty risk is controlled and mitigated to the greatest extent possible, given the investment strategy.

Risk management process
NBIM uses several measurements, processes and systems to monitor and control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurements and processes.

Market risk

Norges Bank measures risk in both absolute terms for the actual portfolio, and the relative market risk for investments in the GPFG.
Continuous monitoring, measurement and assessment of market risk are performed along multiple risk dimensions, employing a number of methodologies and approaches. Combining different and complementary risk measures provides a better insight into the risk profile of the holdings in the GPFG.

Asset class by country and currency
The portfolio is invested across several asset classes, countries and currencies as shown in Table 15.1.

Table 15.1 Allocation by asset class, country and currency

Asset class	Market	31 Dec. 2012	Market	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
	Market value in percent by country and currency				Market value in percent by asset class		Assets minus liabilities excluding management fee	
Equities	**Developed**	**90.1**	**Developed**	**91.5**				
	United States	28.5	United States	30.3				
	United Kingdom	16.0	United Kingdom	16.4				
	France	6.9	France	7.0				
	Switzerland	6.5	Switzerland	6.2				
	Germany	6.3	Germany	5.8				
	Total Other	25.9	Total Other	25.8				
	Emerging	**9.9**	**Emerging**	**8.5**				
	China	1.7	Brazil	1.7				
	Brazil	1.5	China	1.4				
	Taiwan	1.3	Russia	1.3				
	Russia	1.1	Taiwan	1.0				
	South Africa	0.7	India	0.5				
	Total Other	3.6	Total Other	2.6				
Total Equities					**61.2**	**58.7**	**2 335 830**	**1 944 721**
Fixed income	**Developed**	**89.8**	**Developed**	**98.5**				
	USD	37.6	EUR	39.9				
	EUR	30.7	USD	35.0				
	JPY	7.2	GBP	12.1				
	GBP	6.2	JPY	5.0				
	CAD	3.0	CAD	2.1				
	Total Other	5.2	Total Other	4.5				
	Emerging	**10.2**	**Emerging**	**1.5**				
	MXN	1.5	MXN	0.5				
	KRW	1.4	CNY	0.2				
	RUB	1.1	KRW	0.2				
	BRL	1.0	INR	0.2				
	PLN	0.7	BRL	0.1				
	Total Other	4.4	Total Other	0.2				
Total Fixed Income					**38.1**	**41.0**	**1 454 816**	**1 355 722**
Real Estate	France	32.9	France	60.0				
	United Kingdom	31.7	United Kingdom	40.0				
	Switzerland	24.2						
	Other*	11.2						
Total Real estate					**0.7**	**0.3**	**25 123**	**11 129**

* Other comprises the investment in Germany (Berlin and Frankfurt), which was completed on 1 January 2013.

Concentration risk

Within the investment portfolio of the GPFG there are substantial investments in government issued bonds. The portfolio is also invested in private companies that issues both bonds and equities.

Table 15.2 shows the largest holdings in bonds issued by governments, including government bonds issued in local currency, sovereign bonds and inflation-linked bonds issued in local currency.

Amounts in NOK millions

Table 15.2 Largest holdings within the segment government bonds

	Market value 31 Dec. 2012		Market value 31 Dec. 2011
United States	323 983	United States	249 072
Japan	103 001	United Kingdom	109 813
Germany	63 926	France	79 790
United Kingdom	59 784	Japan	67 036
France	44 016	Germany	51 294
Italy	26 535	Italy	32 914
Netherlands	24 624	Netherlands	20 218
Mexico	22 569	Spain	17 975
Canada	22 141	Austria	15 561
South Korea	20 732	Belgium	14 813

Table 15.3 shows the portfolio's largest holdings of non-government issuers across both bonds and equities. Covered bonds issued by financial institutions are included in the bonds column.

Amounts in NOK millions

Table 15.3 Largest holdings excluding sovereigns, both bonds and equities

31 Dec. 2012	Sector	Bonds	Equities	Total
Nestlé SA	Consumer Goods	0	30 061	30 061
Royal Dutch Shell PLC	Oil & Gas	0	28 829	28 829
HSBC Holdings PLC	Financials	1 057	27 272	28 329
Kreditanstalt für Wiederaufbau	Government-related	25 884	0	25 884
Novartis AG	Health Care	0	21 218	21 218
UBS AG	Financials	7 398	13 456	20 854
Apple Inc	Technology	0	20 698	20 698
Roche Holding AG	Health Care	0	18 192	18 192
European Investment Bank	Government-related	17 932	0	17 932
BlackRock Inc	Financials	0	17 766	17 766

31 Dec. 2011	Sector	Bonds	Equities	Total
Royal Dutch Shell PLC	Oil & Gas	0	30 983	30 983
Nestlé SA	Consumer Goods	0	25 346	25 346
European Investment Bank	Government-related	24 099	0	24 099
Kreditanstalt für Wiederaufbau	Government-related	22 703	0	22 703
HSBC Holdings PLC	Financials	948	19 583	20 530
Vodafone Group PLC	Telecommunication	1 338	18 858	20 196
Novartis AG	Health Care	0	19 281	19 281
Nationwide Building Society	Financials	17 618	0	17 618
BP PLC	Oil & Gas	0	17 277	17 277
Exxon Mobil Corp	Oil & Gas	0	16 901	16 901

Volatility and correlation risk

Norges Bank uses risk modelling to quantify the risk of value changes associated with all or parts of the portfolio. These are standard risk measurement techniques based on statistical measures such as standard deviation, which take into account correlations between different instruments in the portfolio. This risk measure provides an estimate of expected change or fluctuation in the portfolio's value on the basis of markets conditions over the past three years. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. The model uses equally weighted weekly return data from the last three years and a parametric calculation methodology. The model is tailored to the long-term investment horizon of the GPFG. The same models are used for both portfolio risk and relative volatility. In addition to the mentioned model, Norges Bank uses other models that to a greater extent capture the market dynamics of recent periods. Real estate investments are not included in the volatility calculations. This is consistent with the investment mandate issued by the Ministry of Finance and the Executive Board of Norges Bank in addition to internal guidelines for investment and risk management.

Tables 15.4 and 15.5 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 15.4 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31 Dec. 2012	Min 2012	Max 2012	Average 2012	31 Dec. 2011	Min 2011	Max 2011	Average 2011
Portfolio	8.6	7.9	9.9	8.6	9.6	9.5	13.4	12.1
Equities	14.3	13.9	16.6	14.6	16.4	16.4	21.2	19.9
Fixed income	8.6	8.6	10.4	8.9	10.5	10.5	12.7	12.0

Tabell 15.5 Relative risk, expected relative volatility in basis points

	Expected relative volatility							
	31 Dec. 2012	Min 2012	Max 2012	Average 2012	31 Dec. 2011	Min 2011	Max 2011	Average 2011
Portfolio	**48**	**31**	**57**	**43**	**40**	**33**	**65**	**46**
Equities	37	32	61	41	53	40	111	64
Fixed income	64	40	77	58	45	38	76	51

Risk measured by the risk model showed a decline for the portfolio as a whole and in both asset classes in 2012. For the portfolio as a whole, measured risk at year-end was 8.6%. This means that for the portfolio, annual fluctuations in value of about NOK 300bn can be expected. Correspondingly, measured risk at year-end 2011 was 9.6%, which implied that at the beginning of 2012 annual fluctuations of around NOK 320bn could be expected. The actual profit on the portfolio for 2012 of NOK 228bn was within this number, with fluctuations through the year. The decline was mainly driven by the model using three years' historical data and consequently, historical data from the volatile period in early 2009 was no longer included in the dataset at year-end. Despite the fact that 2012 was also characterised by market turbulence, it was of less magnitude than in early 2009.

The mandate for the GPFG outlines that Norges Bank shall facilitate management with the aim of not exceeding a limit of 100 basis points in expected relative volatility. Risk is measured and compliance with the limit monitored on the basis of the model described above. Expected relative volatility has been within the limit in 2012 and at the end of the year was at 0.5%, which is an increase from the end of 2011.

Volatility in global equity and fixed income markets decreased slightly in 2012 compared to 2011, even though there was substantial uncertainty regarding European sovereign debt and the euro and uncertainties regarding global growth. The unrest related to the euro area peaked in the second quarter, and declined through the second half of the year as a result of the statement made by Mario Draghi, the president of the European Central Bank (ECB), that the ECB would defend the euro by any means. This was followed up by specific plans to purchase bonds of troubled sovereigns.

Strengths and weaknesses

The strength of these types of risk models is that one can estimate the risk in a portfolio across different asset classes, markets, currencies, securities and derivatives and express this risk as a single numerical value which takes into account the correlation between different asset classes, securities and risk factors.

Model-based risk estimates are based on historical relationships and may provide reliable forecast in markets without significant changes in volatility. In periods marked by significant changes in volatility and correlation, estimates will be less reliable. Calculated volatility is a point estimate of risk and provides little information about the total risk profile and any tail risk. Annualisation means assuming that volatility and portfolio composition are constant over time. To compensate for these weaknesses, Norges Bank uses complementary models, methods and various stress tests. In addition, analyses are performed of concentration risk and realised return.

Back testing of models

Back testing of the models is performed to validate the model's ability to estimate risk. Both the risk model and the back testing takes into account the long term nature of the GPFG's investment horizon.

Credit risk

Credit risk is the risk of losses resulting from defaults by issuers of fixed income instruments on their payment obligations. Fixed income instruments in the portfolio's benchmark are all rated investment grade by one of the major credit rating agencies. Investments in bonds are made on the basis of internal assessments of expected return and risk profile.

Amounts in NOK millions

Table 15.6 Bond portfolio specified by credit rating

31 Dec. 2012	AAA	AA	A	BBB	Lower rating	Total
Government bonds	533 495	187 356	35 158	97 841	25	853 876
Government-related bonds	88 803	46 689	9 740	18 082	3 103	166 418
Inflation-linked bonds	29 743	4 508	229	7 275	-	41 755
Corporate bonds	404	16 258	94 819	82 143	2 816	196 440
Securitised bonds	111 639	15 922	42 763	19 030	4 665	194 018
Total bonds and other fixed income instruments	**764 084**	**270 733**	**182 709**	**224 372**	**10 609**	**1 452 507**

31 Dec. 2011	AAA	AA	A	BBB	Lower rating	Total
Government bonds	495 162	79 563	28 235	6 248	3 357	612 565
Government-related bonds	110 336	39 658	12 868	11 352	2 950	177 164
Inflation-linked bonds	77 634	21 011	6 857	-	214	105 716
Corporate bonds	283	25 219	94 555	65 667	2 617	188 341
Securitised bonds	183 963	35 719	12 476	6 672	4 895	243 725
Total bonds and other fixed income instruments	**867 378**	**201 170**	**154 991**	**89 939**	**14 033**	**1 327 511**

During the year a number of actions were taken to reduce the market turmoil in several southern European countries, as well as to reduce the uncertainty related to European banks. This led to reduced credit spreads on European government and corporate bonds. The credit risk in bond markets was thus reduced during the year, despite a year characterised by lower than expected growth and major challenges, especially in the Eurozone. The situation in Europe remained uncertain in 2012, with weak growth prospects and several states with significant debt challenges. This led to a series of rating agency downgrades of both sovereigns and companies, reducing the bond portfolio's credit quality measured by credit rating. This reduction was only partly offset by new bond investments in 2012, a large proportion of which were in high credit quality bonds. There was also a substantial volume of new investment in emerging market government bonds. These holdings amounted to 9.9% of the bond portfolio at year-end. The result was a change in the composition of the bond portfolio on the basis of credit rating, whereby the proportion of AAA bonds has been reduced and that of BBB and AA bonds has been increased. The proportion of BBB bonds increased to 15.4% of the bond portfolio at year-end 2012 from 6.8% at the end of 2011. At year-end 2012, defaulted bonds had a total market value of NOK 1.8bn, or 0.1% of the bond portfolio; the nominal amount of defaulted bonds was NOK 7.4bn, down from NOK 9.3bn at year-end 2011. Defaulted bonds are grouped with "Lower rating" in the table above.

Table 15.7 Bond portfolio by credit rating and currency in percent

31 Dec. 2012	AAA	AA	A	BBB	Lower rating	Total
USD	26.5	1.7	4.0	4.1	0.3	36.6
EUR	13.9	6.4	5.4	5.1	0.4	31.2
JPY	-	7.1	-	-	0.0	7.1
GBP	5.1	0.2	0.7	0.7	0.0	6.7
CAD	2.2	0.5	0.1	0.1	0.0	3.0
Other currencies	4.9	2.8	2.3	5.5	0.0	15.5
Total	**52.6**	**18.6**	**12.6**	**15.4**	**0.7**	**100.0**

31 Dec. 2011	AAA	AA	A	BBB	Lower rating	Total
EUR	26.1	7.2	6.3	2.3	0.5	42.4
USD	24.7	2.0	4.1	3.6	0.5	34.9
GBP	9.5	0.4	1.0	0.6	0.0	11.4
JPY	0.0	5.1	0.0	-	0.0	5.1
CAD	1.4	0.5	0.1	0.1	0.0	2.1
Other currencies	3.6	0.0	0.2	0.2	0.1	4.1
Total	**65.3**	**15.2**	**11.7**	**6.8**	**1.1**	**100.0**

At end-2012, there were no credit default swaps in the portfolio (see GPFG Note 10 Financial derivatives).

In addition to the credit rating based approach, credit risk management at Norges Bank is complemented by additional credit risk measures. These model-based approaches complement the credit rating method and are used to monitor credit risk independently of the credit rating. These methods are comparable to the volatility and correlation risk model in the manner in which credit risk is quantified as a single number and is a function of observable credit spreads and equity prices as well as the volatility and correlations between them.

Counterparty risk

Norges Bank is exposed to risk vis-à-vis counterparties in the international settlement and custody systems where trades are settled. Additionally, counterparties are necessary to ensure efficient cash management, effective trading and hedging of market and/or credit risk. Repurchase and reverse repurchase agreements and securities lending via external agents also give rise to counterparty risk.

Norges Bank reduces counterparty risk by using several counterparties and by setting strict credit rating requirements. Rating requirements for counterparties with unsecured bank deposits are higher than in situations when collateral is posted. For instruments where collateral is used minimum requirements have been set, relating to the credit quality, time to maturity and concentration of the collateral. Concentration is also reduced by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against limits set by the board and the CEO of NBIM. Netting agreements are used to further mitigate counterparty exposure when trading in OTC derivatives and foreign exchange contracts. Additional mitigation of counterparty risk is ensured through collateral requirements for counterparty net positions with positive market value.

The methods used to calculate counterparty risk are in accordance with recommendations by the UK Financial Services Authority. Two methods are used: for OTC derivatives, time deposits, bank deposits, and foreign exchange contracts, a counterparty risk model in which exposures are repriced under different assumptions to take into account possible future market movements is used; estimated potential future exposure. This leads to a measure of gross exposure. Netting agreements and collateral are taken into account in determining net exposure. For repurchase agreements, securities lending transactions executed via external agents and securities posted as collateral for futures trades, a method is used that adds a premium to the market value that reflects the position's volatility, to arrive at gross exposure. These positions are also adjusted for netting and actual received and posted collateral when determining net exposure. Table 15.8 is a breakdown of exposure by type of activity/instrument regarded as exposed to counterparty risk. In addition to gross and net exposure given by the internal risk model, counterparty risk based on the balance sheet, adjusted for recognised and unrecognised collateral, is shown as well. The reduction in measured counterparty risk is due to a reduction in agency securities lending in 2012 (see GPFG Note 9 External agency securities lending) and less outstanding time deposits at the end of 2012 than at year-end 2011. The reduction is also due to further reductions in the use of financial derivatives during 2012 (see GPFG Note 10 Financial derivatives).

Amounts in NOK millions

Table 15.8 Counterparty risk by type of position

31 Dec. 2012	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	5 864	5 754	-	-	5 754
OTC derivatives including foreign exchange contracts	-1 283	3 407	626	1 517	1 264
Repurchase and reverse repurchase agreements*	-89	927	5	-	923
Securities lending transactions**	-6 255	16 285	-	8 834	7 450
Bonds posted as collateral for futures trades	1 301	1 386	-	-	1 386
Total		**27 759**	**631**	**10 351**	**16 777**

31 Dec. 2011	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	7 276	7 691	-	-	7 691
OTC derivatives including foreign exchange contracts	-3 511	5 355	1 601	2 009	1 745
Repurchase and reverse repurchase agreements*	-2 668	1 040	181	-	858
Securities lending transactions**	-9 526	18 097	-	7 624	10 472
Bonds posted as collateral for futures trades	762	772	-	-	772
Total		**32 955**	**1 783**	**9 633**	**21 538**

* The column Carrying amount adjusted for collateral takes into account all positions in the repo market, including the reinvestment of cash collateral. The internal measurement and monitoring of counterparty risk for these types of instruments do not include these reinvestments.

**The column Carrying amount adjusted for collateral includes securities lent and collateral received.

The line OTC derivatives including foreign exchange contracts in the table comprises the net market value of foreign exchange contracts (NOK -57m) and swaps (NOK -1 266m). See also GPFG Note 10 Financial derivatives. Counterparty risk for derivative positions is followed-up on a net basis at Norges Bank.

Norges Bank's counterparties have a credit rating from an independent credit rating agency. Only in instances when the counterparty risk is considered very low can an internal credit evaluation be used as the basis for counterparty approval. Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators. Table 15.9 shows Norges Bank's counterparties classified according to credit rating category.

Table 15.9 Counterparties* by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2012	**31 Dec. 2011**	**31 Dec. 2012**	**31 Dec. 2011**
AAA	-	3	-	3
AA	30	50	29	43
A	46	39	56	43
BBB	-	4	21	14
BB	-	-	3	2
B	-	-	9	12
Total	**76**	**96**	**118**	**117**

* As counterparties are counted per legal entity, several couterparties may be included per corporate group.

Leverage

Leverage may be used to ensure effective management of the investments, and not with the aim of increasing the economic exposure to risky assets. The use of leverage is regulated both in the investment management mandate issued by the Ministry of Finance to Norges Bank and in the investment mandate issued by the Executive Board of Norges Bank to NBIM. Leverage is the difference between total net exposure and market value for the portfolio. Net exposure is determined by including securities in the calculation at market value and by including derivatives converted to underlying exposure. When exposure is greater than market value, the portfolio is leveraged.

The GPFG was not leveraged in 2012. Leverage was also zero at the end of 2011.

Sale of securities Norges Bank does not own

Sale of securities not owned by Norges Bank (short sales) can only be done if the Bank has established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and at year-end 2012, no securities had been sold in this manner.

GPFG Note 16 Subsidiaries and jointly controlled entities

Norges Bank's ownership interests within the investment portfolio of the GPFG in all material subsidiaries and jointly controlled entities are given in Table 16.1.

Table 16.1 Subsidiaries and jointly controlled entities

31 Dec. 2012		
Company	Office Location	Ownership share and voting rights in percent
NBIM S.à.r.l	Luxembourg	100
NBIM Louis SPPICAV	Paris	100
NBIM Louis SAS	Paris	100
Matignon 16 SCI*	Paris	50
Champs Elysées Rond-Point SCI*	Paris	50
PB 12 SCI*	Paris	50
NBIM Clemente S.à.r.l	Luxembourg	100
NBIM Clemente OPCI SPPICAV	Paris	100
SCI Malesherbes*	Paris	50
SCI 15 Scribe*	Paris	50
SAS 100 CE*	Paris	50
SCI Daumesnil*	Paris	50
SCI 9 Messine*	Paris	50
NBIM Otto S.à.r.l	Luxembourg	100
NBIM Otto W1 S.à.r.l	Luxembourg	100
NBIM Otto W3 S.à.r.l	Luxembourg	100
NBIM Otto NKE S.à.r.l	Luxembourg	100
M. Vermögensverwaltungsgesellschaft mbH*	Hamburg	50
K. Vermögensverwaltungsgesellschaft mbH*	Hamburg	50
NBIM Antoine S.à.r.l	Luxembourg	100
NBIM Antoine CHF S.à.r.l	Luxembourg	100
NBIM Nerva S.à.r.l	Luxembourg	100
NBIM Victoria GP Limited	London	100
NBIM Victoria Partners LP	London	100
MSC Property intermediate Holdings Limited*	London	50
NBIM George GP Limited**	London	100
NBIM George Partners LP**	London	100

31 Dec. 2011		
Company	Office Location	Ownership share and voting rights in percent
NBIM S.a.r.l	Luxembourg	100
NBIM Louis SPPICAV	Paris	100
NBIM Louis SAS	Paris	100
Matignon 16 SCI*	Paris	50
Champs Elysées Rond-Point SCI*	Paris	50
PB 12 SCI*	Paris	50
Burlington Number 1 (General Partner) Limited	London	100
Burlington Number 1 Partners LP	London	100

*Jointly controlled entities.

**These companies have changed their name from "Burlington Number 1 (General Partner) Limited" and "Burlington Number 1 Partners LP" during 2012.

Independent auditor's report

To the Supervisory Council of Norges Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Norges Bank, which comprise the statement of financial position as at December 31, 2012, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial reporting for the investment portfolio of the Government Pension Fund Global is included in Norges Bank's financial statements and disclosed in Note 25.

The Executive Board's and the Governor's Responsibility for the Financial statements

The Executive Board and the Governor are responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank. The regulation requires Norges Bank financial statements to be prepared in accordance with International Financial reporting Standards as endorsed by the EU (IFRS), but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including investments in subsidiaries being part of the investment portfolio. The Executive Board and the Governor are also responsible for such internal control as 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 entity'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 Norges Bank as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank. The regulation requires Norges Bank financial statements to be prepared in accordance with International Financial reporting Standards as endorsed by the EU (IFRS), but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including investments in subsidiaries being part of the investment portfolio.

Report on Other Legal and Regulatory Requirements

Opinion on the Executive Board's report and the allocation of the total comprehensive income
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Executive Board's report concerning the financial statements, and the proposal for the allocation of the total comprehensive income complies with the law and regulations and that the information is consistent with the financial statements.

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, 27 February 2013

Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Resolution of the Supervisory Council on the financial statements for 2012

In accordance with the current guidelines for the allocation and distribution of Norges Bank's profit, the Supervisory Council adopted the following decision at its meeting on 7 March 2013:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2012.
- The Supervisory Council takes note of the auditor's report for Norges Bank for 2012.

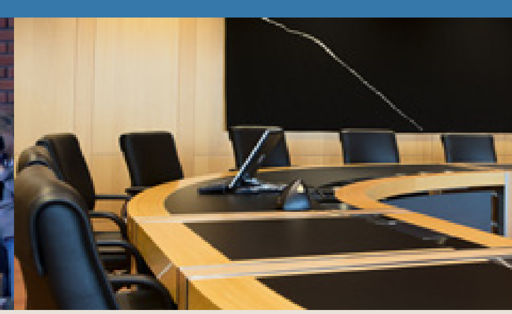
The Supervisory Council adopts Norges Bank's financial statements for 2012 with the following transfers and allocations:
– In accordance with the guidelines, the profit after other allocations of NOK 773m is to be transferred to the Adjustment Fund.

- There is no capital in the Transfer Fund and no transfers will therefore be made to the Treasury

The Supervisory Council's statement on the minutes of the meetings of the Executive Board and its supervision of the Bank in 2012

Under the Norges Bank Act, the Supervisory Council submits a separate report to the Storting concerning the minutes of the meetings of the Executive Board and its supervision of the Bank. The report for 2012 was adopted by the Supervisory Council on 7 March 2013 and will be published and made available on the Bank's website upon submission to the Storting

Norges Bank's activities **2012**



CHAPTER 1:

Responsibilities and organisation

Promoting economic stability in Norway

The aim of Norges Bank is to promote economic stability in Norway. Norges Bank fulfils executive and advisory monetary policy functions and is tasked with maintaining payment systems and financial markets that are robust and efficient. Norges Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System, etc. (the Norges Bank Act). The Act states that Norges Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. The Bank shall issue banknotes and coins, promote an efficient payment system domestically and vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets. The Act authorises the Bank to implement measures customarily or ordinarily taken by a central bank.

The Government has defined an inflation target for monetary policy in a regulation issued pursuant to the Norges Bank Act. Norges Bank's responsibilities with respect to the management of the GPFG are regulated by the Act relating to the Government Pension Fund Global and a management mandate laid down by the Ministry of Finance.

Organisation

The highest decision-making bodies of Norges Bank are the Executive Board and the Supervisory Council. Executive and advisory authority is vested in the Executive Board, while the Supervisory Council ensures that the rules governing the Bank's activities are observed. The Executive Board consists of seven members, all appointed by the Government, with the Governor as chair and the Deputy Governor as deputy chair. For a more detailed description of the Executive Board's work, see Part I, Annual Report of the Executive Board. The Executive Board has laid down the mandate for the Internal Audit function, and the head of the Internal Audit function reports directly to the Executive Board.

Norges Bank's Supervisory Council comprises 15 members appointed by the Storting (the Norwegian parliament). The Council's mandate is to provide assurance to the Storting through its activities and reports that Norges Bank operates in a prudent and appropriate manner and in compliance with legislation and other standards, including in the management of the GPFG. The Supervisory Council has established the Office of the Supervisory Council to perform oversight and control tasks, administer the agreement with the external auditor and perform secretariat tasks for the Supervisory Council. The Office of the Supervisory Council also functions as a liaison between the Bank, the external auditor and the Office of the Auditor General, especially with regard to the GPFG, and is professionally and administratively independent of the Bank. The Supervisory Council submits an annual, independent report on its activities to the Storting.

The Norges Bank Act governs relations between Norges Bank and the Government. The Act relating to the Government Pension Fund Global and the management mandate for the GPFG regulate the division of responsibilities for the administration of the GPFG between Norges Bank and the Ministry of Finance.

Pursuant to the Norges Bank Act, the Governor is responsible for the day-to-day management of the Bank. The Deputy Governor acts for the Governor in his absence. Central Banking Operations (CBO) comprises the departments Markets and Banking Services, Monetary Policy, Financial Stability and Corporate and Shared Services, and a General Secretariat.

In the case of Norges Bank Investment Management (NBIM), the Executive Board has delegated decision-making authority directly to NBIM's chief executive officer. NBIM manages the GPFG and parts of Norway's foreign exchange reserves. NBIM has some support functions of its own, but also receives support from CBO's Corporate and Shared Services. For more information on the management and organisation of NBIM, see the Government Pension Fund Global Annual Report.

Organisational chart

NORGES BANK

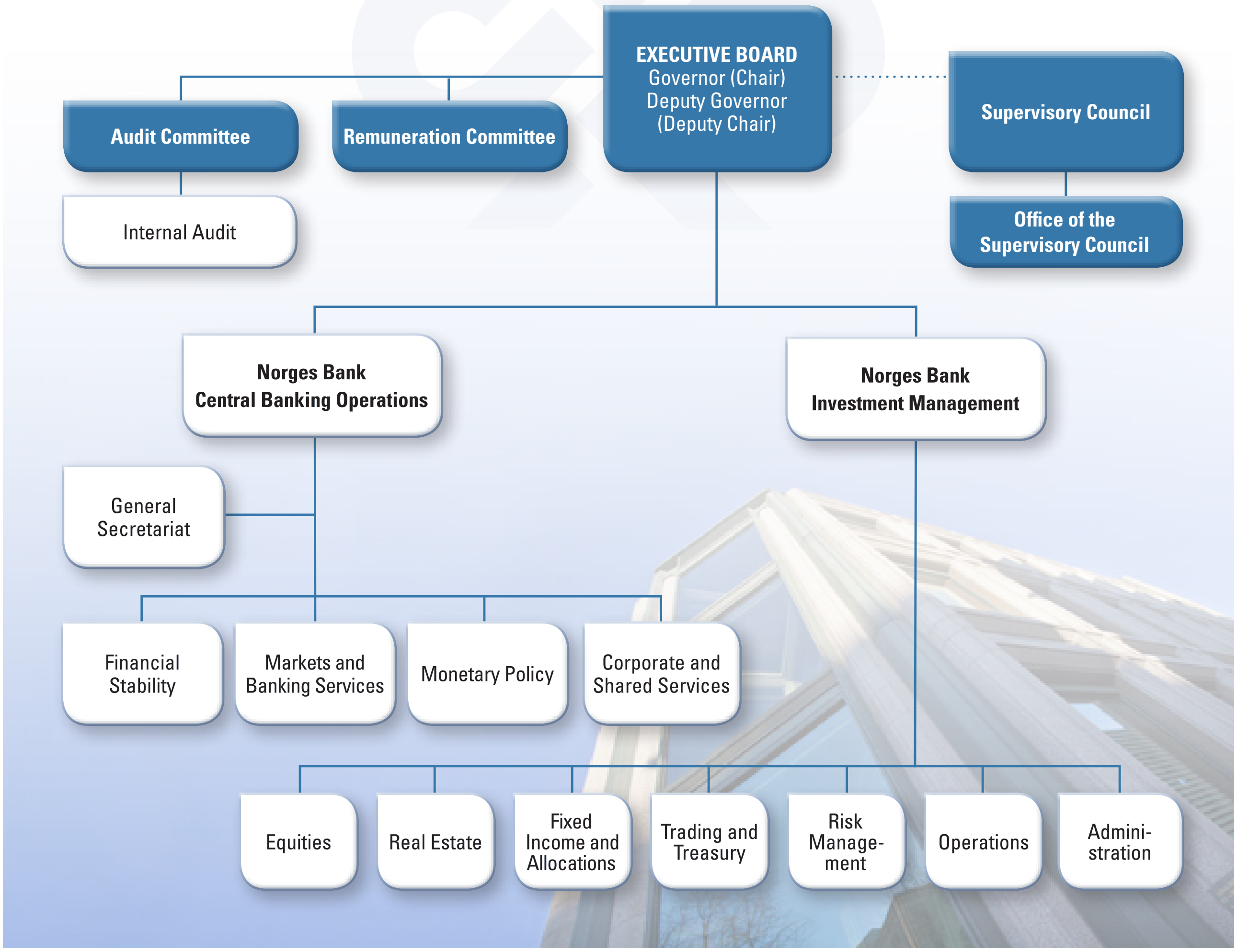


Chart 1.1. Organisation of Norges Bank

Norges Bank prepares three-year strategic plans describing its current status, challenges and priorities. Along with statutory requirements and internal guidelines, these strategic plans constitute the framework for the Bank's activities.

Norges Bank uses governance documents to define responsibilities and roles and establish frameworks for various activities. Governance documents are adopted at different levels and have varying degrees of detail, and may apply to all or parts of the Bank's activities. The governance documents are applied within the framework of the Norges Bank Act, the Executive Board's rules of order, the Bank's planning and follow-up processes and Board and management decisions.

CHAPTER 2:

Monetary policy and financial stability

Monetary policy in 2012

Growth was weak in most advanced economies and there was considerable uncertainty about economic developments, particularly in Europe. Central bank key rates were close to zero and both the European Central Bank (ECB) and the Federal Reserve announced that key rates would be kept low for a long period. In spite of weak developments for Norway's trading partners, growth in the Norwegian economy remained robust. Unemployment was low and stable. Capacity utilisation rose through the year and was assessed to be above a normal level after summer. Inflation was low. The underlying rise in consumer prices was estimated at between 1% and 1½% for much of the year. The key policy rate was reduced from 1.75% to 1.5% in March and remained at this level to the end of the year. The key policy rate was kept low because inflation was low and because external interest rates were very low.

Weaker growth outlook abroad

The uncertainty related to the sovereign debt crisis in the euro area heightened in autumn 2011, resulting in rising turbulence in global financial markets. Access to market funding became more difficult and more costly for European banks. Norwegian banks were also affected. A sharp increase in money and bond market premiums towards the end of the year contributed to a reduction in the key policy rate of 0.5 percentage point in December 2011. Bank lending rates remained unchanged.

Market turbulence continued at the beginning of 2012, with slowing global growth. Economic developments were particularly weak in the euro area and unemployment was high and rising in a number of countries. Austerity measures, deleveraging in the private sector and tight credit conditions exerted a drag on growth in many advanced economies. Although growth was still considerably higher in emerging economies, the pace of growth also slowed in a number of these countries. Global growth prospects continued to weaken.

Central bank key rates were close to zero in many countries, and the expected timing of a renewed rise in key rates was repeatedly deferred. The ECB had lowered its key rate in the fourth quarter of 2011, and the short-term money market rate (EONIA) was expected to remain at this low level for the next year. Sveriges Riksbank reduced its key rate in February and market participants expected further reductions. In March, the Federal Reserve stated that the federal funds rate would likely remain close to zero to the end of 2014.

The situation in international financial markets improved somewhat through winter. The ECB's long-term loans to banks boosted liquidity and reduced risk premiums in the European banking system. Access to funding became easier for banks, including Norwegian banks. Norwegian money market premiums edged down from December and were at the same level as noted in the October 2011 *Monetary Policy Report* (3/11). At the same time, the ECB measures had a stabilising effect on sovereign bond markets, and short-term funding costs for Italy and Spain fell considerably. An agreement was reached on a write-down of Greece's debt.

Inflation among Norway's trading partners slowed somewhat at the beginning of the year, and it was expected that considerable spare capacity would continue to curb the rise in costs. The oil price had risen by more than 10% since the October *Report*, reaching USD 125 in March. The krone appreciated markedly toward the end of the first quarter.

Increased activity levels in the petroleum sector and construction industry, favourable terms of trade and high population growth bolstered growth in the Norwegian economy. Nevertheless, growth was somewhat weaker than expected. Parts of the export industry were hit by lower European demand and a strong krone. The enterprises in Norges Bank's regional network reported rising output growth but with prospects of somewhat lower growth ahead. House prices had risen, and household debt increased more than household income.

Inflation remained low, partly reflecting a modest rise in prices for imported goods. Inflation was expected to remain low for some time due to the stronger krone and expectations of somewhat lower wage growth.

At the monetary policy meeting in March, weight was given to weak growth prospects abroad and the strong krone,

The annual address is the speech presented to the Supervisory Council of Norges Bank and invited guests every year. The address is usually afforded considerable media coverage and is attended by a large number of guests from academia, the political arena and the business community. The address was delivered for the first time in 1922.

Photo: Ståle Andersen

The mandate for monetary policy in Norway

Monetary policy in Norway is conducted by Norges Bank. The Bank's activities are regulated by the Norges Bank Act of 1985. Pursuant to Sections 19 and 20 of the Act, Norges Bank sets the interest rates on banks' deposits and loans in the central bank.

The mandate for monetary policy was laid down by the Government in 2001. Section 1 of the Regulation on Monetary Policy states:

"Monetary policy shall be aimed at stability in the Norwegian krone's national and international value, contributing to stable expectations concerning exchange rate developments. At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.

Norges Bank is responsible for the implementation of monetary policy.

Norges Bank's implementation of monetary policy shall, in accordance with the first paragraph, be oriented towards low and stable inflation. The operational target of monetary policy shall be annual consumer price inflation of approximately 2.5 per cent over time.

In general, the direct effects on consumer prices resulting from changes in interest rates, taxes, excise duties and extraordinary temporary disturbances shall not be taken into account."

The monetary policy instrument is the key policy rate, which is the interest rate on banks' normal overnight deposits in Norges Bank. The key policy rate has an impact on the shortest money market rates, and the level of longer-term market rates depends on expectations regarding the future path of the key policy rate.

Market rates have an impact on the krone exchange rate, securities prices, house prices, credit demand and investment. Norges Bank's key policy rate can also influence expectations with regard to future inflation and economic developments. The interest rate operates through all these channels to influence overall demand and output as well as prices and wages.

Decisions concerning interest rates and other important changes are normally taken at the Executive Board's announced monetary policy meetings. Three times a year, the Monetary Policy Report is published at the same time as the interest rate decision. In the Report, Norges Bank analyses the current economic situation and provides forecasts for economic developments and for the key rate. On the basis of the analysis in the Report, the Executive Board adopts the monetary policy strategy in the form of an interval for the key rate for the period up to the next Report. As from 2013, four reports presenting the decision basis for monetary policy will be published each year.

Flexible inflation

Norges Bank operates a flexible inflation targeting regime, so that in interest rate setting weight is given to smoothing fluctuations both in inflation and in output and employment. Flexible inflation targeting builds a bridge between the long-term objective of monetary policy, which is to keep inflation low and anchor inflation expectations, and the objective of smoothing developments in output.

Expectations regarding future interest rates play an important role for developments in output, employment, income and inflation. Through its interest rate forecasts, Norges Bank influences the interest rate expectations of market participants, enterprises and households. The interest rate forecasts should meet the following main criteria:

1. The inflation target is achieved

The interest rate should be set with a view to stabilising inflation at target or to bring it back to target after a deviation has occurred.

2. The inflation targeting regime is flexible

The interest rate path should provide a reasonable balance between the path for inflation and the path for overall capacity utilisation in the economy.

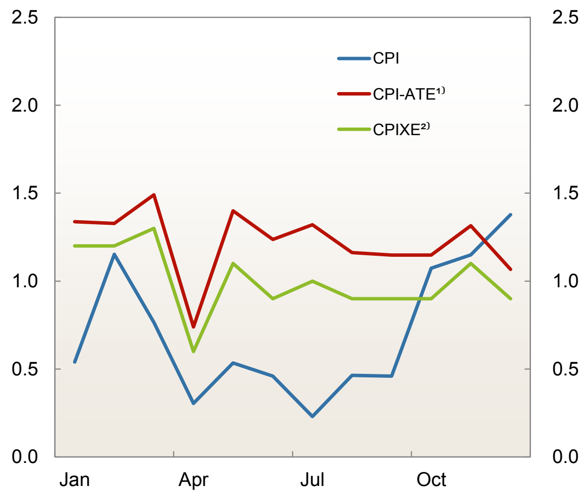
3. Monetary policy is robust

The interest rate should be set to mitigate the risk of a build-up of financial imbalances in the economy and such that acceptable developments in inflation and output are likely even under alternative assumptions concerning the functioning of the economy.

The interest rate forecast is an expression of Norges Bank's overall judgement and assessment based on the criteria above. The interest rate cannot always satisfy all the criteria simultaneously and imbalances must be weighed against each other in interest rate setting. A detailed description of Norges Bank's response pattern in monetary policy was included in the March 2012 Monetary Policy Report (1/12)[1].

Forecasts of the key policy rate and other economic variables are based on incomplete information concerning the economic situation and the functioning of the economy. Should developments in the economy differ from assumptions or should the central bank change its view of the functioning of the economy, developments in the interest rate and other variables may deviate from the forecasts. The Report contains an account of any changes in the interest rate forecast and the factors underlying the change. The evaluations in the Norges Bank's policy reports are summarised in the Annual Report.

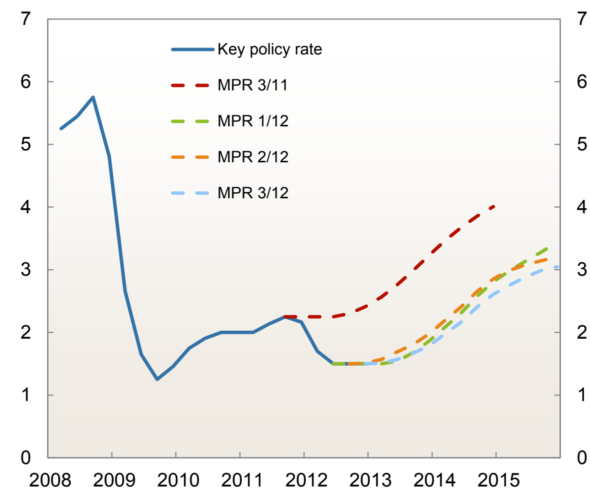
Chart 2.1 Consumer prices. Twelve-month change. Percent. 2012



¹⁾ CPI adjusted for tax changes and excluding energy products.
²⁾ CPI adjusted for tax changes and excluding temporary changes in energy prices.

Sources: Statistics Norway and Norges Bank

Chart 2.2 Key policy rate in the baseline scenario MPR 3/11, MPR 1/12, MPR 2/12 and MPR 3/12. Percent. 2008 Q1 – 2015 Q4



Source: Norges Bank

[1] For further details, see the box in the March 2012 *Monetary Policy Report* (1/12).

which were keeping inflation down and dampening domestic economic growth. At the same time, activity levels were high in some sectors of the Norwegian economy and capacity utilisation was almost normal. At the monetary policy meeting in March, the Executive Board decided to reduce the key policy rate by 0.25 percentage point, to 1.5%. The key policy rate projection was also adjusted downwards considerably in the March *Report* (1/12).

Growing unrest in financial markets through spring

Ahead of the monetary policy meeting in May, interest rates on Spanish and Italian government bonds increased and international equity market indices fell, particularly in Europe. Growth among trading partners was broadly in line with expectations. Oil prices fell slightly, but remained at a high level.

The expected upward shift in interest rate rises abroad was again moved forward in time. The krone weakened after the monetary policy meeting in March, and remained relatively stable until the meeting in May.

Owing to high premiums in money and bond markets, bank lending rates were substantially higher than the key policy rate. Banks reported increases in their lending margins and tighter credit standards for households and non-financial enterprises in the first quarter.

The contacts in Norges Bank's regional network reported somewhat higher-than-expected growth in activity. Capacity utilisation was assessed to be close to a normal level. Consumer price inflation remained low, but largely in line with expectations. The underlying inflation rate was estimated at between 1% and 1½%.

At the monetary policy meeting in May, weight was given to weak growth prospects in Europe and the strong krone, which would keep inflation low and dampen economic growth among Norwegian companies exposed to international competition. On the other hand, there were signs of higher growth in the Norwegian economy. The Executive Board decided to keep the key policy rate unchanged, in line with the projection in the March *Report*.

Stronger growth in Norway, but greater uncertainty about growth in the euro area

The turmoil in financial markets worsened as summer approached. Uncertainty about economic developments in Europe increased. Spain was experiencing an economic downturn, large budget deficits and problems in its banking sector. The Spanish authorities had turned to the other euro area countries for financial assistance to recapitalise Spanish banks. An unclear political situation in Greece sowed new doubts about its ability and willingness to honour its debt obligations. CDS prices rose across the board.

Economic growth remained weak in most advanced economies. In Europe, a number of countries experienced stagnant or falling activity levels. Unemployment was high and rising, while household confidence in economic growth weakened. The moderate upturn in the US continued, although unemployment remained high. Growth slowed in several emerging economies in Asia. Oil prices fell by about 20% during spring. There appeared to be an increased risk that the debt crisis would worsen and have a long-term impact on economic growth.

The expected upward shift in interest rates abroad was again moved forward in time. The krone exchange rate was strong and relatively stable. Premiums in the Norwegian money market were still high. As a result, market interest rates remained markedly higher than the expected key policy rate.

The Norwegian economy grew somewhat more strongly than expected. Continued high activity levels in the petroleum and construction industries helped keep growth in the Norwegian economy high. At the same time, some segments of the export industry were affected by low foreign demand. Both employment and labour supply increased rapidly. Unemployment remained low and it appeared that wage growth might be higher than projected. Capacity utilisation was estimated to be at a level slightly above normal. Household income growth was high, and household saving increased despite low interest rates. Household debt continued to grow faster than household income, and house prices increased.

Inflation in Norway remained low. Underlying inflation was still estimated at between 1% and 1½ %.

At the monetary policy meeting in June, emphasis was given to the substantial uncertainty about developments in Europe and increased financial market turbulence. Economic growth among trading partners was expected to be lower than projected. Growth in the Norwegian economy had been slightly higher than expected. The strong krone and weak growth abroad continued to keep inflation down, but developments in the Norwegian economy indicated that inflation would begin to rise gradually. The Executive Board decided to keep the key policy rate unchanged. The key policy rate projection in the June *Report* (2/12) indicated that the key policy rate should remain unchanged until the end of the year. The key policy rate forecast for 2013 was slightly higher than the March forecast.

Measures implemented by central banks pushed down risk premiums in autumn

Throughout summer, developments in Norway and among trading partners were consistent with the projections in the June *Report*. Uncertainty in financial markets remained high, but statements by the ECB regarding purchases of government bonds from highly indebted countries in the euro area helped to calm markets. Equity prices rose, premiums in money and bond markets dropped, and yields on government bonds issued by highly indebted southern European countries fell. The krone weakened somewhat over the summer, but appreciated again in August.

Inflation in Norway was slightly lower than expected, while growth in the Norwegian economy seemed to be broadly as projected. Unemployment remained low, and capacity utilisation was estimated to be slightly above a normal level. At the monetary policy meeting in August, the key policy rate was kept unchanged in line with the interest rate projection in the June *Report*.

The assumptions underlying the monetary policy analysis in June remained largely unchanged until the monetary policy meeting in October, when a new analysis was presented. Growth among Norway's trading partners was low, and roughly consistent with expectations. Activity levels in the US rose moderately, and there were signs of improvement in the housing market. At the same time, growth was probably restrained by uncertainty about fiscal policy. Activity levels remained high in emerging Asia, although overall growth had declined.

Market participants' key policy rate expectations fell further in the period to the monetary policy meeting in October. The ECB announced measures to strengthen confidence in euro area cooperation. Risk premiums in money and bond markets fell back to levels last seen at the end of 2009, and equity prices rose. Funding conditions for Norwegian banks also improved, although this had little effect on interest rates on loans to households and enterprises. Banks had increased their margins. The krone, as measured by the import-weighted exchange rate (I-44), had appreciated and was stronger than projected in the June *Report*. Inflation in Norway had been lower than expected, but there were prospects of a gradual increase in inflation in pace with rising capacity utilisation.

At the monetary policy meeting in October, the Executive Board pointed out that developments in Norway contrasted strongly with developments abroad. Domestic growth remained strong and a little higher than expected. Employment growth was high, and unemployment remained low and stable. Capacity utilisation was estimated to be above a normal level. Growth in household consumption was moderate, and saving increased further. Debt and house prices continued to rise slightly faster than income.

The key policy rate was kept unchanged at the monetary policy meeting in October, in line with the interest rate path projected in the June *Report*.

The analysis in the October 2012 *Report* (3/12) indicated that the key policy rate should remain unchanged into 2013. The key policy rate projection for 2013 was slightly lower than the June projection, primarily reflecting the strong krone exchange rate and low interest rates abroad.

New measures by the European authorities, but weaker growth outlook abroad

At the monetary policy meeting in December, the Executive Board kept the key policy rate unchanged at 1.5%, in line with the projection in the October *Report*. Weight was given to weak growth among trading partners and continued uncertainty about future economic developments. In the US, the housing and labour markets had continued to improve, although considerable uncertainty remained about future fiscal policy. The growth rate in emerging economies had risen somewhat, primarily driven by higher activity levels in China. Market expectations regarding central bank key rates abroad had edged down. Euro countries' measures to improve the funding situation for highly indebted European countries had contributed to a continued decline in yields on government bonds issued by these countries. Risk premiums on bank bonds had dropped. Money market premiums had been stable in the preceding weeks, and banks' access to funding had improved.

Overall, developments in Norwegian economy had been broadly in line with expectations. According to Norges Bank's regional network, production growth had dropped off slightly, although a higher number of enterprises had reported capacity problems. Consumer price inflation was low, but approximately as projected.

Table 2.1 Interest rate decisions in 2012

Monetary policy meeting	Change in percentage points	Key policy rate after meeting
March	-0.25	1.5
May	0	1.5
June	0	1.5
August	0	1.5
October	0	1.5
December	0	1.5

Changes in the interest rate forecast through 2012

The interest rate projection published in Monetary Policy Report 3/11 indicated that the key policy rate would be kept unchanged at 2.25% for a year and raised again thereafter. The key policy rate was kept lower throughout 2012 than implied by the interest rate path at the beginning of the year. The forecasts for 2013 and 2014 were adjusted downwards by between 1 and 1.5 percentage points from Monetary Policy Report 3/11 to Monetary Policy Report 3/12, primarily reflecting prospects of continuing low interest rates and weak growth abroad, but also a stronger krone, lower inflation and somewhat weaker-than-projected growth in the Norwegian economy.

Chart 2.3 shows the changes in the key policy rate forecast from 19 October 2011 to 31 October 2012. The bars in the chart provide a technical illustration of how the various factors affected the changes in the forecast over the year as a whole.

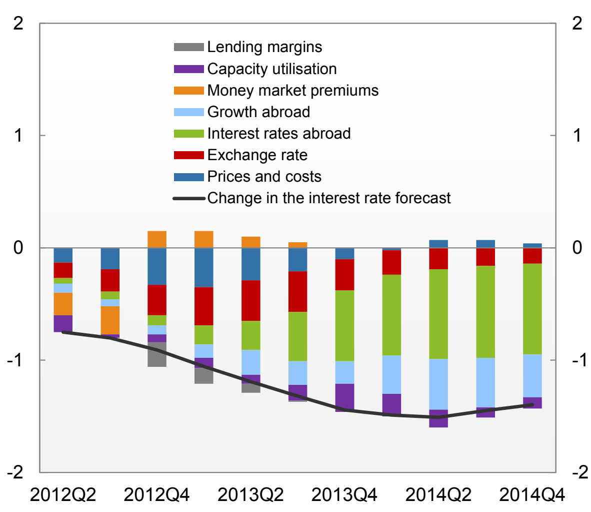
Expectations with regard to external interest rates fell further through 2012 as countries pursued an accommodative monetary stance to mitigate the impact of the sovereign debt crisis and financial market turbulence. In isolation, a wider interest rate differential between Norway and trading partners would have led to a stronger krone and lower inflation. Hence, prospects of central bank key rates abroad remaining low for longer helped to keep down the interest rate in Norway (green bars). Nevertheless, higher prices for oil and a favourable outlook for the Norwegian economy contributed to an appreciation of the krone through 2012 to historically high levels towards the end of the year. A stronger krone also pushed down the key policy rate forecast (red bars).

With lower premiums in money and bond markets in the period to June, banks' funding costs decreased. Bank lending rates were not reduced and, as a result, lending margins, defined as the difference between lending rates and money market rates, increased. In isolation, higher lending margins suggested a lower key policy rate (grey bars).

Money market premiums fell markedly in the period to October and were lower than projected in June. In isolation, lower premiums pushed up the key policy rate starting in the fourth quarter of 2012 (orange bars). The direct effect on demand of weaker growth prospects abroad also had an impact on the outlook for the Norwegian economy. This pushed down the key policy rate forecast (light blue bars).

A weaker outlook for the Norwegian economy pulled down the interest rate path at the beginning of 2012. In the period to summer, developments in the Norwegian economy were slightly stronger than expected. The projection for capacity utilisation was revised up somewhat, pushing up the interest rate forecast in June. All in all, capacity utilisation contributed to a slightly lower interest rate forecast (purple bars). Inflation was low at the beginning of 2012 and rose more slowly than expected at the beginning of the year. Wage growth was also revised down, but appeared to be slightly higher in the period to summer than expected in March. Overall, lower inflation contributed to a lower interest rate path in the baseline scenario in 2013, while somewhat higher wage growth pushed up the interest rate path marginally in 2014.

Chart 2.3 Change in the forecast for the key policy rate from MPR 3/11 to MPR 3/12. Percentage points. 2012 Q2–2014 Q4



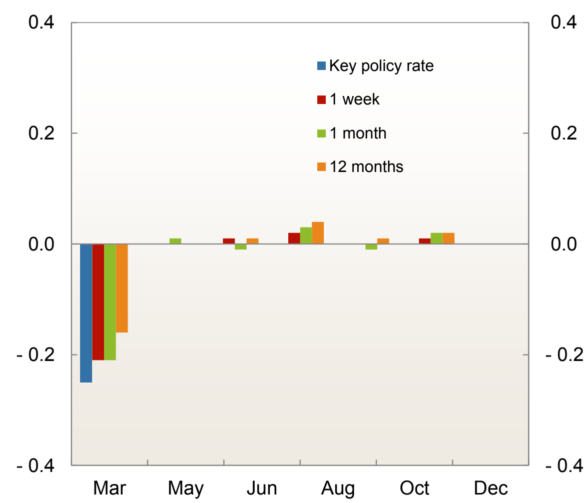
Source: Norges Bank

Minor fluctuations in the money market

Norges Bank's monetary policy communication primarily aims to stabilise inflation expectations by providing an account of and explaining interest rate setting. The aim of publishing the Bank's interest rate forecasts and monetary policy strategy is to make it easier for others to anticipate and evaluate monetary policy. When market participants understand the central bank's response pattern, market rates can react with a stabilising effect to new information on economic developments.

Changes in market rates after monetary policy meetings are an indicator of whether the decision is anticipated by money market participants. Large changes may indicate that the decision was unexpected. In the five-year period from 2008 to 2012, the average change in the 1-week rate after a monetary policy meeting was 4 basis points (0.04 percentage point). The 1-month rate and 12-month rate changed, on average, by 6 and 5 basis points respectively. In 2012, the average change in the 1-week rate and 12-month rate was 4 basis points, while the 1-month rate changed by 5 basis points on average. Changes on a par with the historical average may indicate that the interest rate decision was largely expected by market participants. The key policy rate was reduced by 0.25 percentage point in March. The reduction was reflected in money market rates, indicating that market participants had not expected the rate cut. As a result of the announcement, both the 1-week rate and 1-month rate dropped by 21 basis points, while the 12-month rate fell by 16 basis points (see Chart 2.4). Short-term money market rates were otherwise largely unaffected.

Chart 2.4 Change in the key policy rate and effect on money market rates following monetary policy meetings in 2012. Percentage points



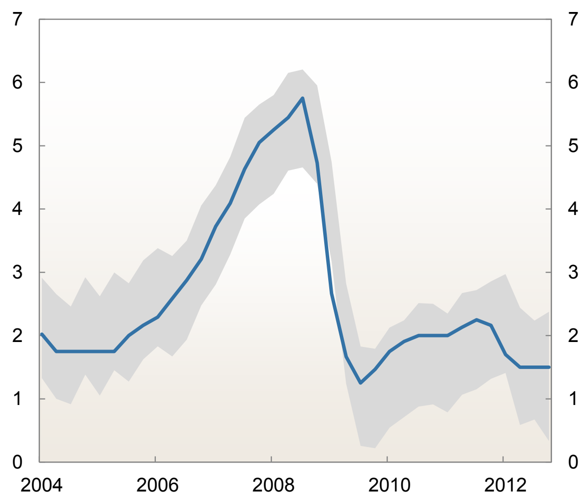
Source: Norges Bank

Historical response pattern

Market participants will attempt to form an idea of how the central bank responds to new information and how the key policy rate is set as a result of developments in economic variables. Norges Bank has estimated an interest rate rule that seeks to explain historical interest rate changes on the basis of changes in a few macroeconomic variables. The rule includes inflation developments, wage growth, mainland GDP and central bank key rates abroad. The interest rate in the previous period is also taken into account. Of course, such an estimated reaction function does not capture all the elements that are given weight, and can only provide an indication.

Between autumn 2008 and summer 2009, Norges Bank reduced the key policy rate more rapidly than indicated by the historical response pattern (see Chart 2.5). Since summer

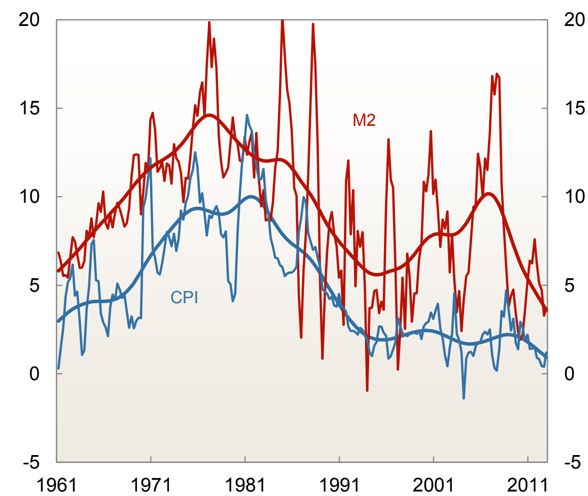
Chart 2.5 Key policy rate and interest rate developments following from Norges Bank's average pattern of interest rate setting[1]. Percent. 2004 Q1 – 2012 Q4



[1] Interest rate movements are explained by developments in inflation, mainland GDP growth, wage growth and key rates among trading partners. See *Staff Memo* 3/08 for further discussion.

Source: Norges Bank

Chart 2.6 Consumer prices (CPI) and money supply (M2). Estimated trend rise[1]. Four-quarter change. Percent. 1961 Q1 – 2012 Q4



[1] Trend calculated using HP filter. See *Staff Memo* 2005/2 for further discussion.

Sources: Statistics Norway and Norges Bank

2009, Norges Bank has raised the key policy rate four times, in line with the historical response pattern. In December 2011, Norges Bank lowered the key policy rate, partly as a result of increased risk premiums in the money market. Premiums are not included in the historical response pattern, and the interest rate is therefore in the lower part of the average pattern of interest rate setting at the end of 2011. As of March 2012, the key policy rate was 1.5%, approximately in the middle of the interval.

Monetary growth and inflation

Historically, there has been a relationship between inflation and growth in the money supply (M2)[2] (see Chart 2.6). There is a tendency for stronger monetary growth to accompany higher inflation and vice versa. Trend monetary growth may serve as a rough cross-check of inflation projections generated by other models.

The ten years up to 2008 saw an increase in trend monetary growth despite wide annual fluctuations. Strong growth in the Norwegian economy and high credit growth drove monetary growth up to a particularly high level in the period from 2006 to 2008. At the same time, consumer price inflation was low as a result of favourable supply-side conditions in Norway and abroad. Inflation picked up and exceeded the inflation target in 2008. Since then, monetary growth has fallen quickly, but picked up again in 2011. The downward trend continued towards the end of 2012. Trend inflation has been relatively stable.

[2] The money supply (M2) consists of banknotes and coins, redeemable bank deposits, certificates of deposit and units in money market funds owned by the money-holding sector (households, non-financial enterprises, municipal administration and financial enterprises other than state lending institutions, banks and money market funds). "Other financial enterprises" includes financial enterprises other than banks, state lending institutions and money market funds.

Inflation is low and stable

Inflation stabilised in the early 1990s after falling from a high level in the previous decade. Viewed over time, inflation has been low and stable at somewhat below 2.5%.

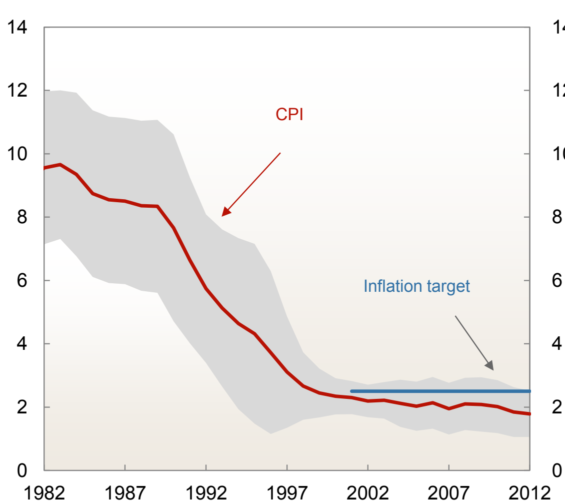
In accordance with Norges Bank's mandate for monetary policy, the operational target of monetary policy is an annual rise in the consumer price index (CPI) of close to 2.5% over time. CPI inflation over a short period does not provide an adequate basis for assessing whether monetary policy objectives have been achieved over time. Chart 2.7 shows the 10-year moving average for annual CPI inflation.

Over the past ten years, average annual CPI inflation has been 1.8%. The deviation from the inflation target of 2.5% is the result of a number of favourable supply-side shocks to the economy earlier in the decade, including strong growth in productivity, ample labour supply from other countries and lower price rises for imported goods. This is reflected in strong growth in the Norwegian economy coupled with a period of lower-than-expected inflation.

Under a flexible inflation targeting regime, weight is also given to stabilising developments in output and employment in the conduct of monetary policy. Chart 2.8 shows the movements in the output gap since 1980. The output gap shows the difference between the actual level and the estimated normal level of mainland GDP. By this measure, fluctuations in the economy have, on average, been somewhat less pronounced over the past ten years than around 1990. Nevertheless, the impact on output in autumn 2008 and spring 2009 was more pronounced than it had been for several years.

The band around average inflation in Chart 2.7 shows inflation variability. Over a longer time horizon, inflation variability has decreased. Moreover, variability in the output gap shown in Chart 2.8 appears to have been diminishing since the end of the 1990s.

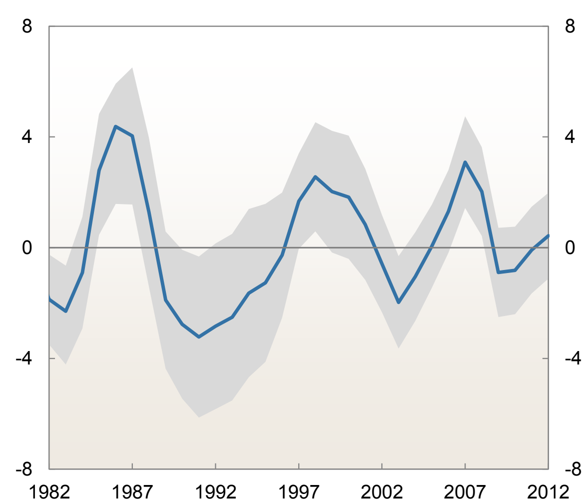
Chart 2.7 Inflation. 10-year moving average[1)] and variation[2)] in CPI. Percent. 1982 – 2012



[1)] The moving average is calculated 10 years back
[2)] The band around the CPI is the variation in the CPI adjusted for tax changes and excluding energy products in the average period, measured by +/- one standard deviation

Sources: Statistics Norway and Norges Bank

Chart 2.8 Output gap estimates[1)]. Level and variation[2)]. Percent. 1982 – 2012



[1)] The output gap measures the difference between actual and estimated potential mainland GDP
[2)] The band shows the variation in the output gap measured by ± one standard deviation. The variation is calculated at the average standard deviation over a ten-year period

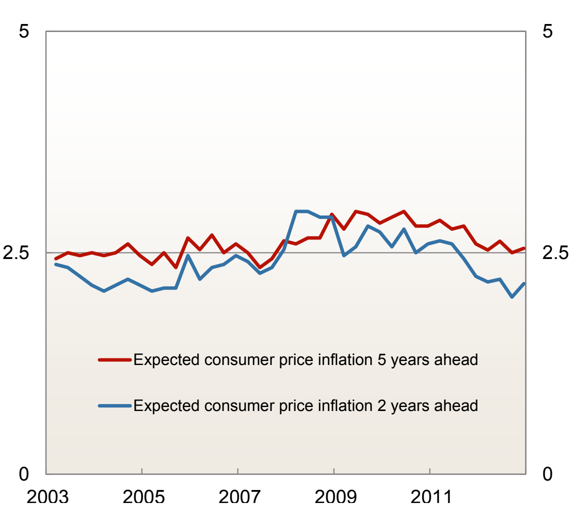
Source: Norges Bank

Confidence in the inflation target

Confidence in achieving the inflation target is a precondition for the stabilising effect of monetary policy on developments in output and employment. Inflation will not be at target at all times, but if there is confidence in monetary policy, expected inflation will be close to the inflation target over time, which in itself helps to stabilise inflation.

Perduco has been commissioned by Norges Bank to carry out quarterly surveys of inflation expectations. According to these surveys, inflation expectations in 2012 Q4 were fairly close to 2.5% (see Chart 2.9). Expected inflation two years ahead is below the target of 2.5%, and at target five years ahead. Consensus Forecasts Inc. compares different institutions' forecasts of consumer price inflation in Norway. Both five years and ten years ahead, consumer price inflation is expected to be approximately at target.

Chart 2.9 Expected consumer price inflation 2 and 5 years ahead[1]. Percent. 2003 Q1–2012 Q4



[1] Average of expectations of employer/employee organisations and economists (financial sector and academia)

Source: Perduco AS

Financial stability

Central bank measures implemented in Europe and the US improved the functioning of money and bond markets in 2012, and Norwegian banks utilised their ample access to funding to boost the robustness of their funding structures. Banks also improved their capitalisation.

Better access to market funding

International financial markets were highly turbulent at the beginning of 2012, reflecting particularly the credit risk associated with European government bonds. Long-term loans to banks from the ECB improved the functioning of European money and bond markets in spring 2012. The write-down of Greek government debt in March was a confirmation of the turbulence, but also contributed to a temporary respite. In the period to summer, the unrest intensified again, and Spanish and Italian government bond yields rose markedly. Both the ECB and the US Federal Reserve announced extensive new securities purchasing programmes. The establishment of the European Stability Mechanism (ESM) was fast-tracked, and international financial markets settled down during autumn. Several central banks signalled that interest rates would be held low for a long time. Risk premiums in money and bond markets fell as the turbulence subsided, and access to funding improved.

Despite the unrest, Norwegian banks had more ample access to funding and on better terms than banks in many other countries throughout 2012. Bank earnings were solid, and losses were small. Lending rates were kept high at the same time as banks' borrowing rates fell. Banks used the opportunity to secure longer-term funding. Solid government finances and Norway's favourable macroeconomic situation probably also encouraged investors to regard the risk associated with Norwegian banks as relatively small. Banks improved their capitalisation by retaining earnings, and several large banks also issued new equity. Since 30 June 2012, Finanstilsynet (Financial Supervisory Authority of Norway) has expected all Norwegian banks to maintain a Tier 1 capital ratio of at least 9%. Almost all banks have achieved this level.

Household debt burden remained high

Measured as a percentage of disposable income, household debt remained at a very high level. In contrast to most other northern European countries, house prices in Norway continued to rise at a rapid pace in 2012. Norges Bank pointed out that high household debt will pose a significant risk to financial stability if incomes in the Norwegian economy fall.

The equity ratios of Norwegian businesses remained high. While oil-related businesses reported solid results, debt servicing-capacity in shipping and parts of the export industry in particular deteriorated owing to weak growth among many of Norway's trading partners.

Norges Bank's analyses showed that Norwegian banks are vulnerable to a sharp drop in the oil price. Reduced oil revenues will have a pronounced impact on some business sectors, and the risk of increased losses among banks may increase in the event of a decline in household financial confidence and a resulting fall in house prices. Norges Bank's stress tests of banks' capital adequacy showed that an increase in capital adequacy since 2009 has improved the ability of the banking sector to weather a sharp downturn in the international economy.

Norwegian banks should continue to improve their capital adequacy

The proposed banking regulations for the EEA area (CRD IV/CRR), which regulate banks' capital adequacy and liquidity, are based on the new Basel III standards. The regulations are intended to bolster the resilience of the financial system and are scheduled to be fully implemented by the beginning of 2019. In letters to the Ministry of Finance of 11 May and 23 November 2012, submitted in connection with the *Financial Stability* report, Norges Bank recommended that the requirements in the new regulations should be implemented in Norwegian law and applied to Norwegian banks as quickly as practical.

Norges Bank pointed out that Norwegian banks should further strengthen their capital levels to be sufficiently resilient to withstand an abrupt downturn in the economy and rising loan losses. The Bank also recommended that the Norwegian authorities announce additional capital requirements for large Norwegian banks, as the new regulations are expected to permit. Norges Bank also recommended that the risk weights for banks' residential mortgage loans should be increased so that they more accurately reflect the risk a high household debt burden presents to both individual banks and the financial system as a whole. Pending such an increase, the current transitional (Basel I) rule on risk weights should continue to apply.

Norges Bank recommended to Norwegian banks that they continue to give priority to improving their equity capital when distributing their 2012 profits. Norges Bank also stated that the banks should use the opportunities now available to secure longer-term funding and aim to adapt to the new quantitative liquidity requirements at an early stage. Norwegian banks should publish data on their compliance with the expected liquidity requirements in the forthcoming regulations.

In a joint letter dated 7 September 2012, Finanstilsynet and Norges Bank commented on the Basel Committee's proposed changes to capital requirements relating to banks' trading books. Finanstilsynet and Norges Bank supported the Basel Committee's proposal to revise the standard method for calculating capital requirements to reflect market risk.

The Norwegian Banks' Guarantee Fund

Public confidence in the accessibility and safety of bank deposits can be crucial to financial stability. The size of the Norwegian Banks' Guarantee Fund and rapid reimbursement of depositors are therefore important.

In a letter to the Ministry of Finance of 14 March 2012, Norges Bank supported the proposal of Finanstilsynet that depositors should be guaranteed reimbursement of guaranteed deposits from the Norwegian Banks' Guarantee Fund within one calendar week of a bank becoming unable to reimburse depositors.

In a letter to the Ministry of Finance dated 2 August 2012, Norges Bank expressed its support for the proposal that the member banks of the Norwegian Banks' Guarantee Fund should pay an annual fee to the Fund even when the Fund is larger than the minimum requirement.

Both proposals regarding the Norwegian Banks' Guarantee Fund are consistent with previous statements by Norges Bank.

Norges Bank's responsibility for financial stability

One of Norges Bank's primary objectives is maintaining financial stability, with a view to contributing – in combination with the price stability objective – to economic stability. Norges Bank's tasks related to the stability and resilience of the financial system are set out in the Norges Bank Act. Section 1 states that the Bank "shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets." Section 3 states that the Bank "shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy." Four other sections of the Act are also relevant: Section 13 gives Norges Bank the sole right to issue Norwegian banknotes and coins. Section 17 requires Norges Bank to carry out banking transactions for the government. Under Section 19, Norges Bank may extend credit to and make deposits with commercial and savings banks, while Section 20 states that Norges Bank accepts deposits from these banks. It follows from the Act that Norges Bank has a particular responsibility for ensuring that the banking system functions as required. Under the Payment Systems Act, Norges Bank is the licensing and supervisory authority for interbank clearing and settlement systems. In addition, the Ministry of Finance has signalled in two reports to the Storting that Norges Bank will be asked to prepare a decision basis and provide advice on a countercyclical capital buffer requirement for banks.

Norges Bank oversees the financial system as a whole. Letters containing the Bank's assessment of the financial stability outlook and advice on measures to counteract the build-up of systemic risk are regularly sent to the Ministry of Finance. The analyses on which these assessments are based are explained in regular reports that are published at the same time as a letter is submitted to the Ministry.

Norges Bank manages banking sector liquidity on a daily basis by supplying credit or accepting deposits. This gives Norges Bank a special responsibility for monitoring liquidity risk in the banking system. As lender of last resort, Norges Bank has a key role in managing crises in the financial system.

Countercyclical capital buffer

The forthcoming regulations for EEA banks provide for the introduction of a countercyclical capital buffer requirement. The aim is to increase banks' resilience to a build-up of risk in the financial system, so that they are more robust in periods of rising losses and reduced access to funding. Building up the buffer will also provide an incentive to reduce less profitable lending, which in turn could reduce losses in a downturn. The recommendation from the European Systemic Risk Board (ESRB) is that this instrument should be introduced no later than 1 July 2013. The countercyclical buffer requirement can be set at up to 2.5% of risk-weighted assets. The Norwegian buffer requirement will apply to all banks that provide loans to Norwegian customers, including branches of foreign banks.

In the National Budget (2012-2013), the Ministry of Finance, referring to the Financial Markets Report for 2011, writes the following: "The Ministry envisages assigning primary responsibility for preparing a decision basis for the countercyclical buffer requirements to Norges Bank (…) The authority to set the countercyclical buffer will lie with the Ministry of Finance until some experience of the requirement has been gained".

As from 2013, Norges Bank will prepare the decision basis for monetary policy and provide advice on the countercyclical capital buffer in a report to be published four times a year.

International regulatory reforms

The financial crisis revealed shortcomings in the regulatory framework for banks, and regulations for banks and other financial institutions are being reformed internationally. The reforms are broad-ranging. The table below shows important processes that are underway. With the exception of changes in the area of supervision, the new regulations will be incorporated into Norwegian law and have a direct impact on Norwegian financial institutions.

Regulatory area		Progress
Tools for bank crisis resolution	Financial Stability Board (FSB) – Key attributes of effective resolution regimes for financial institutions	G20 endorsed Key Attributes in November 2011. Work on recovery and resolution plans for the 29 largest global systemically important banks in progress and scheduled for completion in 2013 Q1. A list of these banks is updated annually.
	EU – Crisis Management Directive	Draft directive presented June 2012. Planned implementation by 1 January 2015. First reading in the European Parliament in June 2013.
	Ministry of Finance (Norway) – Guarantee Schemes Act	Letter from Ministry of Finance to the Banking Law Commission June 2009 requesting revision of the Guarantee Schemes Act.
Capital adequacy, risk management and liquidity requirements for banks	EU – Capital Requirements Directive IV and Capital Requirements Regulation (CRD IV/ CRR)	The Basel III proposals will be implemented into EU law through CRD IV/CRR. Draft presented by European Commission July 2011. CRD IV/CRR is now under discussion in three-way talks between the European Commission, Council and Parliament. The first plenary reading in the European Parliament is planned to take place in April 2013.
Countercyclical capital buffer requirement	EU – Part of CRD IV/CRR	Based on Basel III timetable, to be phased in as from 2016, but the Council provides for introduction as from 2013.
Quantitative liquidity requirements	Basel III to be implemented through CRD IV/CRR	Based on the Basel III timetable, liquidity coverage ratio (LCR) requirements to be phased in in steps as from 2015 and implemented in full by 1 January 2019. The Net Stable Funding Ratio (NSFR) will be introduced 1 January 2018. Revised version of LCR (and plan for phase-in arrangements) published 7 January 2013. Formulation of NSFR under assessment by the Basel Committee for next two years.
Requirements for systemically important banks	FSB Policy Measures to address systemically important financial institutions	Framework for dealing with domestic systemically important banks presented by the Basel Committee in October 2012. Proposal for EU regulations not yet presented.
Supervisory structure	EBA, ESMA, EIOPA are the three European supervisory authorities for banks, securities and markets, and insurance	New EU supervisory financial structure from 2011. Not yet implemented in Norwegian law.
	EU banking union	Agreement in Council of the European Union 13 December 2012 to give the ECB supervisory responsibility for the 150 largest euro area banks. Negotiations with the European Parliament not yet completed. Arrangement to be implemented in 2013. The ECB assumes supervisory tasks 12 months after entry into force of the legislation, i.e. 2014 Q2 at the earliest.
Shadow banking	FSB recommendations "Strengthening Oversight and Regulation of Shadow Banking"	Initial recommendations 18 November 2012. Recommendation expected in September 2013.
Insurance - pensions	EU: Solvency II (insurance) Norway: Banking Law Commission	Negotiations on Omnibus II in progress between the European Commission, Council and Parliament. Parties awaiting evaluation of provisions dealing with long-term guarantees by EIOPA. Result expected to be published June 2013. Implementation date for Solvency II is uncertain. Framework not likely to be introduced until 2015. Banking Law Commission submitted NOU (Official Norwegian Report) 2013:3 Pension laws and national insurance reform III to the Ministry of Finance on 7 January 2013. Report contains proposals for transitional rules for current defined-benefit occupational pension schemes in the private sector. The transitional rules and rules for the new insurance-based pension schemes in the private sector will be submitted to the Storting in autumn 2013.

Norges Bank and the Norwegian Academy of Science and Letters decided in 2008 to hold joint annual seminars. The seminar comprises a keynote speech by Deputy Governor Jan F. Qvigstad, followed by prepared remarks by other participants and an open debate. In 2012, the title of Qvigstad's speech was «On learning from history – Truths and eternal truths».

Photo: Ståle Andersen

Research in 2012

Research at Norges Bank forms part of the basis for the Bank's decisions. Research at the Bank focuses on monetary policy and financial stability and is anchored in the international and Norwegian research community. The quality of research at the Bank meets the required standards for publication in peer-reviewed, recognised international or national journals.

Published research

In 2012, 16 articles were accepted for publication in peer-reviewed journals. The average for the past three years is 12 articles. The themes cover many areas, from international trade to forecasts, the residential property market and economic cycles. An overview of approved and published articles is provided on the Bank's website.

Current research activity is documented in the Bank's Working Papers series. Twenty-four papers were published in this series in 2012, while the average for the past three years is 28 papers. The articles cover a wide range of subjects, such as oil prices, bond markets, securities pricing and monetary policy. Some of the articles also relate to Norges Bank's bicentenary project. Working Papers are published on the Bank's website and the Internet portals *Research Papers in Economics* (RePEc) and *Social Sciences Research Network* (SSRN). In 2012, Norges Bank's Working Papers were downloaded 2 268 times from RePEc.

Conferences, workshops and seminars

Norges Bank arranged a number of research seminars and several conferences in 2012, including two conferences hosted jointly with the ECB; one on modelling and forecasting oil prices (held in Oslo), and one on the link between monetary policy and commodity prices (held in Frankfurt). In November, Norges Bank organised a workshop entitled "Understanding Macroprudential Regulation", which covered highly relevant themes regarding the interpretation of the financial crisis and how recent proposals for macroeconomic supervision can be implemented.

As an active participant in the international research community, Norges Bank maintains extensive contact with researchers at universities and other central banks. A number of the Bank's ongoing research projects have been presented at Norwegian and international conferences and seminars. Norges Bank hosts research seminars at which guest lecturers present their work, and participates in seminars and workshops. In 2012, Norges Bank arranged 52 seminars with invited lecturers who presented their research and participated in meetings and discussions with the Bank's staff.

Support for economic research

Norges Bank supports economic research in a number of ways. The endowed chair established by Norges Bank at the University of Oslo fosters greater awareness about macroeconomics and monetary policy issues.

Norges Bank's Economic Research Fund provides financial support for researchers studying abroad or attending international conferences to present their own research work and for research conferences in Norway.

Norges Bank's bicentenary project

In connection with Norges Bank's bicentennial in 2016, the Executive Board decided in December 2007 to launch a major research project to be published in book form. "Norges Bank's bicentenary project 1816–2016" will be a joint project with contributions from both Norwegian and international research communities. The steering committee comprises the international experts Professor Michael Bordo of Rutgers University, New Jersey, and Professor Marc Flandreau of the Graduate Institute in Geneva, Deputy Governor of Norges Bank Jan F. Qvigstad and Director Øyvind Eitrheim.

The goal is to produce three books dealing with various aspects of Norges Bank's activities over the past 200 years by the beginning of the bicentenary year. The project will also serve to highlight the role of Norges Bank as a public institution from a historical perspective.

The three books have the following working titles:

- The History of Norges Bank 1816–2016
- The Monetary History of Norway 1816–2016
- Of the Uses of Central Banks: Lessons from History

The books are also intended to meet the required standards of an internationally recognised academic publisher. The first two books will be published in both Norwegian and English, the third book in English only. In 2010, the Bank appointed Professor Einar Lie, University of Oslo, and Professor Jan Tore Klovland, Norwegian School of Economics (in collaboration with Øyvind Eitrheim of Norges Bank), as project coordinators for the first two books. The third book will contain contributions from a conference Norges Bank will host in June 2014.

In 2012, researchers at the Norwegian School of Economics, Vestfold University College and the University of Oslo conducted research into various aspects of the history of Norges Bank. Norges Bank has also provided funding for a three-year doctoral project on the initial decades of the history of Norges Bank in collaboration with the 1814-project at the University of Oslo. In 2012, international cooperation was strengthened through collaboration with the Graduate Institute on the workshop "*Writing Central Bank and Monetary History*", which was arranged in Geneva from 26 to 27 April.

Five research papers were published as Norges Bank *Working Papers* in 2012, and nine master's theses and other paperswritten in connection with the Bank's bicentenary project were published on the Bank's website in the series Norges Bank *Staff Memo*.

CHAPTER 3:

Markets and investment management

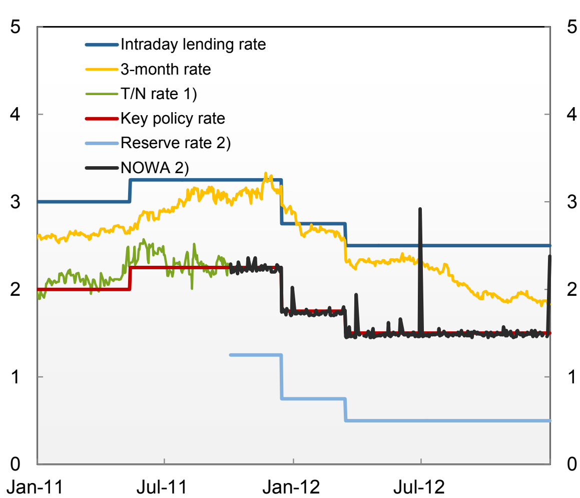
Managing liquidity in the banking system

In its conduct of monetary policy, Norges Bank manages bank reserves, i.e. banks' deposits with the central bank, to ensure that the level of short-term money market rates is close to the key policy rate as set by the Executive Board. To achieve this, reserves are supplied to or drained from the banking system by the central bank through various forms of market operations. Chart 3.1 shows developments in Norges Bank's policy rates, the overnight rate and the three-month money market rate.

The aim of Norges Bank's liquidity management is to ensure that total reserves in the banking system remain stable around a certain level. In order to steer reserves towards the desired level, Norges Bank prepares forecasts of structural liquidity in the banking system. Structural liquidity refers to the total reserves banks hold on account at Norges Bank before the supply or withdrawal of reserves through market operations. Structural liquidity is influenced by current incoming and outgoing payments over the government's account in Norges Bank, government borrowing transactions, Norges Bank's transactions in the foreign exchange and government securities markets and changes in the volume of notes and coins in circulation. When structural liquidity is lower than the desired level of bank reserves, Norges Bank provides loans to banks. When structural liquidity is high, Norges Bank accepts banks' surplus liquidity as fixed-rate deposits.

In 2012, Norges Bank sought to maintain bank reserves in the banking system at an average NOK 35bn with a target range of ±5bn around this level. When bank reserves rise

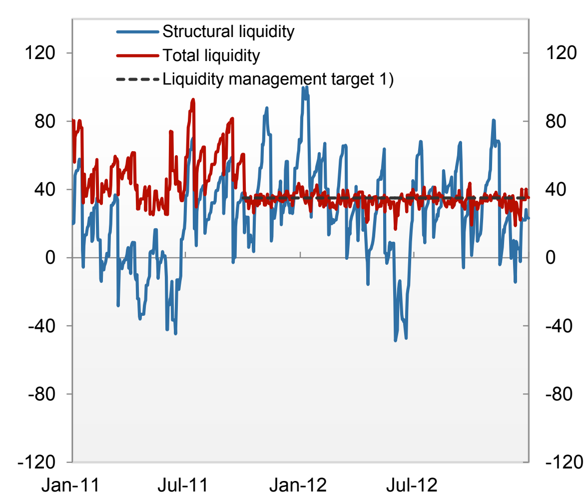
Chart 3.1 Norges Bank's interest rates and short money market rates (money market rate 1 day ahead and 3 months ahead). Nominal rates. Percent. 1 January 2011 – 31 December 2012



[1] Estimated by Norges Bank
[2] As from 3 October 2011

Sources: Thomson Reuters and Norges Bank

Chart 3.2 Structural liquidity and surplus liquidity in the market. In billions of NOK. 1 January 2011–31 December 2012



[1] As from 3 October 2011

Source: Norges Bank

towards the top end of the target range, Norges Bank offers banks F-deposits. Similarly, when reserves fall towards the lower end of the target range, banks are offered F-loans. F-loans and F-deposits are fixed-rate loans and deposits with specified maturities extended to banks established in Norway. The interest rate is usually determined by multi-price auction. Maturities vary from one day to several weeks and depend on the liquidity situation. F-loans are only provided against collateral in the form of approved securities.

The total quota for bank reserves is set at NOK 45bn. Each quota is calculated on the basis of a bank's total assets. The banks have been divided into three groups with all the banks in a group assigned the same quota, with the exception of settlement banks, which are assigned an additional amount in their quota. The quotas are reviewed twice a year, and Norges Bank did not make changes in quota levels in 2012.

Banks' krone liquidity and Norges Bank's market operations in 2012

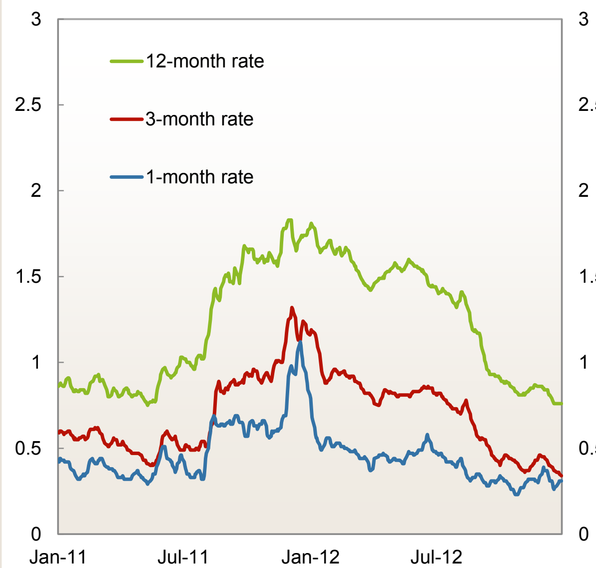
In 2012, structural liquidity averaged NOK 29.8bn (see Chart 3.2). A total of 66 F-loan auctions and 45 F-deposit auctions were held. Total liquidity, i.e. structural liquidity plus Norges Bank's market operations, averaged NOK 33.5bn in 2012.

Swap arrangement

A swap arrangement was established in 2008 to ensure banks' access to longer-term funding, under which banks could obtain Treasury bills from the government in exchange for covered bonds (OMF). Banks utilised a total of NOK 230bn. No auctions have been held under the swap arrangement since 2009.

Under the swap arrangement, swap agreements were initially valid for up to three years. In March 2009, the term of the agreements was extended to up to five years. Under the agreements, loans cannot be redeemed before the final maturity date. In a submission to the Ministry of Finance dated 29 September 2010, Norges Bank recommended an offer of early termination of agreements for the banks taking part in the swap arrangement. The Ministry of Finance decided to follow this advice and offer early termination of swap agreements. In 2012, just under NOK 19bn was utilised for early termination. Government securities with a face value of NOK 127.55bn were remaining in the swap arrangement at end-2012.

Chart 3.3 Spread between money market rates and expected key policy rate. Percentage points. 5-day moving average. 1 January 2011 – 31 December 2012



Sources: Thomson Reuters and Norges Bank

Money market premiums

Money market premiums[1] in the Norwegian money market fell throughout 2012. Developments in Norway largely followed developments internationally. Concern about the economic situation and government finances in a number of European countries affected developments in money markets. In the course of late summer and autumn 2012, a number of policy actions succeeded in calming European financial markets, and Norwegian money market rates declined as the turbulence eased. At end-2012, the premium on three-month money market rates was 0.33 percentage point. Chart 3.3 shows developments in premiums on 1-, 3- and 12-month money market rates.

In autumn 2011, Norges Bank began to calculate and publish a new overnight rate, the NOWA rate[2]. NOWA is defined as a weighted average of completed unsecured overnight loan transactions between Norwegian banks. The average spread between NOWA and Norges Bank's key

[1] Money market rates minus expected key policy rate over the same horizon.
[2] Norwegian Overnight Weighted Average.

The Governor and Deputy Governor of Norges Bank have speaking engagements through the year at venues all over the country. In 2012, venues included Trondheim, Lillehammer, Moss, Molde, Bergen, Sogndal, Arendal, Sandnes, Narvik and Kirkenes. The picture shows Deputy Governor Jan F. Qvigstad during his lecture «Outlook for the Norwegian and global economies» to Norges Bank's regional network, Region North, in Kirkenes.

policy rate was approximately zero in 2012. The average daily reported volume of transactions for overnight interbank loans was NOK 12.6bn in 2012.

Government debt in 2012 and account management for the government

According to an agreement between the Ministry of Finance and Norges Bank, the Bank shall provide services as adviser, facilitator and payment agent in connection with raising and managing domestic government loans. The Ministry of Finance pays for bank-related services provided by Norges Bank to the Ministry in connection with government debt and liquidity management and for variable costs incurred by Norges Bank in its capacity as provider of services to the Ministry of Finance.

The government's schedule for the issue of short- and long-term securities in 2012 was published in an auction calendar in December 2011. Seventeen auctions of government bonds and sixteen auctions of short-term government paper (Treasury bills) were held in 2012. Ad hoc auctions were not held. The total volume issued, excluding the government's own purchases in the primary market, amounted to NOK 60bn in government bonds and NOK 62bn in Treasury bills.

The strategy for long-term government borrowing is based on maintaining a yield curve for government bonds with maturities of up to approximately 10 years. The pattern for government bond borrowing has been to issue a new 11-year bond every second year. In May 2012, a new 11-year bond was issued. At the end of 2012, this bond amounted to NOK 16bn. No bonds matured in 2012.

According to the issue programme for short government paper, new Treasury bills are issued on IMM dates[3] and mature on the IMM date one year later. The loans are increased through subsequent auctions.

The government securities auctions have been held using the Oslo Børs trading system. The bid-to-cover ratio, which is the volume of bids in relation to the volume allocated in the auction, averaged 2.63 for government bonds and 2.56 for Treasury bills.

Norges Bank enters into agreements with primary dealers, which are under the obligation to furnish binding bid and offer prices for agreed minimum amounts of government bonds and Treasury bills on Oslo Børs. In 2012, Norges Bank entered into four agreements with primary dealers for government bonds and five agreements with primary dealers for Treasury bills. In return for furnishing these binding bid and offer prices, primary dealers may borrow government paper for a limited period. Lending limits for the shortest bonds were NOK 6bn, and either NOK 4bn or 5bn for other bonds. For Treasury bills, the lending limits were NOK 6bn for each loan. In addition, primarily dealers have exclusive rights to participate in auctions of government securities.

Since June 2005, the government has used interest rate swaps in its domestic debt management. An interest rate swap is an agreement between two parties to exchange future interest payments associated with a given principal. Use of interest rate swaps gives the government the flexibility to change the average period during which the interest rate on the debt portfolio is fixed without changing its borrowing strategy. The Ministry of Finance has entered into framework agreements with several counterparties. Norges Bank performs the operational functions in connection with entry into interest rate swap agreements on behalf of the Ministry of Finance. The commercial decisions are made by the Ministry. At end-2012, the average fixed-rate period for government debt was 3.5 years. If existing interest rate swaps are taken into account, the fixed-rate period was 1.7 years.

[3] International Monetary Market dates: the third Wednesday in March, June, September and December.

Total government domestic debt securities registered in the Central Securities Depository (VPS) at end-2012 amounted to NOK 472bn, calculated at face value. Of this, the volume of Treasury bills used in the swap arrangement amounted to NOK 127.5bn. Foreign investors hold approximately 47%, while life insurance companies and private pension funds hold approximately 11% of total government debt securities. For government bonds, the proportion of holdings is 65% for foreign investors and 9% for life insurance companies and private pension funds.

Norges Bank performs account management tasks relating to the management of the central government's liquid assets and debt in NOK. The legal basis for these responsibilities is provided for in the Norges Bank Act and they are regulated by means of agreements between Norges Bank and the Ministry of Finance. A primary function is to amass government liquidity each day in the government's sight deposit account with Norges Bank. At end-2012, government agencies had a total of approximately 1 040 accounts with Norges Bank. The sum of the amounts in these accounts constitutes the balance of the government's sight deposit account. The government receives interest on these funds. In addition, the Ministry of Finance also sets internal interest rates for certain government-owned funds and deposits. The government represented by the Ministry of Finance pays an annual fee to cover the costs of the banking services that Norges Bank performs for the government.

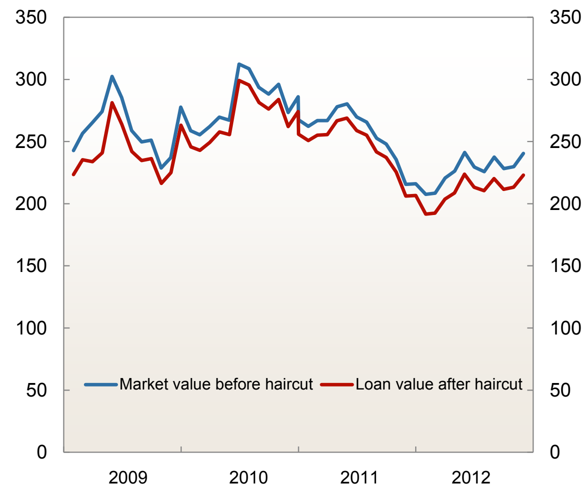
Norges Bank has contracted with EVRY ASA (previously EDB ErgoGroup ASA) to provide ICT services for the account system. Account management services for the government at Norges Bank continued to be stable in 2012.

Actual payment services for the government are performed by banks by agreement with the Norwegian Government Agency for Financial Management (DFØ). DFØ has agreements for payment and account services with DNB Bank ASA, Nordea Bank Norge ASA and SpareBank 1 Alliansen. Norges Bank has agreements with these banks on how the government's funds shall be transferred between banks and Norges Bank each day.

Collateral for loans from Norges Bank

Norges Bank extends loans to banks against collateral in the form of securities. Such loans help to make the implementation of monetary policy and payment settlement more efficient. In order to be used as collateral, securities must satisfy a number of requirements. Access to borrowing facilities and collateral requirements are stated in the regulations and guidelines issued by Norges Bank.

Chart 3.4 Banks' collateral for loans from Norges Bank 2009–2012. Last day of each month. In billions of NOK



Source: Norges Bank

At end-2012, banks had a total stock of securities as collateral for loans from Norges Bank of NOK 223bn, after haircuts, compared with NOK 206bn in 2011. The number of securities approved as collateral at Norges Bank was 723 at end-2012. Chart 3.4 shows banks' collateral for loans from Norges Bank in recent years.

With effect from 15 February, haircuts for calculating loan values were raised, and the right to pledge bonds issued by banks as collateral for loans from Norges Bank, the so-called "bank quota", was abolished. A proposal for these changes was circulated for comment in autumn 2011. In addition, the collateral requirements that had been temporarily eased since 2008/2009 were retightened. Total loan value after haircuts was lower on average in 2012 than in 2011, though it rose through 2012 to approximately the same level as at end-2011. The differential between the market value and loan value of collateral increased after the rule changes.

In addition to ordinary borrowing facilities, the central banks of Denmark, Sweden and Norway allow banks to pledge deposits in one central bank as collateral for loans in one of the other central banks. This arrangement, called the Scandinavian Cash Pool (SCP), may only be used for intraday liquidity. Thus, the five banks that participate in the arrangement are better able to manage their liquidity across national borders. An average of approximately NOK 3bn was borrowed intraday from Norges Bank through the SCP in 2012. Banks only occasionally used deposits with Norges Bank as collateral for loans in another Scandinavian central bank.

The three central banks also have an agreement allowing banks to pledge securities in a central securities depository as collateral for loans from one of the other central banks. Four banks availed themselves of this right in 2012. The total value of this type of collateral pledged for loans at Norges Bank was approximately NOK 11bn at year-end.

Centralised securities settlement in Europe

The European Central Bank (ECB) is developing a platform for centralised securities settlement for the euro and other currencies known as TARGET2-Securities (T2S). The purpose of T2S is to increase the efficiency of and standardise cross-border securities settlement in Europe. The system is currently scheduled to go live in 2015-2016. The Eurosystem invited non-euro area central banks to take part in negotiations on conditions for participation in T2S. Along with a number of other central banks, Norges Bank took part in the negotiations, which began in 2010 and were concluded in the first quarter of 2012.

The views of market participants in Norway were compiled by a T2S National User Group (NUG), headed by Norges Bank and with the participation of banks, investment firms, VPS, Finance Norway (FNO) and the Norwegian Securities Dealers Association, while Finanstilsynet (Financial Supervisory Authority of Norway) had observer status. Key market participants take a positive view of T2S and Norwegian participation. Nevertheless, they have recommended waiting a few years before including settlement of trades in NOK in T2S. Norges Bank chose not to sign the agreement with the ECB in 2012, but will follow the development of T2S and possibly consider joining at a later date.

Foreign exchange transactions

In 2012, Norges Bank's foreign exchange transactions mainly comprised foreign exchange purchases for the Government Pension Fund Global (GPFG).

The GPFG is built up through transfers of foreign exchange income from the State's Direct Financial Interest in petroleum activities (SDFI) and through Norges Bank's purchases of foreign exchange in the market.

The system for transferring foreign exchange from the SDFI and calculating Norges Bank's foreign exchange purchases was most recently changed in 2004. The Ministry of Finance determines the monthly allocation to the GPFG. Any foreign exchange required by Norges Bank in addition to the transfer from the SDFI is purchased in the foreign exchange market. Daily foreign exchange purchases are then fixed for a month at a time and are announced on the final working day of the previous month. The actual transfers may differ from the estimates. Adjustments are made for any differences when foreign exchange purchases are made in the following month. As a result, Norges Bank's foreign exchange purchases may vary somewhat from month to month.

Prior to 2012, capital was not transferred to the GPFG in December. In October 2012, the guidelines for managing the GPFG were amended so that foreign exchange is also transferred to the GPFG in December. As a result, the SDFI's foreign exchange income in December must be included when Norges Bank plans its foreign exchange purchases for the year. With a transfer to the GPFG in December, Norges Bank will normally also purchase foreign exchange for this purpose in December. However, there was no need to purchase foreign exchange in December 2012 on account of the substantial holdings in the petroleum buffer portfolio.

Norges Bank purchased NOK 80.3bn in foreign exchange in the market in 2012 (see Table 3.1). Transfers from the SDFI amounted to NOK 199.1bn.

Table 3.1: Norges Bank's daily foreign exchange purchases for the GPFG in 2012

Month	Daily amounts (in millions of NOK)	Total per month (in millions of NOK)
January	350	7 700
February	350	7 350
March	350	7 700
April	350	5 950
May	350	7 000
June	350	7 350
July	350	7 700
August	350	8 050
September	500	10 000
October	500	11 500
November	0	0
December	0	0
2012		80 300

Investment management

At the end of 2012, Norges Bank managed assets amounting to a total of NOK 4 071bn in international capital markets. The assets primarily comprise the GPFG, which is managed on behalf of the Ministry of Finance. The Bank also manages its own international reserves. Performance reports are published on Norges Bank's website.

Foreign exchange reserves and claims on the IMF

Norges Bank's international reserves comprise foreign exchange reserves and claims on the International Monetary Fund (IMF). Foreign exchange reserves amounted to 92% of total international reserves at end-2012. Excluding borrowing in foreign currency, the market value of foreign exchange reserves came to NOK 265bn at end-2012. In 2012, the Executive Board set stricter liquidity requirements for the foreign exchange reserves.

Foreign exchange reserves are to be used for transactions in the foreign exchange market in support of monetary policy or financial stability. In addition, foreign exchange reserves are used to meet Norway's international obligations.

Norges Bank's Executive Board issues guidelines for the management of foreign exchange reserves and has delegated responsibility to the Governor of Norges Bank for issuing supplementary rules in certain areas. Reserves are divided into a money market portfolio and a long-term portfolio. In addition, capital is accumulated in a petroleum buffer portfolio for transferring foreign exchange to the GPFG.

The money market portfolio and the petroleum buffer portfolio consist only of fixed income investments, while the long-term portfolio has a 40% strategic allocation to equities and a 60% allocation to fixed income instruments. The main strategy for both the long-term portfolio and the money market portfolio is defined by means of benchmark indices. These are hypothetical portfolios with given country or currency allocations and with specific securities or fixed income indices in various submarkets or currencies. The benchmark index provides the basis for managing and monitoring risk exposure and for evaluating the actual return Norges Bank achieves in its reserve management.

The long-term portfolio accounts for the largest portion of foreign exchange reserves, with a market value at end-2012 of NOK 227bn. The objective of the management of the long-term portfolio is a high long-term return, but it should also be possible to use the portfolio in support of monetary policy or financial stability if deemed necessary.

The return on the long-term portfolio was 9.8% in 2012, measured in terms of the benchmark portfolio's currency basket. In NOK terms, the return was 2.49%. The difference reflects the appreciation of NOK in relation to the benchmark portfolio's currency basket.

Over the past 10 years, the annual nominal return has been 5.62%, measured in terms of the benchmark portfolio's currency basket. Net of management costs and adjusted for inflation, the annual return came to 3.44%. In this period, the long-term portfolio outperformed the benchmark index by 0.23 percentage point.

The extent to which the actual portfolio may deviate from the benchmark portfolio is subject to a limit. Investment management is to be conducted so that the expected tracking error (expected relative volatility) does not exceed 1 percentage point. Expected tracking error is an overall risk measure, and measurement employs a model using historical market fluctuations. In 2012, average expected tracking error was measured at 0.5 percentage point.

The money market portfolio is the most liquid portion of foreign exchange reserves and, together with the long-term investment portfolio, is to be invested so that it can be used for monetary policy purposes or to promote financial stability. In addition, the money market portfolio is used to meet Norges Bank's international obligations, including transactions involving the IMF and loans to individual countries. The portfolio is invested so that it can be used for transactions in the foreign exchange market within one trading day, without having to realise any sizeable losses. The portfolio consists of short-term money market instruments, primarily secured loans to approved international banks and Treasury bills with a maturity of up to one year.

The size of the money market portfolio is to be between the equivalent of SDR (Special Drawings Rights) 3.5bn and SDR 4.5bn, and the portfolio is to have the strategic currency composition of 75% in USD and 25% in EUR. The benchmark index is to be composed of overnight money market indices and government bond indices.

The deviation between the actual portfolio and the benchmark portfolio is subject to a limit. The currency weights may deviate by +/- 5 percentage points from the benchmark index. The limit for expected tracking error is set at 1.0 percentage point and the Bank uses a model based on historical market fluctuations. Expected relative volatility averaged 0.03% in 2012.

At end-2012, the money market portfolio stood at NOK 34.2bn (SDR 4.0bn), a decrease of NOK 0.7bn from end-2011. In 2012, the portfolio returned 0.11%, measured in local

Norges Bank manages the Government Pension Fund Global on behalf of the Ministry of Finance.

currency, while the benchmark index returned 0.09%. The low return figures must be viewed in context with the strict requirements regarding liquidity and preparedness that apply to the portfolio. In 2012, the Executive Board tightened liquidity requirements for the foreign exchange reserves.

Gross revenues in foreign currency from the State's Direct Financial Interest in the petroleum sector (SDFI) are sold to Norges Bank and placed in the petroleum buffer portfolio. Norges Bank also purchases foreign currency directly in the market in periods in order to cover the amount that is to be allocated to the GPFG. The responsibility for managing the petroleum buffer portfolio was transferred from Norges Bank Investment Management to Norges Bank's Markets and Banking Services department on 1 June 2012.

The petroleum buffer portfolio is invested in money market instruments. At the end of 2012, the market value of the petroleum buffer portfolio was NOK 6.5bn. Funds are normally transferred from the petroleum buffer portfolio to the GPFG each month. In 2012, the buffer portfolio returned negative 7.15% in NOK terms. A benchmark index has not been established for the petroleum buffer portfolio.

Claims on the IMF consist of SDRs, the reserve position and Norway's bilateral loans to the IMF. Norges Bank has been allocated SDR 1 563m from the IMF. Norges Bank has signed an agreement with the IMF providing for voluntary purchase and sale of SDRs, bringing the actual holding of SDRs to between SDR 782m and SDR 2 345m. At end-2012, SDR holdings came to SDR 1 502m, or NOK 12 850m.

Norges Bank has signed an agreement that gives the IMF the right to draw up to SDR 3bn to finance the IMF's general loan schemes. After the IMF expanded the New Arrangements to Borrow (NAB) in March 2011, the IMF's drawings under the bilateral loan scheme are transferred to the NAB. Norway's commitments under the NAB total SDR 3 871m. Drawings under the bilateral loan agreement with Norges Bank and the NAB are to be viewed jointly, so that Norway's total commitments do not exceed the NAB limit. The Ministry of Finance has signed an agreement pledging loans of up to SDR 300m to the IMF for use in its credit facilities for low-income countries. At end-2012, the IMF had drawn a total of SDR 623m under these agreements. In addition to these agreements, Norges Bank and IMF signed a new agreement on 12 October 2012 that will provide the IMF with a drawing arrangement of up to SDR 6bn.

Government Pension Fund Global (GPFG)

Norges Bank is responsible for the operational management of the GPFG on behalf of the Ministry of Finance. At end-2012, the market value of the GPFG was NOK 3 816bn before deduction of Norges Bank's management fee. In 2011, the Ministry of Finance transferred a total of NOK 276bn to the GFPG.

Investment management is conducted pursuant to the regulation "Mandate for the management of the Government Pension Fund Global". The Ministry of Finance has established a strategic benchmark index with a 60% allocation to equities and 40% to fixed income instruments, less the share of the investment portfolio invested in real estate. The benchmark index reflects the Ministry's investment strategy for the GPFG and is an important basis for managing the risk associated with the operational management of the GPFG and for evaluating Norges Bank's management performance. The Ministry of Finance has set limits on the extent to which the actual portfolio may deviate from the benchmark portfolio.

In 2012, the benchmark index was changed to reduce the GPFG's overweighting in European markets. The GPFG currently has equity investments in 65 countries and fixed income investments in 30 currencies.

In 2012, the GPFG posted a return of 13%, measured by the benchmark portfolio's currency basket. This measure of return gives the best indication of the GPFG's international purchasing power. Measured in international currency, the equity portfolio returned 18%, while the fixed income portfolio returned 7%.

In 2012, the return was 0.21 percentage point higher than the return on the benchmark index.

Since 1998, the annual nominal return has been 5.05%, measured in international currency. Net of management costs and adjusted for inflation, the annual return has been 2.97%.

For a more detailed presentation of investment management in 2012, see the *Government Pension Fund Global Annual Report* 2012.

CHAPTER 4:

Payment systems, banknotes and coins

Norwegian payment systems

Norway's payment systems functioned effectively in 2012. Stable payment system operations are of crucial importance to financial stability. All payments between banks and between customers of different banks are cleared and settled in these systems.

Norges Bank's responsibility and role in monitoring Norwegian payment systems

Norges Bank ensures secure and efficient settlement of interbank payments in banks' accounts at Norges Bank, and supplies society with banknotes and coins in a manner that promotes efficiency in payment systems. Norges Bank also monitors Norwegian payment systems with the aim of supporting financial stability by promoting the robustness and efficiency of the systems.

While this work is primarily aimed at minimising risk in interbank clearing and settlement systems, Norges Bank also monitors important trends in the payment system as a whole. Norges Bank's oversight of authorised interbank systems is based on reporting requirements and supervisory meetings. Oversight and monitoring of interbank systems follow international recommendations, primarily from the BIS Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). The Bank will begin using the new CPSS-IOSCO principles in 2013. Two interbank systems are licensed under the Payment Systems Act: the Norwegian Interbank Clearing System (NICS) and the private settlement bank DNB Bank ASA. The private settlement bank SpareBank1 SMN is exempt from the licensing requirement. Clearings from NICS are settled in Norges Bank for banks with settlement at the central bank. Once settlement has been carried out at Norges Bank, DNB Bank ASA and SpareBank 1 SMN perform settlement with their participant banks.

NICS introduced a system of settlement limits on 3 September. The system allows private settlement banks to set a limit for their exposure to individual participating banks. As breach of a limit may disrupt operational clearing and settlement patterns, Norges Bank has pointed out to the settlement banks that they must factor in both their own risk level and payment service efficiency when setting such limits. A fourth daily settlement of mass payments was introduced on 12 October 2012. There were few cases of disruptions in the licensed interbank systems in 2012.

Norges Bank also oversees the securities settlement system operated by Oslo Clearing. In this context, the Bank cooperates with Finanstilsynet (Financial Supervisory Authority of Norway), which supervises Verdipapirsentralen ASA and Oslo Clearing ASA. Norges Bank is also a member of the oversight group for CLS Bank (Continuous Linked Settlement), an international bank specialised in the settlement of foreign exchange trades. The group is chaired by the US Federal Reserve.

In the *Annual Report on Payment Systems,* Norges Bank discusses developments in interbank systems and retail payment systems. In Norges Bank's view, Norwegian clearing and settlement systems compare well internationally. In the *Report*, Norges Bank also provides an account of its work to monitor and supervise financial infrastructure. Although Norges Bank considers Norwegian payment services to be efficient, there is room for improvement. Payment costs can be reduced through increased electronic invoicing. Instead of reducing services that provide the public with cash, banks should focus on recovering the costs of providing cash-based services.

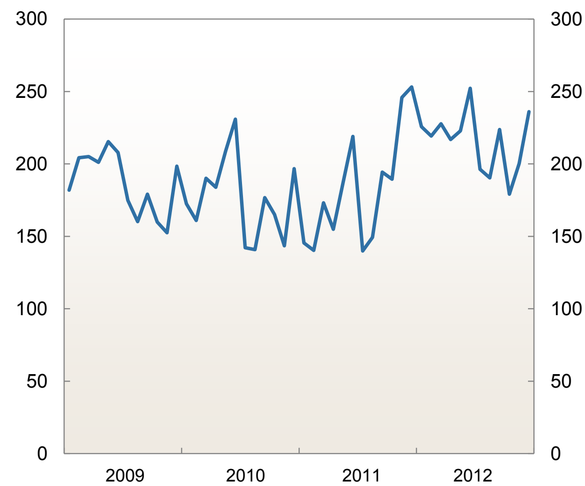
Norges Bank's settlement system

Norges Bank is the supreme settlement bank for interbank payments in Norway. This function is associated with Norges Bank's responsibility pursuant to the Norges Bank Act to promote an efficient payment system domestically and vis-à-vis other countries, and its provision of account and lending facilities for banks. Because the central bank is the issuer of money, deposits in the central bank carry no credit or liquidity risk for banks. Therefore, the interest rate on central bank money provides the basis for interest rate formation in the economy as a whole.

All banks in Norway may open accounts with Norges Bank. At the end of 2012, 130 banks had such accounts, compared to 129 in 2011. Of these, 22 banks settled their payments on a daily basis in Norges Bank's settlement system (NBO), in the form of either individual payments or net settlement. The other banks mainly used their accounts for payments, primarily in connection with loans from and deposits with Norges Bank. CLS Bank has an account that is used for daily settlement of the NOK part of foreign exchange trades in the international system for settlement of such trades. Oslo Clearing ASA is a central counterparty in trades in financial instruments, and has an account with NBO for daily settlement of interbank positions. Two central banks and the Bank for International Settlements (BIS) also have accounts with NBO. Four further banks have agreements for contingency accounts that can be used if a bank needs to utilise Norges Bank as a settlement bank.

In 2012, an average of NOK 216bn per day was settled in Norges Bank's settlement system, compared with NOK 183bn in 2011. At the end of 2012, banks had sight deposits and reserves on deposit totalling NOK 35.2bn. Chart 4.1 shows the turnover in Norges Bank's settlement system in recent years.

Chart 4.1 Turnover in Norges Bank's settlement system (NBO) 2009-2012. Daily average per month. In billions of NOK



Source: Norges Bank

Norges Bank has contracted with EVRY ASA (formerly EDB ErgoGroup ASA) for the provision of ICT operating services for the settlement system. New technical solutions for the settlement system were put into operation in the first half of 2012. There were no serious interruptions in the settlement system in 2012.

Banks pay for the settlement services provided by Norges Bank, and prices are set so that revenue covers the relevant costs of providing the services. For 2012, prices were increased slightly to cover calculated costs of NOK 54m, NOK 1m more than in 2011.

Along with the central banks of Denmark, Iceland and Sweden, Norges Bank participates in a Nordic forum for exchanging experiences concerning settlement systems and solutions for banks' collateral for loans from central banks.

Banknotes and coins

Small increase in cash in circulation

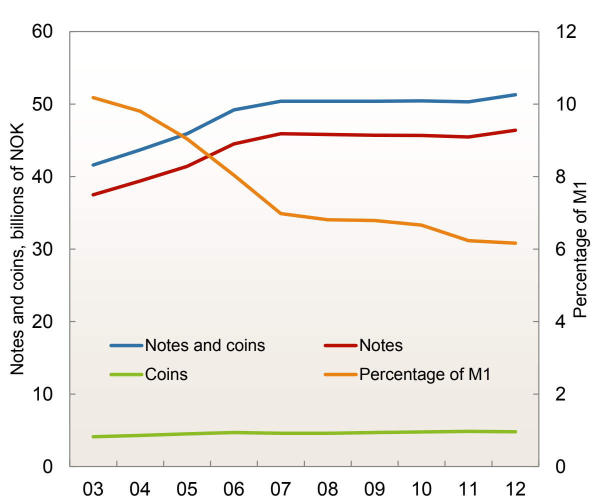
After increasing in the period 2003–2007, the yearly average value of notes and coins in circulation remained stable in recent years, but increased again from 2011 to 2012. In 2012, the yearly average value totalled around NOK 51.2bn (see Chart 4.2), representing an increase of NOK 0.8bn on 2011. Nevertheless, the value of notes and coins in circulation accounts for a steadily declining proportion of the value of means of payment used by the public (M1), although the change from 2011 to 2012 was small.

The value of notes in circulation averaged NOK 46.4bn in 2012, i.e. an increase of NOK 0.9bn from the previous year. The value of coins in circulation averaged NOK 4.8bn in 2012, representing a decline of NOK 0.1bn from 2011.

Low number of counterfeit Norwegian banknotes

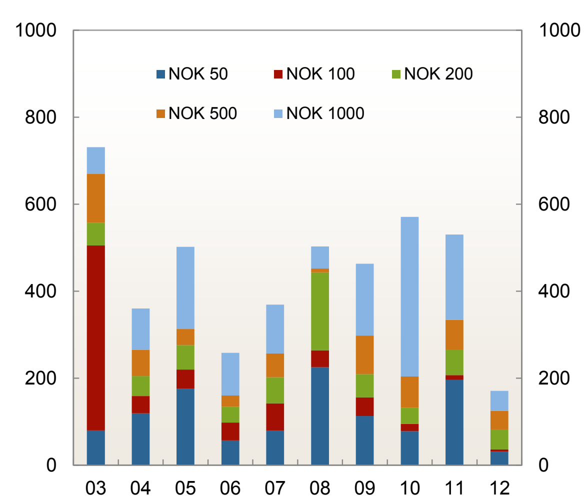
The number of counterfeit banknotes seized in Norway is low. In the period 2002–2004, Norges Bank upgraded the security of the smaller denominations in the banknote series. Following the upgrade, the number of counterfeit Norwegian notes seized has been very low (see Chart 4.3). In 2012, just under 200 notes were seized, corresponding to less than two counterfeit notes per million notes in circulation. This figure is very low compared with other countries. The quality of most counterfeits is very poor, making them easy to spot.

Chart 4.2 Cash in circulation. In billions of NOK. 2003–2012



Source: Norges Bank

Chart 4.3 Counterfeit Norwegian notes 2003–2012



Source: The Norwegian National Criminal Investigation Service (Kripos)

Organisation of cash distribution

The Norges Bank Act assigns Norges Bank responsibility for issuing notes and coins. This involves both ensuring the production of sufficient volumes to meet the general public's cash requirements and making these means of payment available. While Norges Bank supplies banks with cash from five central bank depots, the banks are responsible for further distribution to the general public. The central bank is also responsible for the quality of notes and coins in circulation and facilitates the withdrawal and destruction of worn and damaged notes and coins.

The objective of Norges Bank's cash handling activities is to promote the efficiency of cash distribution and of the payment system as a whole. Various measures have been implemented to ensure the optimal division of responsibilities and duties between participants and a clearer distinction between different types of service. Norges Bank is now effectively a wholesaler, as banks are responsible for interbank distribution of cash. An arrangement has also been introduced whereby, on certain conditions, banks receive interest compensation for cash holdings in private depots. At the end of 2012, a total of 13 private depots existed in different parts of Norway. The depots are operated by NOKAS Kontanthåndtering AS (NOKAS) and Loomis Norge AS.

The Norges Bank Act grants Norges Bank an exclusive right to issue banknotes and coins. Norges Bank must therefore function as debtor for these means of payment. Although production, destruction and distribution may be performed by others, Norges Bank must ensure that these operations are carried out in accordance with its requirements.

Norges Bank has outsourced a number of operations in the area of cash handling (see Chart 4.4). Notes and coins are produced by external suppliers. The operation of Norges Bank's central bank depots in Stavanger, Bergen, Trondheim and Tromsø has been outsourced to NOKAS, which also runs processing services associated with central bank tasks at these locations (destruction of worn-out notes, etc.). On 1 January 2012, Norges Bank assumed responsibility for the operation of the central bank depot in Oslo. The Bank also organises destruction and other control functions relating to the receipt and despatch of notes and coins.

Norges Bank's agreements with Oberthur (France) and De La Rue (England) for the production of banknotes expired on 31 December 2012. Following a competitive tender, Norwegian banknotes will be produced by Oberthur and Giesecke & Devrient (Germany) as of 2013. Norwegian coins are produced by the Mint of Norway in Kongsberg.

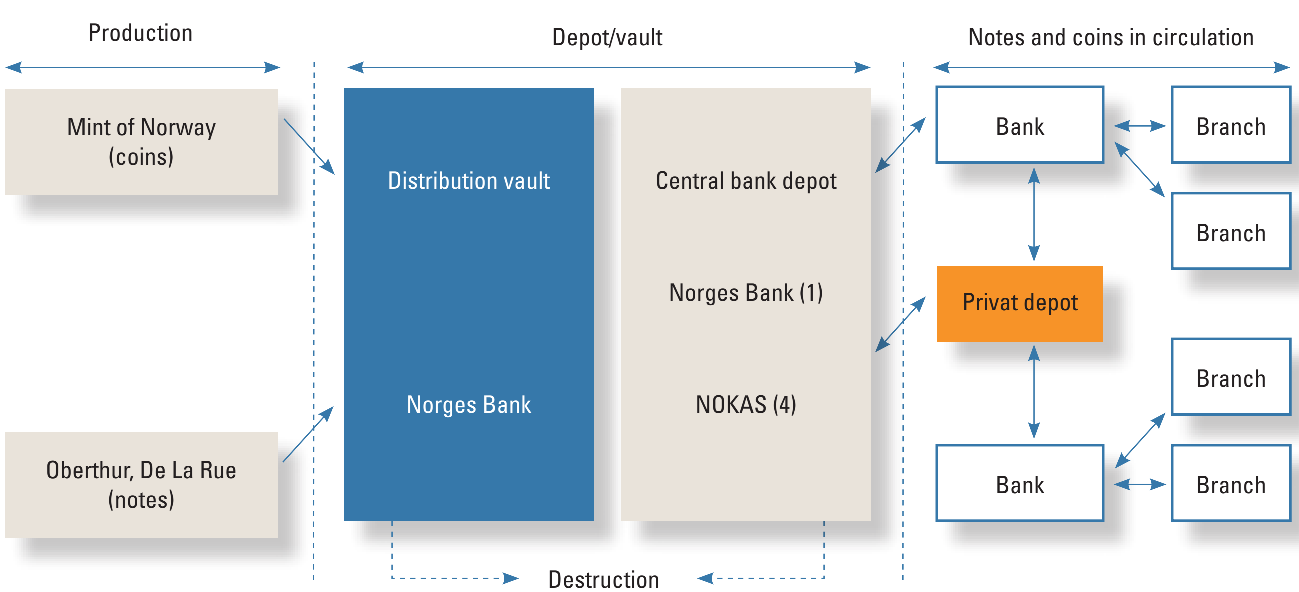


Chart 4.4: The note and coin lifecycle as at 31 December 2012

Withdrawal of the 50-øre coin

The 50-øre coin ceased to be legal tender on 1 May 2012, but can be redeemed at Norges Bank until 1 May 2022.

The withdrawal of the 50-øre coin marked the disappearance of the term "øre" from Norwegian coins. Cash payments must now be rounded to the nearest whole krone.

Expiry of series VI banknotes

Norges Bank's redemption duty in respect of series VI banknotes expired on 1 November 2012.

Commemorative coin issues

Norges Bank issues commemorative coins in gold and silver pursuant to section 16 of the Norges Bank Act and special edition circulation coins pursuant to section 13 of the Norges Bank Act, which is the general legal basis for issuing coins.

Section 16 of the Norges Bank Act confers the power to approve the issue of gold and silver coins upon the King-in-Council. This power was delegated to Norges Bank from 1994 to 2011.

In 2012, Norges Bank issued a commemorative coin in silver to mark the 75th birthdays of King Harald V and Queen Sonja. The winning design by sculptor Håkon Anton Fagerås was chosen following an artists' competition.

The Norwegian coat of arms used on the reverse of the coin was designed by Ingrid Austlid Rise at the Mint of Norway.

Work begun on a new series of banknotes

Norwegian banknotes must constitute an efficient means of payment, and the general public must have confidence in the authenticity of the notes. The likelihood of counterfeiting can be reduced by ensuring that the security level of Norwegian notes is no lower than that of comparable countries. Several countries, including Sweden, Denmark, Switzerland and euro area countries, are currently issuing new, more secure banknote series. As a result, the security of Norwegian banknotes must also be improved to ensure that, in future, the notes continue to be as difficult to forge as the notes of other countries. Norges Bank has therefore started work on developing a new series of banknotes, its eighth. The development of a new series of notes is complicated and time-consuming and will take several years.

CHAPTER 5:

International cooperation

Norges Bank participates in international cooperation through several channels, such as the Bank's active participation in financing schemes and agreements with the International Monetary Fund (IMF) and its shares in the Bank for International Settlements (BIS). The Bank has extensive contact with central banks in other countries and with international organisations.

Loans and support in connection with the international financial crisis

Increased quotas and loan agreements with the IMF

The main source of funding for the IMF's lending activities is quota subscriptions paid by member countries. The IMF can, as needed, supplement its quota resources by borrowing through the borrowing arrangement known as "New Arrangements to Borrow" (NAB), which has 38 participant countries, including Norway. In the event of further funding needs, the IMF can also enter into bilateral loan agreements with individual countries. These will be drawn only if quota and NAB resources are insufficient to fund lending.

To strengthen its lending capacity in connection with the financial crisis that began in 2008, the IMF initially chose to sign bilateral loan agreements that could be drawn quickly. With the consent of the Ministry of Finance, Norges Bank pledged a loan of SDR 3bn (around NOK 26bn) in June 2009.

The next step was a ten-fold expansion of the existing NAB. The Ministry of Finance acts as contracting party in the NAB, while Norges Bank administers Norway's participation and provides foreign exchange reserves under Section 25 of the Norges Bank Act. When the expanded NAB came into effect in 2011, the bilateral loans were folded into the agreement.

As a third step, member countries agreed in 2010 to double their quotas in order to increase IMF resources on a permanent basis and reduce dependency on stop-gap loans from a few countries. However, the quota increase must be ratified by all the member countries. This is a time-consuming and cumbersome process and the change has not yet been implemented.

The financial crisis resulted in a marked increase in demand for IMF loans, and by 2010, the volume of loans was already ten times higher than the pre-crisis level. The deepening euro area debt crisis through 2010 and 2011 prompted the EU to take a leading role in efforts to further increase the IMF's resources. As one of several measures to stabilise the situation in the euro area, EU member states agreed in 2011 to pledge up to NOK 1 500bn (up to EUR 200bn) in additional bilateral commitments to further augment the IMF's resources. EU countries called on other countries to contribute. Norway responded early, offering a loan to the IMF in the same month.

Norway's loan agreement is in the form of a drawing arrangement of SDR 6bn, or just over NOK 52bn. The agreement enables the IMF to fund loans with terms of up to ten years. The agreement is to be drawn only if resources from the quotas and the NAB fall below a certain threshold. The new bilateral loan from Norway doubles the country's commitments to the IMF. Norway's total commitments are now approximately NOK 102bn, equivalent to just below 4% of GDP. So far, the IMF has drawn a relatively small portion of these loans.

Norges Bank's potential credit exposure to the IMF is therefore considerable. However, the risk associated with loans to the IMF is low, among other reasons because of the conditionality in the IMF's adjustment and stabilisation programmes for borrowers. In addition, IMF claims have precedence over claims from other creditors. The IMF has never realised a loss on loans under its general lending programmes. Norway has no credit exposure to third countries in connection with loans, since all claims are against the IMF.

In June 2010, the Ministry of Finance entered into an agreement with the IMF to pledge up to SDR 300m in loan resources to the IMF's borrowing facilities for low-income countries. Pursuant to Section 25 of the Norges Bank Act, the Ministry of Finance requested that Norges Bank meet Norway's commitments under the agreement by making funds available through transfers of foreign exchange reserves. At 31 December 2012, the IMF had drawn SDR 159.4m under the agreement.

Loan agreement with Seðlabanki Íslands

On 19 November 2008, the IMF authorised a loan to Iceland of USD 2bn under a two-year stand-by arrangement. In addition, loan agreements between Iceland and the other Nordic countries were signed in July 2009. The Ministry of Finance approved a EUR 480m loan from Norges Bank to the Icelandic central bank and provided a government guarantee for the loan. The Icelandic government has guaranteed repayment of the loan to Norges Bank. In 2012, Seðlabanki Íslands made an early repayment of EUR 281m on the loan. The remaining balance on the loan at 31 December 2012 is EUR 199m.

Regular contact and cooperation with other central banks and international organisations

Norges Bank has shares in the Bank for International Settlements (BIS), whose task is to foster cooperation between central banks. In addition to providing banking services to central banks, the BIS is also a research body and discussion forum for its member banks. The governor of Norges Bank regularly attends meetings of the BIS.

Pursuant to section 25 of the Norges Bank Act, Norges Bank shall administer Norway's financial rights and meet the commitments ensuing from membership of the IMF. Norges Bank has been tasked by the Ministry of Finance to be responsible for day-to-day IMF work in Norway. As announced in Finansmarknadsmeldinga (Financial Markets Report) for 2010, the Government's annual reporting to the Storting on the IMF was moved to the revised national budget as from 2012. A chapter of the budget now contains an account of important matters and events relating to IMF activities, with an emphasis on the past 12–18 months.

The highest decision-making body of the IMF is the Board of Governors. In 2012, Norway was represented by the Governor of Norges Bank, Øystein Olsen, with the Secretary General of the Ministry of Finance, Svein Gjedrem, as his alternate. The Board normally meets once a year at the Annual Meeting of the IMF. Apart from this meeting, voting by the Board of Governors takes place by ballot. An Executive Board consisting of 24 executive directors is responsible for day-to-day business. The five Nordic and three Baltic countries comprise a single constituency with a joint representative on the Board. The post of board member is rotated among the Nordic and Baltic countries. Denmark held this position in the period 2010–2012. Norway is assuming this position for the period 2013—2015.

The countries in the Nordic-Baltic Constituency primarily coordinate their views on important IMF matters through the Nordic-Baltic Monetary and Financial Committee (NBMFC). The Norwegian members are the secretary general of the Ministry of Finance and the deputy governor of Norges Bank. The other countries are represented at a comparable level. The NBMFC normally meets twice a year. Coordination between the countries is aimed at arriving at a consensus position, which the board member representing the Constituency then presents to the IMF Executive Board. Norway's position on matters to be brought before the IMF Executive Board is decided by the Ministry of Finance on the advice of Norges Bank. The division of responsibility between the Ministry and the Bank is set out in a written joint understanding.

The International Monetary and Financial Committee (IMFC) has a key function as an advisory body to the Executive Board of the IMF. The IMFC meets twice a year. The Committee provides policy guidelines for the activities of the IMF. The IMFC's members are ministers or central bank governors who represent either a country or a multi-country constituency. The Danish Minister for Economics and the Interior represented the Nordic-Baltic Constituency at the IMFC meeting in April 2012, while the Swedish finance minister represented the Constituency in October 2012.

An important part of the activities of the IMF involves monitoring economic developments in member countries, with particular emphasis on macroeconomic conditions and financial stability. The main emphasis is on bilateral surveillance through Article IV consultations, which take place annually for most countries. Norway holds such consultations every two years unless special circumstances call for annual consultations. In the intervening years, the IMF conducts a simplified consultation and no written report is submitted to the Executive Board of the IMF. The report from the Article IV consultation with Norway in 2011 was discussed by the Executive Board of the IMF on 27 January 2012. The report and the conclusions of the Executive Board's discussions were published on 4 February 2012.

Norges Bank cooperates extensively with the other Nordic central banks. The annual meeting of Nordic central banks in 2012 was organised by the Danish central bank. Staff from various central bank departments meet at regular intervals to discuss issues relating to economic analysis, monetary policy, financial stability, payment systems, legal matters concerning central banks, human resource policy, etc.

Norges Bank also has regular contact with the ECB and other central banks in EU member states. Norges Bank has established an arrangement with the ECB, the Bank of England and some other central banks that affords employees the opportunity to work at these institutions for periods of up to 12 months.

As from 1 January 2011, the EU has strengthened its monitoring of threats to financial stability through the establishment of new bodies for microprudential supervision (the European System of Financial Supervisors (ESFS)) and for macroprudential oversight (the European Systemic Risk Board (ESRB)). Norway has observer status in the ESFS and is represented by Finanstilsynet (Financial Supervisory Authority of Norway) at meetings of the microprudential supervisory committees for the banking sector, securities and markets, and insurance and occupational pensions. Norges Bank has also attended the meetings of the microprudential supervisory committee for the banking sector, the European Banking Authority (EBA). The Bank is a member of an EBA working group established to design liquidity rules in the European Commission's proposal for a new banking regulation in the EU (CRD IV) and in a working group on crisis resolution tools, including deposit insurance rules in the EU. With regard to macroprudential oversight, Norges Bank has been granted observer status at meetings of the Advisory Technical Committee (ATC), a sub-committee of the ESRB which provides advice and assistance on matters within the ESRB's remit. The EFTA member states Norway, Iceland and Lichtenstein are negotiating with the European Commission to establish an agreement on participation in the new supervisory structure and adaptation to the decisions of the new EU bodies.

The governor of Norges Bank attends meetings of the Financial Stability Board Regional Consultative Group for Europe, along with the director general of Finanstilsynet and the secretary general of the Ministry of Finance.

Norges Bank attends a number of meetings where macroprudential oversight and regulation and issues relating to financial infrastructure are discussed with other Nordic and Baltic countries. Even though Norway is not represented on the Basel Committee, Norges Bank participates in the work of a sub-committee, the Research Task Force.

With regard to banknotes, Norges Bank has close contact with the Eurosystem and other central banks. The Bank also participates to a considerable extent internationally in organisations such as the European Banknote Conference (EBC) and the Central Bank Counterfeit Deterrence Group (CBCDG). With more than 20 central banks as members, the EBC aims to improve the security and quality of banknotes and of all the stages of production and supply of banknotes. Norges Bank serves as the secretary of the EBC and participates in a group tasked with reporting on and proposing conference topics. The CBCDG is an international collaboration of central banks whose aim is to develop systems to prevent the photocopying, scanning and image processing of banknotes to reduce the risk of counterfeiting. Norges Bank is a member of the Executive Committee.

Technical assistance to the central banks of Malawi and Zambia

For many years, Norges Bank has provided technical assistance to central banks in developing countries. To enhance the effectiveness and outcomes of this kind of assistance, Norges Bank assumed responsibility for the IMF's technical assistance to the Reserve Bank of Malawi in 2006. Norges Bank's assistance was formally administered by the IMF, but funded by the Norwegian Ministry of Foreign Affairs. Project work was carried out by an on-site representative and by various experts on short-term assignments. A broad range of internal and external central bank activities were covered. The project was concluded after two short-term visits of between one and two weeks in winter 2012. The local adviser, Director Asbjørn Fidjestøl, concluded his work in Malawi in December 2011, but in 2012 helped to arrange the final two short-term visits. The cooperation with the Reserve Bank of Malawi is documented in Norges Bank's Occasional Papers No. 40, Central Bank Modernization.

In 2011, a similar technical assistance agreement was signed with the Bank of Zambia. This programme is also administered by the IMF and funded by the Norwegian Ministry of Foreign Affairs. Norges Bank is placing 1.5 FTEs per year at the disposal of the Bank of Zambia. Of this, 1 FTE is for an on-site adviser and 0.5 FTE is used for experts on short-term assignments. Special Adviser Gunnvald Grønvik holds the post of on-site adviser. In 2012, a total of ten short-term visits, all of two weeks' duration, were completed. The visits covered a broad range of the Bank of Zambia's external and internal central bank tasks, including monetary policy, financial stability, payment services, cash handling and organisational development.

Phase I of Norges Bank's technical assistance to the Bank of Zambia was concluded at the end of 2012. The IMF conducted an evaluation of the project and gave a favourable assessment of the results achieved. The was attributed to the fact that Norges Bank had provided highly qualified expertise and the Bank of Zambia had assumed ownership of the project and had been capable of absorbing the advice provided. The project will continue with the same budget in 2013 and is planned to run for a total of four years, i.e. until the end of August 2015.

CHAPTER 6:

Other activities

Communications activities and publications

Under the Norges Bank Act, Norges Bank is obliged to "inform the public about the monetary, credit and foreign exchange situation" and about monetary policy. The Bank fulfils this obligation through active communication in the form of press conferences, speeches and lectures, and meetings with different groups in various forums.

In 2012, Norges Bank Central Banking Operations and Norges Bank Investment Management drew up joint communication principles. These state that Norges Bank's communication must be correct, predictable, open and responsible. Information provided by Norges Bank must be reliable, easy to understand and available to all. Good communication is a key instrument for anchoring inflation expectations among economic agents and vital to the effectiveness of monetary policy.

Press conferences

Media coverage can be a decisive factor in ensuring that the Bank's communication reaches its intended target groups. Media relations are therefore a priority. The press conferences held in connection with interest rate decisions and the presentation of the Bank's reports are an important channel for communicating the Bank's work and the assessments of the Executive Board. All press conferences are streamed live on the Bank's website. Norges Bank held a total of 13 press conferences in 2012. In conjunction with the press conferences, the governor and deputy governor are available for individual media interviews.

One or two press seminars are held each year to enhance journalists' understanding of Norges Bank's operations and improve the quality of media coverage. In 2012, one media seminar was arranged in March on the money market, and another was held in May in connection with the publication of the annual report on payment systems.

Journalists were also given an opportunity to photograph the banknote destruction process in connection with the redemption deadline for series VI banknotes, which was also profiled through advertisements and media interviews.

Speeches and lectures

Speeches and lectures by the executive management of Norges Bank are important channels for informing the public about the Bank's operations. The Bank has three aims in this context: to reach a wide audience, to present the Bank's core activities, and to ensure that a high proportion of the lectures are given outside Oslo. In 2012, Norges Bank's executive management gave a total of 44 speeches and lectures, of which 5 were given abroad, 16 in Norway but outside Oslo, and 23 in Oslo. Audiences included academics, students and school pupils, economics experts, political representatives, business sector representatives, interest groups, the social partners, journalists, diplomats and others. The topics covered included monetary policy, financial stability, the management of the Government Pension Fund Global and issues of general economic and public interest.

The Governor's annual address, "Economic perspectives", gathered a large number of academics, politicians and business leaders at Norges Bank. The Deputy Governor's speech at the Norwegian Academy of Science and Letters, "On learning from history – Truths and eternal truths", attracted a broad-based academic audience for debate and discussion. Other important speeches included the Governor's annual hearing before the Storting's Standing Committee on Finance and Economic Affairs, the Governor and Deputy Governor's speeches to Norges Bank's regional network in the various regions and the Deputy Governor's annual lecture to upper secondary school pupils. The Governor also spoke at the BIS in Basel, the Czech National Bank in Prague, the European Central Bank in Frankfurt and the Norwegian Embassy in Rome, while the Deputy Governor spoke at the Adam Smith seminar in Paris. The *Monetary Policy Report* was also presented, as in previous years, to the financial sector and market participants in London after publication of each issue. In addition, Norges Bank employees spoke regularly on topics related to the Bank's core areas at various specialist institutions.

Norges Bank's website and social media

Norges Bank's website is its primary communication channel and enables the Bank to provide open and easily accessible information.

The week after delivering the annual address at Norges Bank, Governor Olsen gave the same speech at the University of Oslo. The speech clearly captured the interest and imagination of the students, who filled the auditorium at the Faculty of Social Sciences to capacity.

Foto: Estella Marcheggiano

The website contains news and information on the Bank's activities, as well as background material relating to the Bank's analyses and decisions, in the form of figures and data series.

The number of visitors to the website is stable, although visitors are increasingly accessing the website via mobile units. Adaptations are therefore being made to enable compatibility with different platforms.

Norges Bank makes active use of social media channels such as Twitter, YouTube and Flickr. LinkedIn was included in 2012. Using these channels allows the Bank to reach a wider range of target groups than through traditional channels.

Publications

In 2012, Norges Bank issued the following publications (in Norwegian and English unless otherwise specified):

- Economic Commentaries (15 articles)
- Financial Stability (2 issues)
- Monetary Policy Report (3 issues)
- Economic Bulletin (5 articles)
- Annual Report on Payment Systems
- Norges Bank's Annual Report
- Norges Bank's Survey of Bank Lending (quarterly)
- Regional network report, national summary (quarterly)
- Quarterly report, money market portfolio
- Quarterly report, Government Pension Fund Global
- Government Pension Fund Global Annual Report
- Staff Memo (33 articles, 16 in English)
- Working Papers (24 articles)
- Årsrapport om Norges Banks oppgjørssystem (Annual report on Norges Bank's settlement system, Norwegian only)
- Månedsrapporter om Norges Bank's oppgjørssystem og sikkerhet for lån (Monthly report on Norges Bank's settlement system and collateral for loans, Norwegian only)
- Annual statistics, notes and coins
- Quarterly report, foreign exchange reserves

Response to consultations

A number of statements giving Norges Bank's response to consultations concerning financial sector regulation were issued by Norges Bank in 2012. The consultations were primarily proposals from the Ministry of Finance and Finanstilsynet (Financial Supervisory Authority of Norway) on amendments to banking, insurance, pensions and securities legislation. Norges Bank supported the proposals in general, with comments added in some cases. Among the most important consultations was the proposal for amendments to Norwegian law in order to incorporate new solvency regulations for banks and insurance companies and the proposal from the Banking Law Commission for new legislation on group pension schemes and changes in the rules on paid-up policies in the Company Pensions Act. Norges Bank's responses are available on the Bank's website (Norwegian only).

Appendix

Governing bodies, management and organisation

Executive Board

Øystein Olsen, Chair
Appointed Governor of Norges Bank
1 January 2011 for a term of up to six years.

Jan F. Qvigstad, Deputy Chair
Appointed Deputy Governor of Norges Bank
1 April 2008 for a term of up to six years.

Brit K. Rugland
Appointed 1 January 2004–31 December 2005.
Reappointed 1 January 2006–31 December 2009
and 1 January 2010–31 December 2013.

Liselott Kilaas
Appointed 1 January 2004–31 December 2007.
Reappointed 1 January 2008–31 December 2011
and 1 January 2012–31 December 2015.

Ida Helliesen
Appointed 1 January 2010–31 December 2013.

Eirik Wærness
Appointed 1 January 2010–31 December 2013.

Egil Matsen
Appointed 1 January 2012–31 December 2015.

Alternates
Gøril Bjerkan
Appointed 1 January 2010–31 December 2013.
Espen R. Moen
Appointed 1 January 2012–31 December 2015.

Employee representatives:
Jan Erik Martinsen
Appointed 1 January 2001–31 December 2014
Petter Nordal (Alternate)
Gøril Bjerkhol Havro
Appointed 1 January 2011–31 December 2014
Berit Moen (Alternate)

Internal Audit

Ingunn Valvatne, Head of Internal Audit

Supervisory Council
Reidar Sandal, 2010–2013, Chair
Alternate: **Ola Røtvei**, 2010–2013
Frank Sve, 2010–2013, Deputy Chair
Alternate: **Tone T. Johansen**, 2010–2013
Eva Karin Gråberg, 2012–2015
Alternate: **Rita Lekang**, 2012–2015
Runbjørg Bremset Hansen, 2012–2015
Alternate: **Camilla Bakken Øvald**, 2012–2015
Tormod Andreassen, 2012–2015
Alternate: **Beate Bø Nilsen**, 2012–2015
Morten Lund, 2012–2015
Alternate: **Torunn Hovde Kaasa**, 2012–2015
Synnøve Søndergaard, 2010–2013
Alternate: **Britt Hildeng**, 2010–2013
Reidar Åsgård, 2010–2013
Alternate: **Kari-Anne Opsal**, 2010–2013
Erland Vestli, 2010–2013
Alternate: **Jan Blomseth**, 2010–2013
Marianne Lie, 2010–2013
Alternate: **Lars Gjedebo**, 2010–2013
Monica Salthella, 2010–2013
Alternate: **Lars Haakon Søraas**, 2010–2013
Randi Øverland, 2012–2015
Alternate: **Anne Grethe Kvernrød**, 2012–2015
Vidar Bjørnstad, 2012–2015
Alternate: **Hans Kolstad**, 2012–2015
Tine Sundtoft, 2012–2015
Alternate: **André Støylen**, 2012–2015
Ingebrigt S. Sørfonn, 2012–2015
Alternate: **Solveig Ege Tengesdal**, 2012–2015

Office of the Supervisory Council

Svenn Erik Forsstrøm, Director

Central Banking Operations

Governor Øystein Olsen
Deputy Governor Jan F. Qvigstad

Financial Stability
Executive Director
Amund Holmsen

Markets and Banking Services
Executive Director
Kristin Gulbrandsen

Monetary Policy
Executive Director
Birger Vikøren

Corporate and Shared Services
Executive Director
Jannecke Ebbesen

General Secretariat
Executive Director
Jon Nicolaisen

Director of Communications
and External Relations
Siv Meisingseth

General Counsel
Marius Ryel

Norges Bank Investment Management

Chief Executive Officer Yngve Slyngstad
Deputy Chief Executive Officer Trond Grande

Administration
Chief of Staff
Trond Grande

Investment, allocation and fixed income
CIO Allocation
Yngve Slyngstad

Investment, equities
CIO Equities
Petter Johnsen

Operations
Chief Operating Officer
Age Bakker

Investment, real estate
CIO Real Estate
Karsten Kallevig

Risk Management
Chief Risk Officer
Jan Thomsen

Trading and Treasury
Chief Treasurer
Jessica Irschick

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