NORGES BANK
ANNUAL REPORT

/2018

Our mission

Norges Bank's mission is to promote economic stability and manage substantial assets on behalf of the Norwegian people.

The Bank conducts monetary policy, monitors the stability of the financial system and promotes robust and efficient payment systems and financial markets.

Norges Bank is responsible for the management of Norway's foreign exchange reserves and the management of the Government Pension Fund Global (GPFG) on behalf of the government. The investment strategy of the GPFG is designed to obtain the highest possible return within the framework of the investment mandate.

This is Norges Bank

Norges Bank is Norway's central bank.

The foundation of Norges Bank in 1816 was an important part of the nation-building process following the dissolution of the union with Denmark. The Storting (Norwegian parliament) gave the central bank two main tasks: to issue a Norwegian currency, the speciedaler, and to extend credit to firms and private individuals.

Today, Norges Bank no longer extends credit. On the other hand, the Bank has been assigned a number of other tasks that it performs on behalf of the Norwegian people. The Bank has executive and advisory responsibilities in the area of monetary policy, manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG) and is responsible for promoting efficient and robust payment systems and financial markets. In addition, the Bank has the sole right to issue Norwegian banknotes and coins, as has always been the case.

Norges Bank normally sets the policy rate eight times a year. The operational target of monetary policy is low and stable inflation, with annual consumer price inflation of close to 2.0% over time. As part of its work to promote stability in the financial system, the Bank has been assigned responsibility for preparing a decision basis and providing advice to the Ministry of Finance regarding the level of the countercyclical capital buffer requirement imposed on banks.

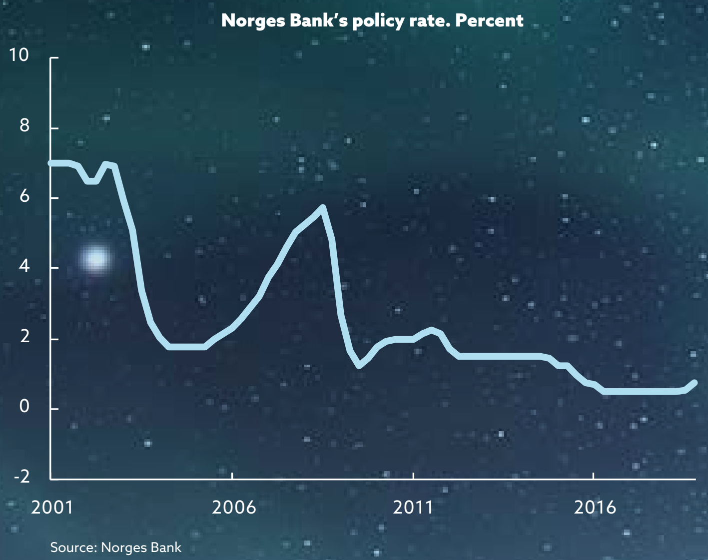
The Bank is responsible for the management of the GPFG. The objective is to achieve the highest possible return net of costs within the framework of the investment mandate.

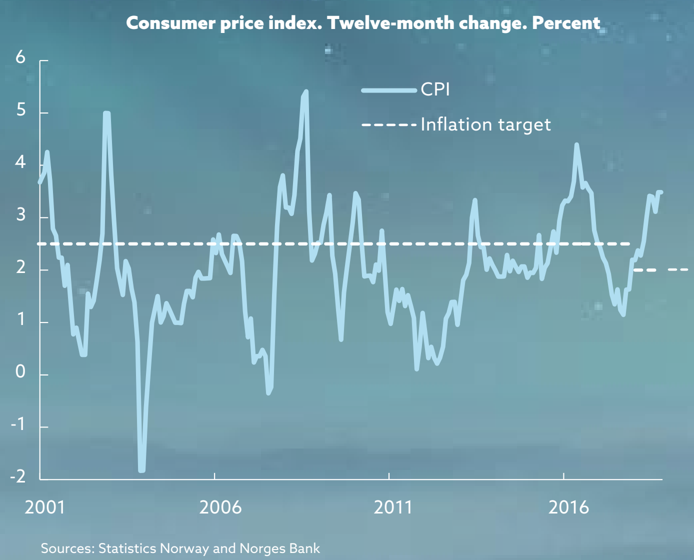
Even though Norges Bank acts on behalf of the government and the nation, the Bank plays an independent role in the Norwegian state system.

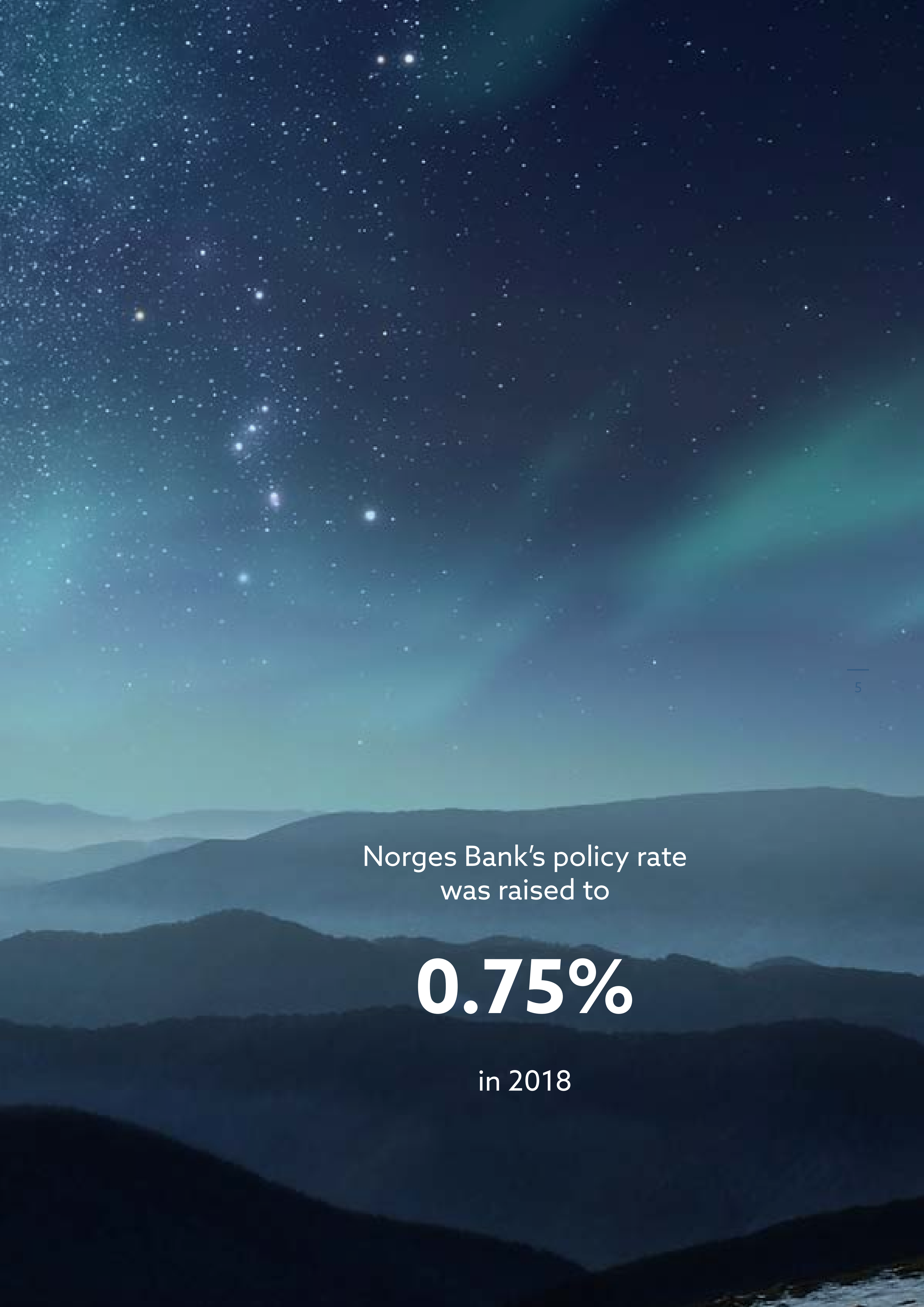
Our vision and our values

Norges Bank is committed to being a transparent and well-run central bank. We aim to be at the forefront of monetary policy innovation and payment system modernisation. We are responsible for safeguarding and building financial wealth for future generations. We pursue a policy of open and active communication to promote understanding of the Bank's role and the performance of its tasks.

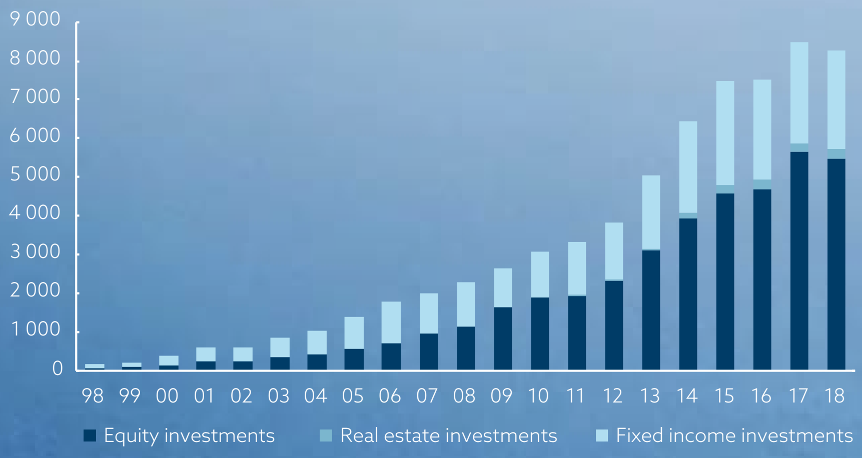
The Bank's core values are team spirit, integrity, innovation and excellence. We aim to maintain a cost-efficient and prudent use of resources and to provide good working conditions, exercise ownership rights responsibly and be environmentally conscious.


Norges Bank's policy rate. Percent
10
8
6
4
2
0
-2
2001
2006
2011
2016
Source: Norges Bank


Consumer price index. Twelve-month change. Percent
CPI
Inflation target
6
5
4
3
2
1
0
-1
-2
2001
2006
2011
2016
Sources: Statistics Norway and Norges Bank


Norges Bank's policy rate
was raised to
0.75%
in 2018

Market value of the Government Pension Fund Global. In billions of NOK



The market value of the Government Pension Fund Global was

NOK 8 256bn

at the end of 2018

In Norges Bank's
electronic settlement system,
interbank payments totalling on average

NOK 248bn

were settled daily in 2018

	2014	2015	2016	2017	2018
Change over past five years	**213**	**219**	**221**	**236**	**248**

	2014	2015	2016	2017	2018
Employees	**763**	**856**	**923**	**922**	**953**
Employees, Norges Bank Central Banking Operations	**327**	**330**	**347**	**342**	**345**
Employees, Norges Bank Investment Management	**428**	**518**	**568**	**573**	**601**

Norges Bank has

953 permanent employees

from 38 countries

Strategy for 2017–2019

and status report

The strategy for 2017–2019 identified the challenges facing Norges Bank at the start of the strategy period. The following is a brief status report on the action Norges Bank has taken so far to meet these challenges.

MONETARY POLICY INNOVATION IN A WORLD OF LOW INTEREST RATES

Challenge

The global economy is characterised by moderate growth, low inflation and low interest rates. The Norwegian economy is also feeling the effects of restructuring following the decline in petroleum sector investment. Confidence in the inflation target has enabled monetary policy to facilitate restructuring following the fall in oil prices, but the Norwegian economy remains vulnerable. The financial crisis has challenged economic thinking and led to a debate about the framework for monetary policy in many countries.

Actions

Norges Bank was assigned a new monetary policy mandate in 2018. The mandate is based on Norges Bank's analysis of inflation targeting experience in Norway. The Bank focused on increasing the relevance and quality of model-based monetary policy analysis and started work to establish general principles for liquidity policy.

FINANCIAL STABILITY AFTER THE FINANCIAL CRISIS

Challenge

The repercussions of the financial crisis continue to affect the global economy. Low and negative policy rates, low long-term interest rates and the expansion of central bank balance sheets in many countries are creating challenges to global and domestic financial stability. The Norwegian economy is vulnerable to future shocks owing to high property price inflation over time and the level of household debt.

Actions

In December 2018, Norges Bank recommended increasing the countercyclical capital buffer to 2.5%, with effect from 31 December 2019. The Bank started work on revising the decision-making basis for the countercyclical capital buffer, including stress tests. The microdata underlying the Bank's advice, decisions and assessments in the areas of financial stability and macroprudential policy were expanded in terms of quality, relevance and volume. The use of different types of microdata to shed light on monetary policy and macroprudential issues was strengthened, boosting analytical capacity.

The Bank also joined an expert group established by the European Systemic Risk Board to develop a framework for the overall assessment of the macroprudential stance.

AN EFFICIENT AND MODERN PAYMENT SYSTEM

Challenge
Payment system technology is developing at a rapid pace. Payments are increasingly made electronically based on customer deposits, while access to cash has diminished. Several central banks are assessing whether to offer payment solutions using electronic central bank money. Cybercrime is on the rise and constantly poses new challenges.

Actions
The issuance of a new and more secure banknote series is on schedule. The new 100-krone and 200-krone notes were put into circulation in 2017, while the 500-krone note was issued in autumn 2018. Work on the 1000-krone note is proceeding as planned.

A joint project was launched in collaboration with the banking industry to facilitate real-time payments by the end of 2019.

The first report on central bank digital currencies (CBDC) was released, providing an overview of the relevant factors in an assessment of whether a CBDC should be introduced in Norway.

The continuity plan and the training programme to strengthen contingency arrangements for the payment system were further developed, and the IT security function that provides security monitoring and incident management 24 hours a day was strengthened.

A TRANSPARENT, PREDICTABLE AND ACCESSIBLE CENTRAL BANK

Challenge
To maintain confidence in the way Norges Bank accomplishes its tasks, transparency with regard to all the Bank's activities is essential. Openly communicating our decisions and response patterns enhances predictability and understanding. In a rapidly changing media landscape, there is an increasing need for available and accessible information about the Bank's tasks and performance. By pursuing a policy of open communication, we can foster knowledge-based societal debate.

Actions
The number of interest rate decisions was increased from six to eight per year and the minutes from the Executive Board's monetary policy meetings are now published on an ongoing basis. The content of the minutes is included in the Executive Board's assessment, which is published at the same time as the interest rate decision. Previously, the minutes remained confidential before they could be released with a 12-year lag.

To simplify monetary policy and financial stability communication, Norges Bank added a visual online summary in Norwegian of the *Monetary Policy Report* entitled *Kort fortalt* [In brief], which is particularly tailored to social media. The Bank also launched the *Bankplassen* blog, a blog for Norges Bank staff to share views about current issues.

Strategy for 2017–2019

LONG-TERM AND RESPONSIBLE MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL

Challenge
The value of the Government Pension Fund Global (GPFG) has increased considerably in recent years and is now more than 2.5 times higher than mainland GDP. The investment strategy has been developed over time based on solid financial principles and practical experience within investment management. The complexity of the GPFG management assignment has increased while management costs have been kept at a low level compared with similar funds. The GPFG is a long-term and responsible investor with ownership stakes in more than 9 000 companies in over 70 countries. The return on the GPFG is of growing importance for the Norwegian economy. At the same time, there are demands for greater governance and control, transparency, accountability and professionalism in the performance of the management assignment.

Actions
In the period 1998–2018, the annual return on the GPFG averaged 5.47%. In 2017, the overall return on the GPFG outstripped the benchmark index by 0.7 percentage point, while the return in 2018 was 0.3 percentage point lower than the benchmark index.

Norges Bank advises the Ministry of Finance on the investment strategy and published its advice in 2017 and 2018 on a total of 18 occasions.

Under the amendment to the investment management mandate issued by the Ministry of Finance, which came into effect on 1 January 2017, Norges Bank determines the level of investment in real estate and the type of real estate the GPFG should be invested in. The benchmark portfolio was further developed to reflect this. The GPFG's unlisted real estate investments accounted for 3% of the GPFG at the end of 2018.

In 2017 and 2018, the GPFG participated in 30 public consultations related to responsible investment management. Norges Bank also expressed clear expectations to investee companies on transparency and tax, anti-corruption work and the use of ocean resources. Four position papers were published on specific corporate governance issues.

OUR MOST IMPORTANT RESOURCE IS OUR STAFF

Challenge
Norges Bank is a knowledge-based institution with high employee knowledge and performance standards. We compete for the best candidates from leading national and international institutions. The Bank facilitates employee development in the face of new challenges.

Actions
Virtually all of Norges Bank's managers completed a management programme. In addition, all employees of Norges Bank Central Banking Operations (NBCBO) were offered a course in self-management, while Norges Bank Investment Management (NBIM) further developed its performance culture and international investment organisation.

A new salary and promotion system for all employees was introduced in NBCBO linked to individual performance and Norges Bank's values: team spirit, integrity, innovation and excellence. The management of the GPFG is a complex mission. NBIM has further developed the international investment culture that is necessary to manage a fund invested in many parts of the world.

Continued efforts to promote gender balance and diversity in the organisation included choosing female economists to promote Norges Bank at educational institutions, and internal and external female candidates were actively encouraged to apply for vacant executive positions and assume responsibility for important projects and reports.

A WELL-RUN CENTRAL BANK

Challenge
Norges Bank's use of resources must be cost-efficient, prudent and commensurate with the Bank's tasks. In the current international threat landscape, where intelligence agencies, advanced organised crime and terrorism play a significant role, Norges Bank must conduct its tasks with a high degree of security for its personnel, functions and systems.

Actions
Several external cost comparisons were conducted, comparing the Bank's use of resources with that of other similar organisations: for expenses related to the management of the GPFG, the use of resources in NBCBO and management costs for unlisted real estate. To ensure a cost-efficient organisation, a project was initiated to assess the organisation of administrative functions.

The Bank has developed an environmental strategy and started work to certify the Bank's operations through the Norwegian Eco-lighthouse certification scheme.

A crisis response exercise plan was drawn up and regular contingency exercises were conducted. A threat analysis capacity and an awareness programme were established, and all employees complete security training on a regular basis.

Contents

2018

Front cover: A class from Oslo Handelsgymnasium (Oslo Commerce School), an upper secondary school, visiting the Norges Bank Education Centre.
Pupils Johannes Bretteville-Jensen, Christian Fredrik Engebretsen and Henriette Hannisdal playing the Centre's interactive game.

1

ANNUAL REPORT OF THE EXECUTIVE BOARD

2

SPECIAL FEATURE

3

NORGES BANK'S ANNUAL FINANCIAL STATEMENTS

Governance of Norges Bank

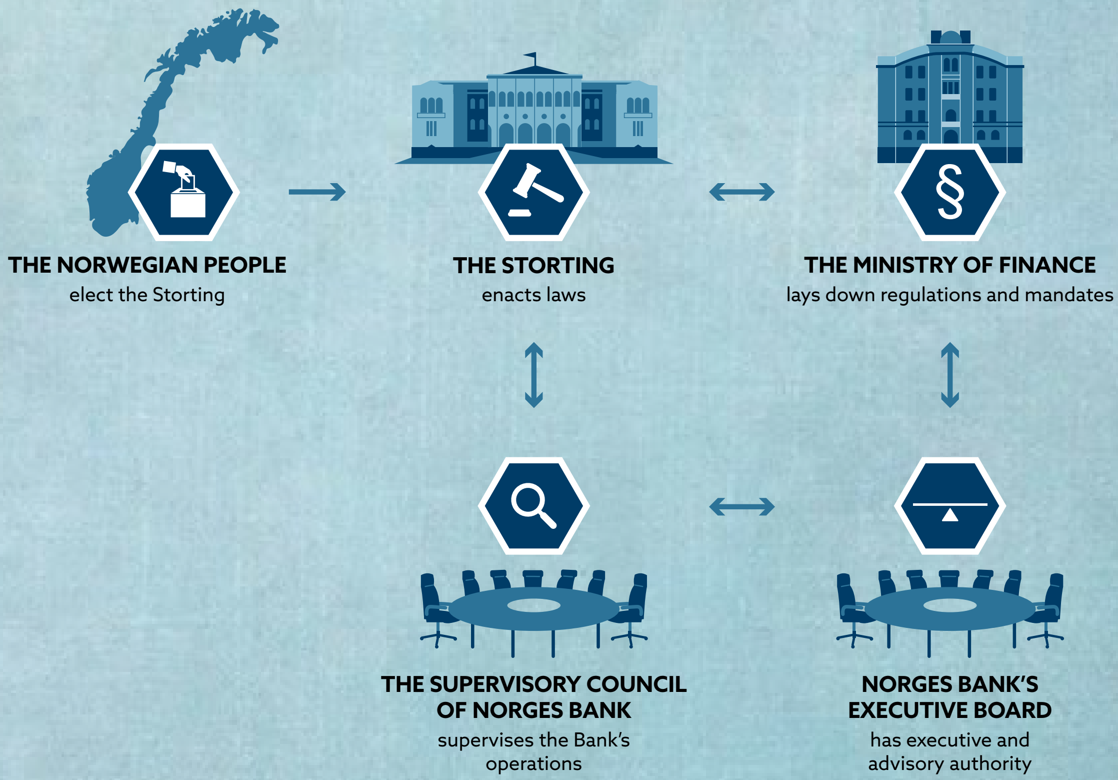
Norges Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act). The Act states that Norges Bank is to be an executive and advisory body for monetary, credit and foreign exchange policy. The Bank is required to issue banknotes and coins, promote an efficient payment system domestically and vis-a-vis other countries, and monitor developments in the money, credit and foreign exchange markets. Norges Bank's management of the Government Pension Fund Global (GPFG) is regulated by the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

Norges Bank's highest decision-making bodies are the Executive Board and the Supervisory Council.

The Executive Board is appointed by the King in Council and is responsible for the Bank's executive and advisory activities. With a total of 12 members, including two alternates and two employee representatives, the Board is responsible for operationalising the targets set for Norges Bank by the authorities, including price stability, financial stability and generating added value in our management of the GPFG. The Board ensures the sound organisation of the Bank's operations, draws up the strategy for Norges Bank and annually prepares a draft budget for the coming financial year, the annual report and the financial statements. The Board also ensures that the Bank's operations, accounts and asset management are subject to adequate control, including appropriate risk management and internal control systems. Internal Audit provides the Executive Board with independent assessments of risk management and internal control.

Norges Bank's Supervisory Council is appointed by the Storting (Norwegian parliament) and comprises 15 members. The Supervisory Council is Norges Bank's supervisory body and has primary responsibility for overseeing the Bank's operations and compliance with formal frameworks. The Council adopts Norges Bank's annual budget and financial statements and selects the auditor. The Supervisory Council is served by a General Secretariat, which performs secretariat and supervisory tasks.

The Governor of Norges Bank is responsible for the Bank's administration and the implementation of decisions. The Deputy Governors are First and Second Deputy Chairs of the Executive Board. Responsibility for the management of the GPFG is assigned to Norges Bank Investment Management (NBIM). The Executive Board has delegated decision-making authority directly to the CEO of NBIM through the job description for this post and the investment management mandate.


THE NORWEGIAN PEOPLE
elect the Storting
THE STORTING
enacts laws
THE MINISTRY OF FINANCE
lays down regulations and mandates
THE SUPERVISORY COUNCIL OF NORGES BANK
supervises the Bank's operations
NORGES BANK'S EXECUTIVE BOARD
has executive and advisory authority

Risk management and internal control

Norges Bank carries out systematic risk management and internal control. Pursuant to the regulation on risk management and internal control at Norges Bank, regular reviews of significant risks for all areas of activity are conducted based on defined targets and strategies. The Bank's managers continuously assess internal governance, and a summarised assessment of internal governance across all areas of the Bank's operations is made once a year.

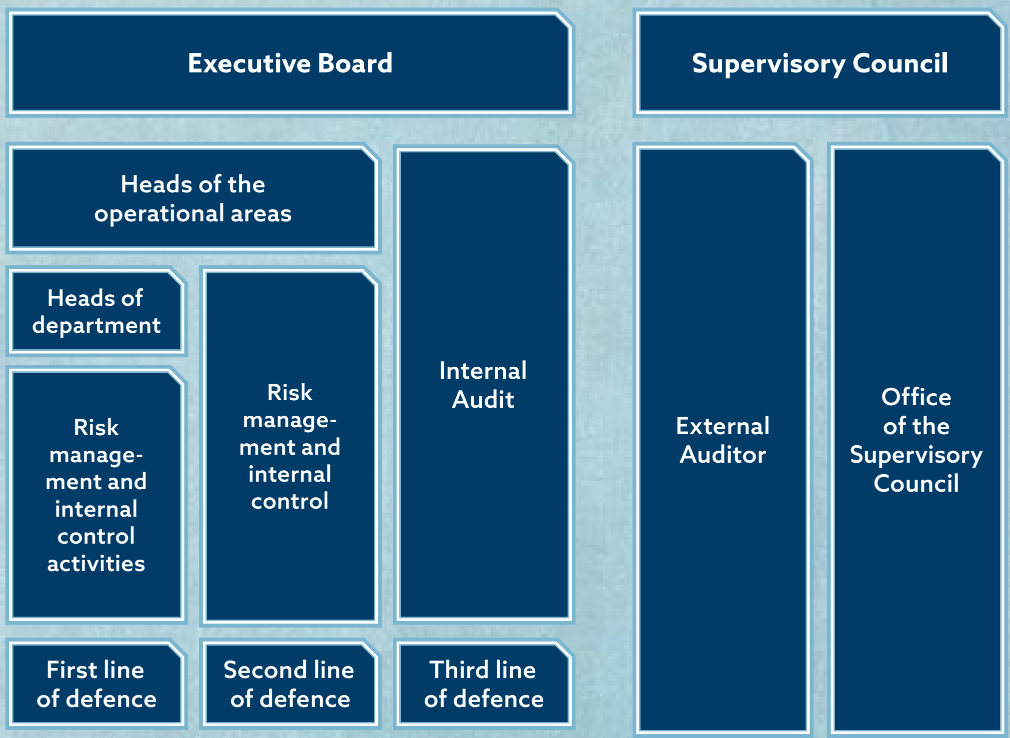
The Executive Board has the primary responsibility for risk management and for the sound organisation of Norges Bank. Internal Audit supports the Executive Board in its exercise of this responsibility and submits an annual independent assessment of risk management and internal control to the Executive Board.

The division of roles and responsibilities within Norges Bank's risk management system is organised along "three lines of defence":

> *First line of defence:* Staff responsible for operative risk management and control activities. All managers are responsible for risk management within their areas of responsibility and authority. Risk assessment and compliance are required to be an integral part of the Bank's business processes, including the management of outsourced services. The first line of defence reports to the head of the relevant department.
>
> *Second line of defence:* The key risk management and compliance functions advise and support the departments. Their responsibility is to challenge the assessments made by the first line of defence and monitor the first line of defence to ensure that appropriate controls are carried out. These functions coordinate reporting to the Bank's executive management and the Executive Board. The second line of defence reports to the head of the operational area.
>
> *Third line of defence:* Internal Audit reports to the Executive Board and is required to assess, independently of the administration, whether risk management and compliance function as intended. The annual audit plan is approved by the Executive Board, and the head of Internal Audit reports to the Executive Board.

This system provides for a satisfactory division of responsibilities between decision-makers and controlling and reporting functions and their independence.

The Supervisory Council of Norges Bank, which reports directly to the Storting (Norwegian parliament), supervises the Executive Board's management and control of Norges Bank. The members of the Supervisory Council are appointed by the Storting. The Council's area of responsibility includes approving the budget proposed by the Executive Board, adopting the annual accounts prepared by the Executive Board and selecting the Bank's auditor, and approving the auditor's plans and expenses. The Supervisory Council submits an annual report to the Storting.


Executive Board
Supervisory Council
Heads of the operational areas
Heads of department
Risk manage-ment and internal control activities
Risk manage-ment and internal control
Internal Audit
External Auditor
Office of the Supervisory Council
First line of defence
Second line of defence
Third line of defence

Norges Bank's Executive Board

The Executive Board comprises eight members, all appointed by the King in Council. The Governor is Chair and the two Deputy Governors are First Deputy Chair and Second Deputy Chair of the Executive Board. The other five members are not on the staff of Norges Bank. There are also two alternates for the external members. The alternates attend and have voting rights in administrative matters. Two employee representatives attend Executive Board meetings when matters concerning the Bank's internal operations and conditions for the staff are discussed, and the Executive Board then has twelve members.

The Executive Board has four preparatory and advisory subcommittees, whose work strengthens and streamlines the Executive Board's discussions:

STANDING FROM LEFT: Kjersti-Gro Lindquist, Egil Matsen, Kristine Landmark, Jon Nicolaisen, Øystein Olsen, Steinar Juel, Kjetil Storesletten, Karen Helene Ulltveit-Moe, Arne Hyttnes and Mona Helen Sørensen

SITTING FROM LEFT: Kristine Ryssdal and Kathryn Moore Baker

Audit Committee
The Audit Committee was established in 2006. The Committee's tasks focus on the monitoring, supervision and control of Norges Bank's financial reporting, operational risk, compliance, and risk management and internal control systems. The Audit Committee comprises three members and Internal Audit serves as the Committee's secretariat.

The Audit Committee meets with the external auditor at least once a year, without the participation of Norges Bank's executive management or administration.

Remuneration Committee
The Remuneration Committee was established in 2009 to contribute to thorough and independent discussions of matters pertaining

to Norges Bank's salary and remuneration schemes. The Committee comprises three members, and the General Secretariat functions as the Committee's secretariat.

Ownership Committee
The Ownership Committee was established in 2015 and is a preparatory committee for the Executive Board in matters relating to Norges Bank's responsible investment and decisions about the observation and exclusion of companies from the investment universe of the Government Pension Fund Global (GPFG), within the framework provided in the Ministry of Finance's management mandate for the GPFG and the Ministry's guidelines for the observation and exclusion of companies from the GPFG investment universe.

The Ownership Committee comprises three members and is chaired by a Deputy Governor of Norges Bank. NBIM functions as the Committee's secretariat.

The Ownership Committee has a meeting with the Chair of the Council on Ethics for the GPFG at least once a year.

Risk and Investment Committee
The Risk and Investment Committee was established in 2015 to strengthen and improve the efficiency of the Executive Board's work related to investment strategy, current exposure, performance assessment, determination and use of risk limits, and major investment decisions.

The Risk and Investment Committee comprises three members and is chaired by a Deputy Governor of Norges Bank. NBIM functions as the Committee's secretariat.

MEMBERS OF THE EXECUTIVE BOARD

Øystein Olsen

Re-appointed Governor of Norges Bank and Chair of the Executive Board on 1 January 2017 for a second six-year term. Øystein Olsen has held this post since 1 January 2011.

His work experience includes posts as Director General of Statistics Norway and Director General at the Ministry of Finance. He also chaired or was a member of several government-appointed commissions. Øystein Olsen holds a postgraduate degree in economics (Cand. oecon.) from the University of Oslo.

Jon Nicolaisen

Appointed Deputy Governor and First Deputy Chair of the Executive Board on 1 April 2014 for a term of up to six years.

Jon Nicolaisen focuses on central banking operations and has particular responsibility for financial stability. His work experience includes posts as Principal Officer and Deputy Head of the Economic Policy Department of the Ministry of Finance, Head of Section at the OECD Secretariat and Executive Director of Norges Bank Monetary Policy. Jon Nicolaisen holds a postgraduate degree in economics (Cand. oecon.) from the University of Oslo.

Egil Matsen

Appointed Deputy Governor and Second Deputy Chair of the Executive Board on 18 January 2016 for a term of up to six years. Chair of the Risk and Investment Committee and the Ownership Committee of the Executive Board.

Egil Matsen has particular responsibility for following up on matters submitted to the Executive Board concerning Norges Bank Investment Management. He holds the position of professor and Head of the Department of Economics at the Norwegian University of Science and Technology (NTNU) and was formerly a Fulbright Fellow at Harvard University and a researcher at Norges Bank. His main research interests are macroeconomics, finance and behavioural economics. Egil Matsen holds a PhD in economics from the NHH Norwegian School of Economics.

Kjetil Storesletten

Appointed board member for the period 1 January 2014 – 31 December 2021. Member of the Risk and Investment Committee of the Executive Board.

Kjetil Storesletten holds a professorship at the Department of Economics, University of Oslo. He was previously affiliated with Stockholm University and the Federal Reserve Bank of Minneapolis. Professor Storesletten is President of the European Economic Association and Fellow of the Econometric Society. He was also a member of the Thøgersen commission appointed by the government to assess whether the Government Pension Fund Global should be invested in energy stocks. His main research interests are macroeconomics and financial economics, with an emphasis on risk sharing and asset pricing in financial markets. Kjetil Storesletten holds a degree in economics and business administration from the NHH Norwegian School of Economics and a PhD in economics from Carnegie Mellon University.

Karen Helene Ulltveit-Moe

Appointed board member for the period 1 January 2014 – 31 December 2021. Chair of the Audit Committee and member of the Ownership Committee of the Executive Board.

Karen Helene Ulltveit-Moe holds a professorship at the Department of Economics of the University of Oslo and is Research Fellow at the Centre for Economic Policy Research (CEPR) and CESifo. She was formerly affiliated with the NHH Norwegian School of Economics and has extensive experience as board member in a number of companies, including Unitor, the Kverneland Group, the Renewable Energy Corporation (REC), Norwegian Property and Gassnova. She was also a member of the Board of Representatives at Storebrand and the corporate assembly at Norsk Hydro and Norske Skog. Professor Ulltveit-Moe also chaired or was a member of several government-appointed commissions, including the Norwegian Government Commission on Tax Policy, the Financial Crisis Commission, the Norwegian Government Commission assessing the impact of Norway's agreement with the EU and the Norwegian Government Commission on Working Time. Her main research interests are in international economics, productivity analysis, tax policy and industrial policy. Professor Ulltveit-Moe holds an MSc in economics from the University of Mannheim and a PhD in economics from the NHH Norwegian School of Economics.

Kathryn Moore Baker

Appointed board member for the period 1 January 2016 – 31 December 2019. Member of the Audit Committee and the Risk and Investment Committee of the Executive Board.

Kathryn Moore Baker has extensive board experience, including board member at Akastor and DOF and Chair of the Board at Catena Media. She was previously a partner at the private equity company Reiten & Co. and a consultant at McKinsey & Company. She was also chair of the board at Norsk Venturekapitalforening (NVCA), Safe Road and Europrocessing International and board member at Data Respons and BW Gas, among others. Kathryn Moore Baker holds a BA in economics from Wellesley College and an MBA from the Tuck School of Business at Dartmouth College.

Steinar Juel

Appointed board member for the period 1 January 2016 – 31 December 2019. Member of the Audit Committee and the Remuneration Committee of the Executive Board.

Steinar Juel is senior economist at Civita. He has extensive experience from Kreditkassen/Nordea, primarily as chief economist. He previously held positions at Norges Bank, the Ministry of Finance, the Norwegian Bankers' Association and the EFTA Secretariat in Geneva and was personal adviser to finance ministers Rolf Presthus and Arne Skauge. Steinar Juel holds a postgraduate degree in economics (Cand. oecon.) from the University of Oslo.

Kristine Ryssdal

Appointed board member for the period 1 January 2018 – 31 December 2021. Member of the Ownership Committee of the Executive Board.

Kristine Ryssdal is General Counsel at Yara International ASA. Other previous professional experience includes the positions of Vice President Legal at Statoil, Chief Legal Officer at the Renewable Energy Corporation (REC) and Legal Counsel at Norsk Hydro. In addition, she served for several years as an attorney at the Office of the Attorney General. She is a member of the board at Borregaard ASA, previously held various board positions in the REC group and was a member of Kommunalbanken Norway's Supervisory Board. Kristine Ryssdal holds a degree in law (Cand. jur.) from the University of Oslo and a Master of Laws from the London School of Economics. She is also qualified to appear before the Supreme Court.

Arne Hyttnes, First alternate

Appointed for the period 4 March 2016 – 31 December 2019. Chair of the Remuneration Committee of the Executive Board.

Arne Hyttnes has extensive experience from the financial industry, including positions at DnC/DnB, the Norwegian Savings Banks Association, Finance Norway and the Norwegian Banks' Guarantee Fund. He was managing director of the Norwegian Industrial and Regional Development Fund for four years and also has board experience from the NHH Norwegian School of Economics and "Ungt Entreprenørskap", a non-profit organisation to promote cooperation between schools and the business sector. Arne Hyttnes holds a degree in economics and business administration from the NHH Norwegian School of Economics.

Kristine Landmark, Second alternate

Appointed for the period 4 March 2016 – 31 December 2019. Member of the Remuneration Committee of the Executive Board.

Kristine Landmark has extensive business sector experience, including previous positions at Sunnmørsbanken and as managing director of Stokke AS and the Slettvoll furniture company. She currently holds various positions of responsibility and is on the board of Hexagon Composites, Arendals Fossekompani, Norway Royal Salmon, Plantasjen, Flokk/Scandinavian Business Seating and Ratos AB. Kristine Landmark holds a degree in economics and business administration from the NHH Norwegian School of Economics.

EMPLOYEE REPRESENTATIVES

Mona Helen Sørensen

Employee representative for the period 1 January 2017– 31 December 2020.

Norges Bank employee since 1991. Chair and chief union representative of the Finance Sector Union of Norway at Norges Bank from 1 January 2016. Mona Sørensen holds a degree in economics and administration and an Executive Master of Management with a specialisation in applied organisational psychology from the BI Norwegian Business School. Robert Kjørholt Leirpoll is alternate for Mona Sørensen.

Kjersti-Gro Lindquist

Employee representative for the period 1 August 2018 – 31 December 2020.

Norges Bank employee 2000–2009, and from 2012. Kjersti-Gro Lindquist holds a PhD in economics from the University of Oslo. Kristoffer Haugen is alternate for Kjersti-Gro Lindquist.

The composition of the Executive Board was changed on 1 August 2018. Kjersti-Gro Lindquist replaced Nina Larsson Midthjell as employee representative.

Work of the Executive Board

The Executive Board is responsible for both operational areas of the Bank. The Board's tasks and the matters considered at its meetings thus span a wide range of issues.

In recent years, the Executive Board has had 16 to 18 meetings per year and considered close to 250 matters. Meetings also take the form of a seminar for more in-depth presentations and discussions with the administration on the premises for important matters on the Board's agenda. The seminars largely focus on topics within monetary policy, financial stability and investment management. In addition, the Executive Board's four subcommittees spend in the order of 50 to 60 hours per year preparing selected matters to be considered by the Executive Board. The bar diagram shows that the Executive Board's time is relatively evenly distributed between Norges Bank Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM).

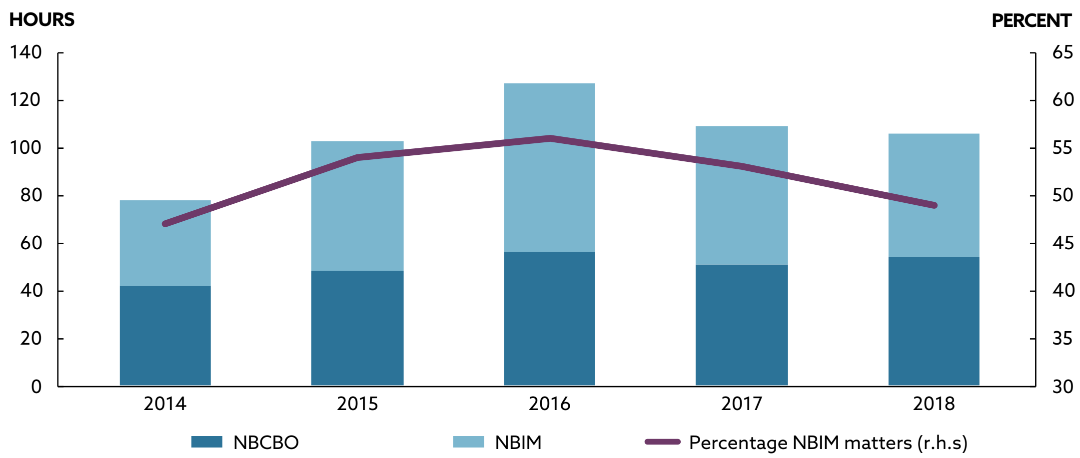
The chart below shows a selection of key matters considered by the Executive Board in 2018.

DISTRIBUTION OF TIME, EXECUTIVE BOARD 2014–2018

	2014	**2015**	**2016**	**2017**	**2018**
Number of Executive Board meetings	14	16	17	17	18
Number of Executive Board seminars	8	9	11*	9	10
Number of matters considered by the Executive Board	180	218	248	248	232
Total time spent in meetings and seminars	**78 hours**	**103 hours**	**127 hours***	**108 hours**	**107 hours**
Preparatory committee meetings:					
- Audit Committee	5	7	7	7	7
- Remuneration Committee	4	2	3	4	6
- Ownership Committee	-	7	7	5	5
- Risk and Investment Committee	-	7	10	9	6
Total time spent in committee meetings	**25 hours**	**44 hours**	**72 hours**	**56 hours**	**45 hours**

* Extra time was spent discussing the strategy for Norges Bank for the period 2017–2019, including a three-day strategy seminar.

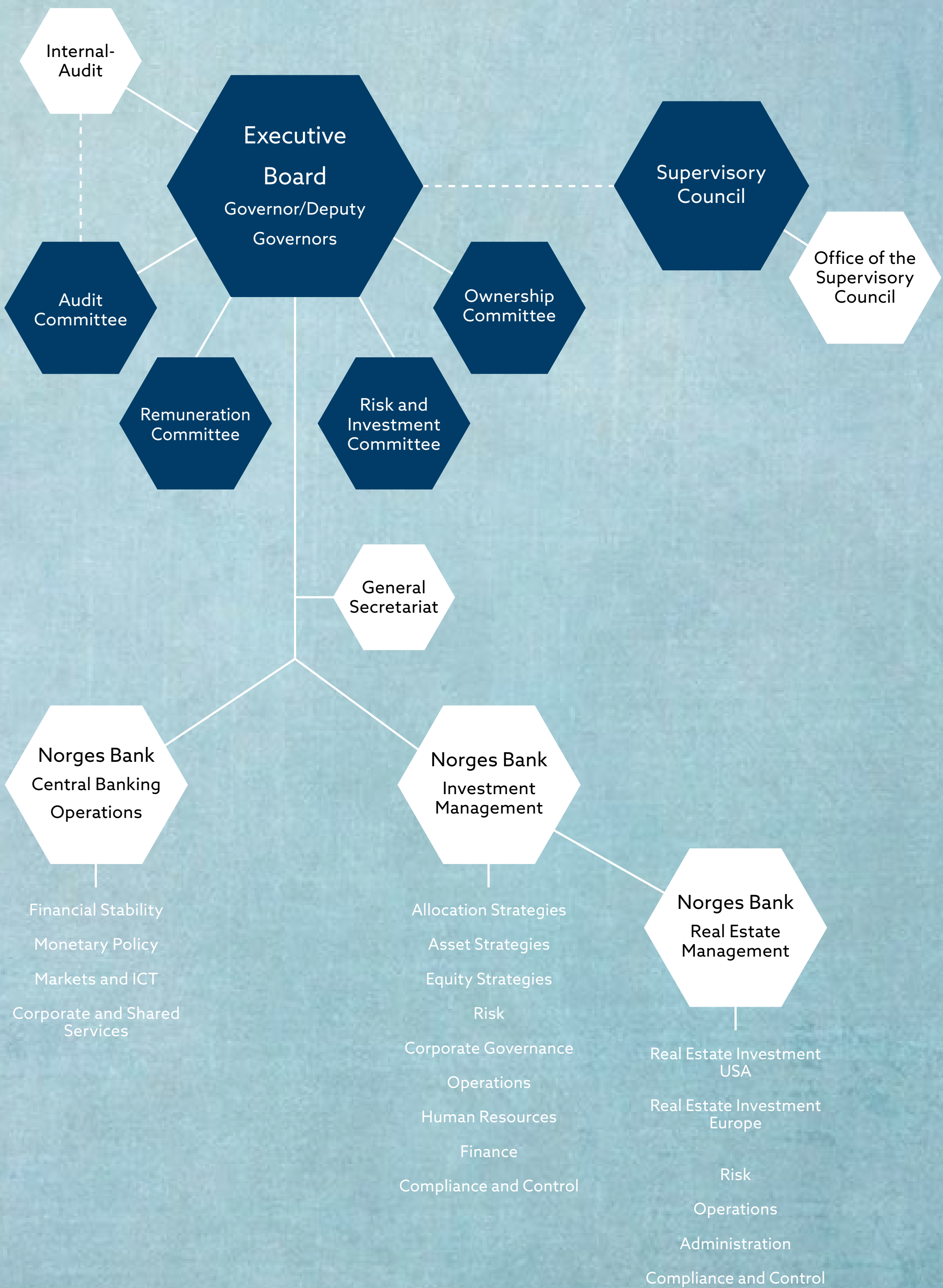
TIME SPENT ON MATTERS RELATING TO NBCBO AND NBIM



KEY MATTERS CONSIDERED BY THE EXECUTIVE BOARD IN 2018

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Decisions											
Policy rate decision		Policy rate decision/ Monetary Policy Report		Policy rate decision	Policy rate decision/ Monetary Policy Report		Policy rate decision	Policy rate decision/ Monetary Policy Report	Policy rate decision		Policy rate decision/ Monetary Policy Report
		Advice on the counter-cyclical buffer			Advice on the counter-cyclical buffer			Advice on the counter-cyclical buffer			Advice on the counter-cyclical buffer
	Decisions on observation and exclusion of companies from the GPFG				Decisions on observation and exclusion of companies from the GPFG				Decisions on observation and exclusion of companies from the GPFG		
				Financial Infrastructure Report					Financial Infrastructure Report		
Strategy and governance											
								Strategy work			
							Budget				
							Organisation				
	New regulation on monetary policy										
Strategy and advice on investment management			Strategy and advice on investment management				Strategy and advice on investment management				
		Statements and consultations relating to NBCBO						Statements and consultations relating to NBCBO			
Reporting, control and follow-up											
Quarterly reporting – GPFG and Norges Bank's foreign exchange reserves							Quarterly reporting – GPFG and Norges Bank's foreign exchange reserves				
Semi-annual reporting – NBCBO and Norges Bank							Semi-annual reporting – NBCBO and Norges Bank				
Annual reporting – Norges Bank and GPFG											
		Annual reporting on core central bank tasks									
Supervisory and audit follow-up		Supervisory and audit follow-up					Supervisory and audit follow-up				
				Self-evaluation by the Executive Board							
Day-to-day operation and follow-up of NBCBO and NBIM					Day-to-day operation and follow-up of NBCBO and NBIM						

ORGANISATION CHART NORGES BANK



Annual Report of the Executive Board

Norges Bank's mission is to promote economic stability and manage substantial assets on behalf of the Norwegian people. The Bank conducts monetary policy, monitors financial system stability and promotes robust and efficient payment systems and financial markets. Norges Bank manages the Bank's foreign exchange reserves and the Government Pension Fund Global (GPFG) on behalf of the government. The investment strategy of the GPFG is designed to obtain the highest possible return over time within the framework of the investment mandate.

2018 was an eventful year for Norges Bank. On 2 March, the Government laid down a new regulation on monetary policy with a new inflation target. The operational target is now annual consumer price inflation of close to 2% over time.

On 19 October, the Government submitted a white paper on a new central bank act. This was an important step in clarifying key questions regarding Norges Bank's mandate, responsibilities and organisation. The Government proposes that the GPFG should remain within Norges Bank and that an expert committee should be established to strengthen the work on monetary policy and financial stability. The Storting endorsed the white paper in February 2019.

In September, Norges Bank raised its policy rate for the first time in seven years. If the economy develops as was then envisaged by the Bank, this will be the start of a gradual interest rate normalisation. There has been solid economic growth in recent years and the labour market has been improving. The upturn among Norway's trading partners has contributed to lifting growth in Norway.

At the same time, financial system vulnerabilities in Norway are assessed as having increased over the past year, primarily owing to rising commercial property prices. On 13 December 2018, Norges Bank advised the Ministry of Finance to increase the countercyclical capital buffer from 2.0% to 2.5%, effective from 31 December 2019. The Ministry of Finance decided to follow the Bank's advice.

The GPFG's return before management costs was -6.1% measured in the fund's currency basket in 2018. Measured over the period 1998–2018 as a whole, the annual return on the GPFG was 5.5%. The annual net real return, after deductions for inflation and management costs, was 3.6% in this period.

Monetary policy

The Government laid down a new monetary policy regulation on 2 March 2018. The operational target is now annual consumer price inflation of close to 2% over time. Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances. The new regulation clarifies the monetary policy mandate and underpins the Bank's flexible approach to inflation targeting.

Economic growth was solid among Norway's trading partners in 2018, but slowed somewhat in the course of autumn. The slowdown partly reflected tighter financial conditions and heightened uncertainty owing to trade tensions. Unemployment continued to fall in many countries and wage growth picked up somewhat. Inflation also picked up, mainly as a result of higher energy prices. Core inflation among most of Norway's trading partners remained relatively stable in 2018 and was somewhat below target.

The global interest rate level remained low, but policy rates in the US, the UK and Sweden were raised in the course of 2018. The European Central Bank (ECB) discontinued its net asset purchases at the end of the year. Forward rates among Norway's main trading partners fell somewhat overall through 2018 and at the end of the year indicated a very gradual global interest rate rise ahead.

Norwegian money market rates rose in 2018, partly owing to the policy rate increase in September and higher money market premiums. Residential mortgage rates were raised after Norges Bank increased the policy rate in September.

The policy rate was raised to 0.75% in September

Oil prices fluctuated widely through 2018, rising from below USD 70 per barrel at the start of the year to above USD 85 per barrel in the course of autumn. Thereafter, oil prices declined to below USD 55 per barrel at the end of the year. Price developments were particularly affected by supply-side factors in the oil market. Towards the end of 2018, uncertainty about global economic prospects contributed to the fall in oil prices. Oil futures prices were slightly higher at the time of the December 2018 *Monetary Policy Report* than one year earlier.

The krone, as measured by the import-weighted index I-44, appreciated from the beginning of 2018 and through autumn. The krone depreciated towards the end of the year, in parallel with the fall in oil prices and increased uncertainty in global financial markets.

The upturn in the Norwegian economy that began in 2016 continued through 2018. Economic growth was supported by petroleum investment, which started to rise in 2018 after falling sharply for several years, and a pick-up in oil service exports. Housing investment declined markedly in 2018 after rising rapidly for several years. Higher inflation curbed growth in household disposable income, and growth in household consumption was slightly lower than in 2017.

Capacity utilisation in the Norwegian economy appeared to be somewhat below a normal level at the beginning of 2018. During the year, spare capacity gradually diminished, and at the end of 2018 capacity utilisation appeared to be close to a normal level. The labour market improved and employment rose. Unemployment showed little change in the same period, partly owing to labour force expansion as a result of an increase in new entrants to the labour market.

Wage growth picked up further in 2018, partly owing to a tighter labour market, but remained moderate.

Consumer price inflation rose through 2018. A substantial increase in electricity prices contributed to the rise. Underlying inflation also accelerated, driven in part by a pick-up in wage growth. The year-on-year rise in the consumer price index (CPI) was 2.7% in 2018. Adjusted for tax changes and excluding energy products (CPI-ATE), inflation was 1.6%.

Through 2018, the Bank's monetary policy assessments emphasised that the upturn in the Norwegian economy appeared to be continuing and that capacity utilisation was approaching a normal level. Underlying inflation was low, but picked up and was close to target towards the end of the year. The Executive Board's assessment was that a policy rate that remained unchanged for a long period could contribute to accelerating price and wage inflation and a build-up of financial imbalances. The risk of a sharp economic downturn further out would then increase.

On the other hand, the Executive Board also gave weight to the outlook and the balance of risks, which implied that the policy rate should be raised gradually. A rapid rate rise could stifle the upturn, resulting in higher unemployment and below-target inflation. The long period of low interest rates and rising debt ratios has generated increased uncertainty surrounding the effects of higher interest rates. This suggested a cautious approach to policy rate setting.

The policy rate was kept at 0.5% until September 2018, when it was raised to 0.75%. The rate was thereafter kept unchanged for the remainder of the year.

The forecast for the policy rate was revised up in the first half of 2018 and thereafter revised down somewhat in the second half of the year. The forecasts published in the December 2018 *Monetary Policy Report* implied a policy rate that would be raised gradually, to 2% at the end of 2021. In the coming years, capacity utilisation was expected to rise and remain above a normal level, while underlying inflation was expected to remain close to 2%.

Financial stability

It is important that the financial system is stable and well-functioning and capable of executing payments, channelling funding and distributing risk efficiently. Norges Bank has a particular responsibility for promoting robust and efficient financial markets and payment systems.

In the 2018 *Financial Stability Report,* financial system vulnerabilities in Norway are assessed as having increased somewhat since the 2017 *Report*, primarily owing to rising commercial property prices. At the same time, banks have become more resilient, and measures implemented by the authorities have limited borrowing by vulnerable households. On balance, the financial stability outlook was broadly unchanged in 2018.

Household debt ratios are high and are an important source of vulnerability for the Norwegian economy. Household debt growth fell somewhat in 2018, but is still higher than income growth. House prices have risen for many years, fuelling household debt accumulation. After falling in 2017, house prices rose in the first half of 2018. In the second half of 2018, house prices levelled off. Even though house price inflation has slowed, the high level of house prices still implies vulnerability.

In June 2018, the Ministry of Finance decided to retain the regulation on requirements for new residential mortgage loans. The requirements in the regulation and gradually higher interest rates will have a dampening effect on debt growth and, over time, on household vulnerability to shocks.

In the commercial real estate market, estimated selling prices for prime office space in Oslo have continued to rise rapidly. This increases financial system vulnerability. Commercial property prices can fall sharply if there is a marked rise in long-term rates or risk premiums or if the economy enters a downturn resulting in falling rental prices. Experience shows that in the event of such developments, commercial real estate loans can be a source of substantial bank losses.

All Norwegian banks fulfil the capital requirements, and the Common Equity Tier 1 (CET1) ratios of the large banks exceed their long-term capital targets. The banks satisfy liquidity requirements and have had ample access to funding through 2018. The stress test in the 2018 *Financial Stability Report* shows that banks would have to draw down their entire countercyclical capital buffer and some of the other buffers in order to maintain credit supply in the event of a pronounced downturn in the Norwegian economy.

Norges Bank prepares the decision basis for and advises the Ministry of Finance on the level of the countercyclical capital buffer for banks on a quarterly basis. The countercyclical capital buffer is part of the total CET1 capital requirement applied to banks. Banks should build and hold a countercyclical capital buffer when financial imbalances are building up or have built up. Norges Bank's assessment of financial imbalances is based on developments in credit, property prices and bank funding. The countercyclical capital buffer rate was 2.0% through 2018. In December 2018, Norges Bank issued advice to increase the buffer rate from 2.0% to 2.5%, effective from 31 December 2019. The Ministry of Finance decided to follow the Bank's advice.

> In December, Norges Bank issued advice to increase the buffer rate to 2.5%, effective from 31 December 2019

EU regulations that require less capital to achieve the same risk-weighted capital ratio will likely be implemented in the course of 2019. This means that banks will be able to withstand an increase in the buffer rate without having to make substantial adjustments.

New deposit guarantee rules and bank recovery and resolution rules entered into force on 1 January 2019. Under the new rules, investors in bank bonds and short-term paper will have to be prepared to contribute towards a bank´s recapitalisation if a bank experiences a sharp decline in capital adequacy and requires fresh equity. Finanstilsynet (Financial Supervisory Authority of Norway) will draw up recovery plans for banks deemed too important to be allowed to fail.

DNB and Kommunalbanken have been designated as systemically important financial institutions, which have higher capital requirements than other banks. Finanstilsynet has proposed changes to the rules for identifying systemically important banks to give weight to market share for corporate loans in different regions. Under the proposal, the largest regional banks will also be designated as systemically important. In Norges Bank's opinion, it should be considered whether large regional banks deemed too important to be allowed to fail under the bank recovery and resolution framework should also be subject to the same capital requirements as systemically important banks, as proposed by Finanstilsynet.

Management of the Government Pension Fund Global

At end-2018, the market value of the GPFG was NOK 8 256bn, a decline of NOK 233bn since the beginning of the year. The return on the GPFG was equivalent to NOK -485bn, while transfers to the GPFG came to NOK 34bn. 2018 was the first year with net transfers to the GPFG since 2015. Changes in the krone exchange rate increased the GPFG's value by NOK 224bn, although this has no effect on the GPFG's international purchasing power.

The work to integrate responsible investment into the management of the GPFG is described in "Corporate social responsibility" on page 53.

The return before management costs was -6.1% measured in the GPFG currency basket in 2018. Equities returned -9.5%, bonds 0.6% and unlisted real estate 7.5%. Management costs amounted to 0.05% of the GPFG's capital.

The GPFG's overall return in 2018 was the second lowest since 1998. Equity allocation has increased over time and equity returns are therefore now more important for the GPFG's overall performance than in previous years. The return on equity investments in 2018 was the fourth lowest since 1998, after returns of -40.7% in 2008, -24.4% in 2002 and -14.6% in 2001. The GPFG had a long-term investment horizon. The Executive Board is prepared for substantial return variation from one year to the next and emphasises that performance must be assessed over time.

Measured over the period 1998–2018 as a whole, the annual return on the GPFG was 5.5%. The annual return, adjusted for inflation and net of management costs (net real return), was 3.6% in this period.

Norges Bank manages the GPFG with a view to achieving the highest possible return over time in the mandate laid down by the Ministry of Finance. The Bank pursues a range of investment strategies. For the period 2013–2018, these strategies can be grouped into three main categories: allocation, security selection and asset management. The different strategies are complementary. The aim is that in combination they will yield a higher return than the benchmark index over time.

In 2018, the return before management costs was 0.3 percentage point lower than for the benchmark index. The contributions from the various investment strategies show that

Broad media coverage of the Governor's annual address in 2018

allocation, security selection and asset management all contributed to a lower return than the return on the benchmark index. The contributions from equity, fixed income and real estate investments show that equity investments contributed to the GPFG's negative relative return in 2018.

Real estate investments are financed by selling equities and bonds, and the results are reported as a sub-strategy of allocation. In 2018, the return on unlisted real estate was higher than the return on the equities and bonds sold to finance them.

The Executive Board emphasises the importance of assessing performance over time. Viewed over the six-year period 2013–2018, the investment strategies achieved an annual excess return before management costs of 0.18 percentage point. In this period, allocation made a negative contribution to the excess return, while both security selection and asset management made positive contributions.

Over the period 1998–2018 as a whole, the return on the GPFG before management costs was 0.25 percentage point higher than the return on the benchmark index set by the Ministry of Finance.

The objective of the highest possible return is to be achieved within the limits of acceptable risk. Risk is measured, analysed and followed up using a broad set of measures and different types of analyses. One key provision in the mandate from the Ministry of Finance requires Norges Bank to manage the GPFG with the aim that expected relative volatility (tracking error) does not exceed 1.25 percentage points. In 2018, it was below 0.4 percentage point.

The Executive Board attaches importance to cost-effective management to support the objective of the highest possible return. In the period 2013–2018, annual management costs averaged 0.06% of the market value of the GPFG. In 2018, management costs totalled NOK 4.5bn compared with NOK 4.7bn in 2017.

An important part of Norges Bank's role as manager of the GPFG is to advise on the further development of the GPFG's management. In 2018, the Executive Board provided advice and input on the rule for rebalancing the equity share, the guidelines for exclusion and observation, the environment-related mandates and investments in unlisted renewable energy infrastructure.

At end-2018, the market value of the GPFG was NOK 8 256bn

The GPFG's performance and the Executive Board's assessment are presented in an annual report on the management of the GPFG, in line with the mandate.

The Executive Board is satisfied that returns have been good over time and higher than the return on the benchmark index, against which the return is measured.

Foreign exchange reserves

The foreign exchange reserves are the Bank's contingency funds in international currencies and are to be available for use in foreign exchange market transactions as part of the conduct of monetary policy, to promote financial stability and to meet Norges Bank's international commitments. The importance of investing the reserves in liquid assets is therefore given considerable weight. Within these limits, the aim of foreign exchange reserve management is to be cost-effective and provide a positive excess return.

The foreign exchange reserves are divided between a fixed income portfolio and an equity portfolio. In addition, the foreign exchange reserves include a petroleum buffer portfolio. The purpose of the petroleum buffer portfolio is to provide for an appropriate management of the government's need for converting between foreign currency and NOK, as well as to conduct transfers to and from the GPFG.

The foreign exchange reserves cannot be invested in securities that have been excluded from the GPFG's investment universe in line with the ethical guidelines. Management of both portfolios is subject to an index-tracking requirement whereby expected tracking error does not exceed 0.5 percentage point.

In accordance with the Executive Board's principles, rebalancing is to take place if the equity share deviates more than four percentage points from the strategic equity share. Following strong growth in the value of the equity portfolio, such a rebalancing was implemented at the end of September by transferring NOK 21bn from the equity portfolio to the fixed income portfolio.

Over the past ten years, a number of changes have been made to the foreign exchange reserves strategy. The investment universe has been gradually changed in the direction of narrower benchmark indexes to reduce complexity and increase the liquidity of the reserves. Based on the annual review of the foreign exchange reserves strategy, the Executive Board decided in November to reduce the strategic equity share from 35% to 20%. The change was implemented during the first half of December through a further transfer of NOK 65bn from the equity portfolio to the fixed income portfolio.

The market value of the foreign exchange reserves was NOK 511.8bn at the end of 2018, with NOK 97.5bn in the equity portfolio, NOK 408.8bn in the fixed income portfolio and NOK 5.5bn in the petroleum buffer portfolio. The size of the foreign exchange reserves is approximately unchanged since the end of 2017. A positive return measured in NOK was offset by a net outflow of NOK 18.5bn, primarily from the petroleum buffer portfolio.

In international currency terms, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was -0.8% in 2018. Equity investments returned -7.0%. Equity prices fell in many parts of the world in 2018, with a substantial fall in US equity prices towards the end of the year. Fixed income investments returned 1.0% in 2018, primarily owing to current returns.

Over the past ten years, the foreign exchange reserves have earned an annual return of 6.8%. In the Executive Board's assessment, reserve management performance in 2018 and over the past ten years has been positive.

Payment system

Under Section 1 of the Norges Bank Act, Norges Bank shall "promote an efficient payment system domestically as well as vis-à-vis other countries".

Norges Bank settles interbank payments in banks' accounts at Norges Bank and supplies society with banknotes and coins in a manner that promotes payment system efficiency. Norges Bank also oversees the payment system, with the main emphasis on clearing and settlement systems.

The financial infrastructure in Norway is efficient, which means that payments can be executed swiftly, securely, at low cost and tailored to users' needs. In 2018, there were few disruptions in the systems, and the systems generally comply with international principles. There are, however, some remaining vulnerabilities.

The payment system's reliance on IT makes it vulnerable to operational failure and cybercrime. Norges Bank monitors the interbank systems subject to supervision to ensure that their defence mechanisms are satisfactory. An important element is system owners' responsibility for ensuring that critical IT providers have established robust contingency solutions and that these are tested regularly. Norges Bank will also continue to strengthen contingency arrangements to protect the settlement system in Norges Bank.

The technical operation of the payment system has been largely outsourced. The system owners' responsibility is the same, irrespective of whether all or only parts of the technical operation are outsourced. This requires system owners to have sufficient resources and expertise to follow up providers. The failure of a key IT provider in the payment system could impact large parts of the payment system. Norges Bank follows up system owners' monitoring of outsourced operations.

The operation of Norges Bank's settlement system was stable through 2018. The settlement system handled a daily average of approximately NOK 248bn in payment transactions. At the end of 2018, banks' sight deposits and reserves on deposit with Norges Bank totalled NOK 35.1bn.

In 2017, Finance Norway and Norges Bank launched a project to introduce an improved solution for real-time payments with manageable risk for banks. This work was put on hold in February 2018 when seven Nordic banks announced their intention to explore the possibility of a common Nordic payment infrastructure (called P27). As it was assumed that it would take more time than originally planned to clarify the premises for P27, and as the banking industry was also considering possible Norwegian solutions for faster real-time payments, in October 2018, Norges Bank called upon Norwegian banks to resume the work to introduce an improved infrastructure for real-time payments in NOK. This work is now underway in the banking industry, and Norges Bank will carry out the necessary adjustments to its settlement system to enable settlement of real-time payments with manageable risk for banks.

A list of factors that should be given weight in an assessment of whether Norges Bank should issue a central bank digital currency (CBDC) was presented by a Norges Bank working group in May. Phase 2 of the assessment is now in progress. The working group is focusing on the purposes of a CBDC, the solutions that best serve these purposes and their impact. The working group's report will be published in spring 2019. This is a long-term process and it is too early to draw any conclusions. A premise underlying the work is that a CBDC must not impair the ability of banks and other financial institutions to provide credit.

Work on the new Norwegian banknote series, Series VIII, is on schedule. The 50-krone and 500-krone notes were put into circulation on 18 October 2018. The first two denominations in the series, the 100-krone and 200-krone notes, were put into circulation in May 2017. The 1000-krone note is scheduled to be issued in 2019 Q4.

Corporate social responsibility

The Executive Board has laid down ethical principles for employees, under which the Bank is committed to maintaining high ethical standards, respecting human rights and acting in a socially responsible manner in all its activities. Norges Bank does not accept any form of discrimination or corruption. In 2018, the Executive Board updated the ethical principles for employees and amended the ethical principles for external members of Norges Bank's Executive Board. The amendments apply in particular to the rules on personal trading.

The fulfilment of Norges Bank's role depends on confidence and an understanding of the Bank's use of instruments. The Bank therefore pursues a policy of transparency and continuously seeks to improve its communication.

Responsible investment is an integral part of the GPFG's investment strategy, designed to support the objective of securing the highest possible return over time within the framework of the investment mandate. Long-term returns depend on sustainable development and well-functioning markets.

In its management, the Bank seeks to mitigate financial risks associated with the social and environmental practices of investee companies. This is achieved by assessing corporate governance and sustainability issues that could impact the GPFG's performance over time. These issues are integrated into the work on standard-setting, the long-term exercise of ownership rights and responsible investment.

Press conference following publication of the March 2018 interest rate decision and Monetary Policy Report

The Ministry of Finance has laid down guidelines for observation and exclusion of companies, and Norges Bank's Executive Board is responsible for making such decisions based on recommendations from the Council on Ethics.

In the course of 2018, the Executive Board published its decisions to exclude 13 companies. The exclusions were based on the product-based coal criterion, production of key components for nuclear weapons, unacceptable risk of gross corruption, risk of severe environmental damage and serious or systematic human rights violations. Four companies were placed under observation in connection with a recommendation based on the product-based coal criterion and the danger of an unacceptable risk of human rights violations. In one case, the Executive Board chose to exercise the Bank's ownership rights based on the Council on Ethics' recommendation to place the company under observation. The exercise of ownership rights was chosen to support the company's efforts to prevent the use of child labour in its operations for a period of five years.

Norges Bank decided on an environmental strategy for the Bank's operations in November 2018. The strategy includes a combination of specific short-term measures and long-term research. The Bank also became a member of the Network for Greening the Financial System (NGFS) in December 2018. NGFS is a network for central banks and supervisory authorities to exchange experiences and share best practices to contribute to the development of systems for environmental and climate risk management in the financial industry.

Read more about Norges Bank's corporate social responsibility policy on page 52.

Personnel
Norges Bank aims to recruit from leading institutions and works systematically to strengthen and maintain its reputation. Norges Bank ranks high in annual independent surveys on Norway's most attractive workplaces. Marketing the Bank as an employer is conducted regularly on social media and at various career events.

The Bank works continuously on professional development for its managers and employees. Through internal training initiatives and by facilitating internal mobility, internships abroad, secondments and other in-house training, the Bank invests in maintaining a robust professional organisation. The Bank provides for good working conditions for employees and promotes gender balance and diversity in the workplace.

The Executive Board has set a minimum target of 40% for female employees as an overall long-term goal. Strategic work and action plans are based on this objective and are given weight in the planning and implementation of recruitment processes. The share of women on the permanent staff of Norges Bank at the end of 2018 was 33%. It is challenging to increase the share of female employees in certain job categories. Prioritised gender equality initiatives are in place for the period 2017–2019. The three main priority areas in the current strategy period are recruitment and reputation management, career development, and an inclusive working environment.

The Bank's management has close and regular contact with trade unions. The cooperation is constructive and helps the Bank to develop and adapt in pace with requirements for companies in general and for the Bank in particular. In spring 2018, the Bank and the trade unions agreed on a new salary and promotion system for all the Bank's employees. The main wage settlement for 2018 was conducted in line with prevailing agreements. The Bank engages in negotiations and discussions to create the basis for a well-functioning workplace. Read more about Norges Bank's personnel and working environment policies on page 60.

Norges Bank's priority is protecting the lives and health of all those who work in the Bank. In 2018, three incidents/injuries directly relating to work conducted at Norges Bank's office premises or conference and holiday facilities were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2018. Sickness absence remained stable in 2018 at a low level of 2.0%.

Corporate governance, risk management and internal control
Norges Bank's governance framework is to be in line with best practice. The Executive Board follows up the Bank's operations through periodic reporting on performance and performance measurement, action plans, budgets, financial and operational risk and compliance.

Norges Bank's use of resources is to be cost-efficient and prudent, with a cost level that is reasonable compared with that of similar organisations. The Executive Board uses external comparisons of the Bank's use of resources with that of other similar organisations, "benchmarking", as a corporate governance tool. During 2018, several cost comparisons were completed: for expenses related to the management of the GPFG, the use of resources in NBCBO and the management costs for unlisted real estate. The Executive Board is satisfied with the Bank's favourable results in these comparisons. In 2018, the Executive Board focused in particular on cost-efficiency. The Executive Board followed up the budgeting process closely, and planning and the budget for 2019 were discussed at several Executive Board meetings in the second half of 2018.

Norges Bank complies with the regulation on risk management and internal control at Norges Bank issued by the Ministry of Finance. In addition, the Ministry of Finance lays down a number of guidelines for the management of the GPFG, which include asset allocation and a benchmark index. The Executive Board sets similar limits for the management of the foreign exchange reserves. There were no breaches of the limits for the management of the GPFG or the foreign exchange reserves in 2018.

In the area of investment management, the Executive Board has also focused on the methodology and procedures for the valuation of the investment portfolio. Detailed information is also published on real estate investments and performance and risk, among other areas. The calculation of the GPFG's performance results is also verified by an independent third party in compliance with the Global Investment Performance Standards (GIPS). The GIPS verification report confirmed that Norges Bank Investment Management (NBIM) is in compliance with the GIPS standards.

The reporting and follow-up of incidents constitute an important part of the measures to improve operation and internal control. For NBIM, the Executive Board has decided that over a twelve-month period the probability that operational risk factors will result in a gross loss of NOK 750m or more must not exceed 20%. This limit is referred to as the Board's risk tolerance. In 2018, operational risk exposure was within the Board's risk tolerance. For NBCBO, key risks are followed up through regular reporting to the Executive Board and risk management measures.

Norges Bank's operations are IT- and information-intensive. The transaction processes on which financial reporting is based are highly automated. The Bank's IT systems are largely standard systems adapted to the Bank's needs and are supplied and operated by third parties. The portfolio of IT systems for investment management has been consolidated and simplified in recent years, and a number of tasks have been insourced to increase the efficiency of the operational model.

As it is important to ensure that Norges Bank's IT systems support secure and cost-efficient operations at the Bank, there is a major focus on strategic IT sourcing and IT security in both operational areas.

The Executive Board maintains a high level of IT and information security awareness, including monitoring outsourced IT functions. The Bank's IT systems are continuously updated and improved to ensure they are operationally reliable and protected against cybercrime. In 2018, for example, the core systems for Norges Bank' settlement system (NBO) were upgraded.

The Executive Board continuously monitors operational and financial risk related to the use of IT systems through its assessment of operational risk and internal control.

Based on reporting by the administration and Internal Audit, the Executive Board submits an annual assessment of the risk situation to the Supervisory Council. Under the Norges Bank Act, the Bank's financial statements are required to be audited by an external auditor. The auditor's report is included in the financial statements.

No material deficiencies in the risk management and control regime were identified in 2018, and the Executive Board assesses the control environment and control systems at Norges Bank as satisfactory.

Balance sheet composition and financial risk
Norges Bank's balance sheet total at the end of 2018 amounted to NOK 8 851bn, of which the investment portfolio of the GPFG accounted for NOK 8 256bn. Accrued management costs were NOK 4.5bn.

The Ministry of Finance places funds for investment by the GPFG in the form of a (Norwegian krone) deposit with Norges Bank (the GPFG's krone account). The Bank reinvests these funds, in its own name, in the krone account of an investment portfolio composed of equities, fixed income investments and real estate investments, in accordance with a management mandate from the Ministry of Finance. The net value of the investment portfolio is presented on a separate line as an asset in Norges Bank's balance sheet, and the GPFG's krone account is presented as a liability in the same amount to the Ministry of Finance. The value of the krone account will always equal the value of the investment portfolio. Detailed financial reporting for the investment portfolio of the GPFG is presented in Note 20 to the financial statements. In addition, an annual report on the management of the GPFG is produced, which includes the financial statements of the investment portfolio. Norges Bank, in its role as asset manager, bears no financial risk associated with the management of the GPFG.

Excluding the GPFG, the Bank's foreign exchange reserves are the largest balance sheet asset. The foreign exchange reserves are primarily invested in equities, fixed income instruments and cash. Net foreign exchange reserves amounted to NOK 511.8bn at the end of 2018 compared with NOK 512.4bn at the end of 2017. See the relevant sections in this *Report* for more details on the management of the GPFG and the foreign exchange reserves.

Excluding the GPFG's krone account, the largest balance sheet liability is deposits from the government. At 31 December 2018, this liability item amounted to NOK 187.7bn, compared with NOK 162.4bn in 2017. This item fluctuates considerably through the year owing to substantial incoming and outgoing payments over the government's accounts. Banknotes and coins in circulation are a liability item for Norges Bank. As a result of lower demand for cash, this liability item has gradually declined somewhat in recent years. At year-end 2018, banknotes and coins in circulation amounted to NOK 44.8bn, compared with NOK 48.4bn at year-end 2017. Deposits from banks, which comprise sight deposits, reserve deposits and F-deposits, are managed by Norges Bank through its liquidity management policy. At 31 December 2018, these deposits amounted to NOK 40.4bn, compared with NOK 64.0bn at year-end 2017. Norges Bank administers Norway's financial obligations and rights ensuing from participation in the International Monetary Fund (IMF). Norges Bank therefore

NBIM's offices in New York

has both claims on and liabilities to the IMF. See Note 17 in the notes to the financial statements for more details. At year-end 2018, net positions with the IMF amounted to a claim of NOK 9.3bn, compared with NOK 8.7bn at the end of 2017.

This balance sheet composition will normally generate an expected positive return over time, disregarding foreign currency effects, as returns on the Bank's investments in equities and fixed income instruments are expected to exceed the cost of the Bank's liabilities. The Bank's assets are primarily invested in foreign currency, whereas its liabilities are primarily in NOK. Future increases in the value of the GPFG will be affected by, among other things, transfers to the fund. The level of the transfers ahead is uncertain, partly owing to oil price volatility. Movements in the krone exchange rate can also have a substantial impact on the value of the foreign exchange reserves and of the GPFG in NOK terms.

Norges Bank attaches considerable weight to managing and controlling financial risk. The Executive Board has issued principles for risk management, which are further defined in rules and guidelines for the operational areas.

Investment risk includes market risk, credit risk and counterparty risk. The Bank employs several measurement techniques, processes and systems to control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurement techniques and processes. Valuations, performance measurement, management and control of risk in investment management are required to comply with internationally recognised standards and techniques. See the notes to the financial statements for more details.

INCOME STATEMENT

Norges Bank's total comprehensive income for 2018 shows a profit of NOK 15.9bn, compared with a profit of NOK 27.7bn in 2017. Net income from financial instruments was NOK 16.8bn in 2018, compared with NOK 28.7bn in 2017. Equity investments posted a loss of NOK 4.3bn, while fixed income investments posted a gain of NOK 3.4bn. Net income from financial instruments includes a gain of NOK 19.2bn as a result of foreign currency effects. Foreign currency effects in 2017 resulted in a loss of NOK 1.5bn.

The GPFG's total comprehensive income shows a loss of NOK 266.1bn, consisting of a loss on the portfolio of NOK 261.6bn net of management costs of NOK 4.5bn. Total comprehensive income was recognised against the GPFG's krone account at 31 December 2018. The return on the portfolio, after management costs reimbursed to Norges Bank have been deducted, is transferred in its entirety to the krone account and thus does not affect Norges Bank's total comprehensive income or equity.

In accordance with the GPFG's management mandate, Norges Bank is reimbursed by the Ministry of Finance for its expenses related to the management of the GPFG within an upper limit. The Bank was reimbursed in the amount of NOK 4.5bn in 2018, compared with NOK 4.7bn in 2017. Norges Bank also earns income from services provided to banks and the government and rent from external tenants. Income other than the reimbursement for the management of the GPFG totalled NOK 125m in 2018, compared with NOK 124m in 2017.

Operating expenses amounted to NOK 5.7bn in 2018, compared with NOK 5.9bn in 2017. The decrease in expenses is primarily the result of a NOK 282m reduction in fees for external managers owing to a lower excess return on the GPFG and a lower share of external managers. Personnel expenses were reduced by NOK 108m, primarily owing to lower performance-based pay. An increase in other wage expenses was offset by a reversal of financial tax. In addition, expenses associated with the procurement of banknotes were reduced by NOK 69m. Furthermore, increased use of consultant services, primarily in connection with the introduction of a new model for the delivery of IT services and maintenance and development of the system portfolio offset increased use of contract labour and higher depreciation and amortisation. NOK 4.5bn of the expenses is related to management of the GPFG, including labour costs, custody and settlement services, IT expenses, analytical research services and fees for external managers. The internal operating expenses (excluding fees for external managers) for the management of the GPFG are in accordance with Norges Bank's maximum target for internal operating expenses of five basis points. The Executive Board attaches importance to high standards and low costs in the Bank's performance of its responsibilities. Changes in the threat landscape with rising cyber risk may lead to higher operating expenses in the period ahead.

Norges Bank's equity capital at 31 December 2018 was NOK 239.1bn, compared with NOK 238.0bn at 31 December 2017. The Adjustment Fund and the Transfer Fund comprise the Bank's equity capital. At the end of 2018, the Adjustment Fund stood at NOK 209.5bn and the Transfer Fund at NOK 29.6bn. Norges Bank's equity capital was 39.9% of the balance sheet total, excluding the GPFG, the same as in 2017.

Distribution of total comprehensive income

The distribution of Norges Bank's total comprehensive income follows guidelines laid down by Royal Decree of 6 December 2002. The guidelines state that total comprehensive income must be allocated to the Adjustment Fund until the Fund has reached 40% of the Bank's net foreign exchange reserves. Any surplus is allocated to the Transfer Fund. A third of the Transfer Fund is transferred annually to the Treasury.

In accordance with the guidelines, the following transfers and allocations will be made: Norges Bank's total comprehensive income of NOK 15.9bn is to be transferred as follows: NOK 156m to the Adjustment Fund and NOK 15.7bn to the Transfer Fund. NOK 14.8bn will be transferred from the Transfer Fund to the Treasury.

Oslo, 6 February 2019

Øystein Olsen
Governor/Chair

Jon Nicolaisen
First Deputy Chair

Egil Matsen
Second Deputy Chair

Kristine Ryssdal

Kjetil Storesletten

Karen Helene Ulltveit-Moe

Kathryn M. Baker

Steinar Juel

Arne Hyttnes
First alternate

Kristine Landmark
Second alternate

Mona Helen Sørensen
Employee representative

Kjersti-Gro Lindquist
Employee representative

Governor Øystein Olsen

NEW REGULATION ON MONETARY POLICY

On 2 March 2018, the King in Council issued a new regulation on monetary policy. The new regulation is a modernisation of the regulation issued in 2001.

The main changes are:

- The inflation target is set at 2%, compared with the previous target of 2.5%.
- Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances.

When the regulation was presented, Minister of Finance Siv Jensen pointed out that monetary policy thinking and practice have evolved since 2001. The aim of the modernisation has been to capture this evolution and bring the regulation into line with the way monetary policy has been conducted in practice.

The new regulation builds on the lessons learned since 2001 and lays a solid foundation for Norges Bank's further implementation of monetary policy that enjoys the confidence of both the financial market and society as a whole. When inflation targeting was introduced in 2001, the Norwegian economy was facing a period of substantial oil revenues that were to be phased in in the economy. This was an important reason why the inflation target was set higher in Norway than in other countries at that time.

"The period of phasing in oil revenues is now largely behind us. There are no longer any compelling arguments for targeting a higher inflation rate than other countries. With the inflation target now lowered to 2%, Norway has the same inflation target as most comparable countries," said the Minister of Finance.

Governor Øystein Olsen pointed out that the framework for monetary policy has worked well. Inflation has been low and stable, and flexibility in inflation targeting has helped dampen the impact on output and employment.

"The new regulation clarifies the monetary policy mandate and underpins the Bank's flexible approach to inflation targeting. In Norges Bank's assessment, the new regulation will not result in significant changes in the conduct of monetary policy," said Governor Øystein Olsen in a comment on the new regulation.

NEW CENTRAL BANK ACT

The Ministry of Finance presented a white paper on the new central bank act in October 2018, and the Storting endorsed the white paper in February 2019. The Government proposed:

- keeping the management of the GPFG within Norges Bank,
- establishing an expert committee for monetary policy and financial stability,
- retaining the Supervisory Council, the Storting's control and supervisory body for the Bank,
- strengthening the central bank's independence in the act, and
- establishing an objects clause for the Bank.

The current Norges Bank Act was adopted in 1985 and the Bank's tasks have changed substantially since then. For example, the monetary policy regime was changed from exchange rate targeting to inflation targeting, and the Bank was assigned the responsibility for managing the GPFG. In 2015, the Government appointed a commission tasked with reviewing the Act in the light of these developments. The commission was mandated to consider the governance structure of Norges Bank and the relationship between Norges Bank and government authorities and to assess the formulation of the Bank's goals. The Commission's mandate was later expanded to include an assessment of alternative governance models for the GPFG. The Commission proposed transferring the management of the GPFG from Norges Bank to a new statutory entity. Consultees held differing views on this proposal.

On the basis of an overall assessment, the Government recommended that Norges Bank should continue to manage the GPFG going forward. The Government also argued that the governance structure for the Bank as a whole needed strengthening. "We have to take into account that management of the GPFG and work on monetary policy and financial stability may be more demanding ahead," said the Minister of Finance.

The Government therefore proposed establishing a committee for monetary policy and financial stability at Norges Bank. The committee will decide the policy rate and provide advice on, among other things, the countercyclical capital buffer. The Executive Board's capacity and expertise can then be tailored more to the management of the GPFG and the Bank's other central banking responsibilities.

The Government also argued in favour of retaining the Supervisory Council as the Storting's control and supervisory body for Norges Bank. In the white paper, the Government proposed that Norges Bank should continue to have a high level of independence in its use of central bank instruments. The threshold for instructing the Bank is currently high, and the Government proposed establishing such a threshold in law.

The Government also presented its view of what the purpose of central banking operations should be. According to the Government, the Bank's main purpose should be to maintain price stability, promote stability in the financial system and ensure an efficient and secure payment system. In addition, Norges Bank should generally contribute to high and stable output and employment. This is in line with the proposal of the Central Bank Law Commission. The Government was of the opinion that the Bank's roles and responsibilities are clearly brought out in the proposal.

Governor Øystein Olsen reading the white paper on a new central bank act

Corporate social responsibility

In its activities, Norges Bank is committed to maintaining high ethical standards, respecting human rights, acting in a socially responsible manner, and complying with current legislation. Norges Bank does not accept any form of discrimination or corruption. Norges Bank's corporate social responsibility includes responsible investment activities, transparent and clear communication, research and knowledge-sharing, ethical conduct and the promotion of gender equality, diversity and a sound working environment.

A transparent central bank

Norges Bank is concerned to ensure that the Bank's use of instruments is communicated transparently, is understood and is predictable for interested parties and defined target groups. The Bank communicates in the form of publications, reports, speeches and lectures, press conferences and seminars. The Executive Board's assessments are presented in the Bank's monetary policy and financial stability reports. The Bank strives to ensure that all regions of Norway receive a visit from a Norges Bank representative every year, which includes a speech or lecture and company visits.

The Bank's communications were developed further in 2018. In April, Norges Bank launched Bankplassen, which is a blog for staff to share their work on current issues. The Norwegian version of the *Monetary Policy Report* was also supplemented with "Pengepolitikken kort fortalt" [Monetary policy in brief] to provide a brief and easily understood background for monetary policy decisions adapted for social media. Norges Bank also has extensive contact with academia and the public authorities.

Other target audiences for speeches and lectures include employer and employee organisations. In addition to the Government Pension Fund Global's (GPFG) quarterly and annual reports, more detailed information on the GPFG's return and risk, real estate investments and responsible investment is also published. Transparency with regard to the management of the GPFG helps to affirm the fund's legitimacy as a financial investor and underpins the confidence of its owner, the general public and the Bank's investee companies and markets.

Norges Bank publishes its analyses and the basis for its decisions and recommendations. The minutes of Executive Board meetings are published after the meetings within the limits set by the Freedom of Information Act.

Responsible investment management
The Executive Board has issued principles for responsible investment management at Norges Bank. Responsible investment management is designed to support the GPFG's objective of securing the highest possible return over time within the framework of the investment management mandate. The Executive Board seeks to promote long-term investment and mitigate financial risks associated with the environmental and social practices of the companies in the portfolio.

The Ministry of Finance has laid down guidelines for the observation and exclusion of companies from the GPFG portfolio. The Ministry of Finance has also established the Council on Ethics as an independent body providing advice on the observation and exclusion of companies. Since 2015, Norges Bank has had the responsibility for decisions on the observation or exclusion of companies based on recommendations from the Council on Ethics.

The investment management mandate requires responsible investment to be an integral part of the management of the GPFG, which means managing the nation's financial assets in a responsible and sound manner. The aim is to promote good corporate governance and well-functioning, legitimate and efficient markets. Responsible investment by the GPFG is included in Norges Bank's annual report on the management of the GPFG. Since 2014, the Bank has also published the Responsible Investment Report, giving detailed information on the Bank's responsible investment activities. Below are some of the GPFG's main responsible investment activities in 2018.

ACCOUNTING ACT, CORPORATE SOCIAL RESPONSBILITY REQUIREMENTS (SECTION §3-3C)

Since 2013, large companies have been required to "submit reports on the company's actions to take account of human rights, labour rights and social conditions, the external environment and anti-corruption as an integral part of their business strategies and day-to-day operations and vis-à-vis stakeholders".

- This Special Feature gives an account of Norges Bank's approach to its mission in the context of corporate social responsibility (CSR).
- The most important element of Norges Bank's CSR strategy is its mission to promote economic stability in Norway and ensure efficiency and reliability in investment management.
- In addition, the Bank's influence on human rights, labour rights and social conditions, the external environment and anti-corruption is mainly exerted through its responsible investment activities.
- Norges Bank's CSR strategy also includes transparent and clear communication, research and knowledge-sharing, ethical conduct and facilitating a good working environment and gender equality.

Norges Bank's offices in Shanghai

Setting standards

Standards provide consistency across markets and raise the bar for all companies. The GPFG's aim is to promote well-functioning markets and good corporate governance. The fund's investment universe includes 73 countries. As asset manager, the GPFG benefits from internationally agreed standards that are applicable to all companies and that promote long-term growth. The GPFG recognises a set of international principles and standards issued by the UN and the OECD, which provide the framework for the GPFG's work with companies and other market participants.

The GPFG contributes to further developing standards by participating in consultations, engaging regularly with international organisations, regulators and other standard setters, industry partners and academics. The GPFG can draw on its experience as an investor in 73 countries and its in-depth knowledge of its investee companies. In 2018, the fund participated in 13 public consultations on important issues such as shares with unequal voting rights, national recommendations on corporate governance, good voting systems and reporting standards for companies.

In 2018, the GPFG published new expectations documents on anti-corruption and sustainable use of the ocean. Expectations on climate change and water management were also updated. Company boards are expected to understand how business practices impact the environment and society, set their own priorities and provide an assessment of the company's performance.

Exercising ownership

Consistent with its mandate, the GPFG owns a small stake in around 9 000 companies across the globe. The aim is to promote long-term value creation and ensure equal treatment of shareholders.

In 2018, the GPFG voted on 113 546 proposals at 11 287 annual general meetings. To underpin its ownership work, the GPFG publishes views on selected governance issues. In 2018, three position papers on the efficiency and composition of boards were published. The papers are a basis for voting and dialogue with company boards.

In 2018, the GPFG held 3 256 meetings with 1 420 companies. The dialogues with companies deal with governance and sustainability issues that are relevant for the GPFG's long-term return. Selected strategic issues are prioritised and followed up over several years. In 2018, sustainability, board responsibility and efficiency, executive remuneration and shareholder rights were areas of focus. The GPFG prioritises its largest investments in the companies about which the fund has most information, and is in regular dialogue with companies representing around two thirds of the total value of the portfolio. In addition, the GPFG publishes expectations and positions that are relevant to all the companies in the portfolio.

The seven expectations documents are followed up through dialogue with selected companies, analyses of companies' sustainability reports and support for industry initiatives. Norges Bank Investment Management has assessed companies' sustainability reports since 2008. The GPFG observed some improvement in all the issues that were assessed in 2018. Climate change disclosures were for the first time submitted to the Carbon Disclosure Project (previously the Global Disclosure Project) by more than half of the companies in selected high risk sectors. The GPFG's dialogue with companies where reporting is weak or limited is achieving results. Among the companies that were contacted with regard to weak reporting in 2017, 36% of the companies contacted about climate change have now begun to report on climate issues.

The GPFG supports initiatives where several companies come together to find common solutions and standards for sustainable practices. Such initiatives work best when several companies in one sector or value chain face the same challenge. In 2018, the GPFG contributed to initiatives for children's rights in the apparel industry, water risk related to food production, climate information for the financial industry, human rights and the global apparel supply chain, tax reporting in the consumer sector and work on anticorruption in the pharmaceutical industry.

Investing responsibly

The aim is to identify long-term investment opportunities and reduce the GPFG's exposure to unacceptable risk.

The GPFG supports the recommendations of the G20 Task Force on Climate-related Financial Disclosures and is working with companies to ensure that they are well-positioned for the transition to a society with lower emissions. The fund invests in climate solutions in particular, adjusting the portfolio through divestments and taking climate risk into account in investment decisions. In addition, greenhouse gas emissions from companies in the fund's portfolio and different climate scenarios are analysed. In 2018, companies in the equity portfolio released carbon emissions totalling 107m tonnes of CO2 equivalents.

At year-end 2018, the GPFG had NOK 43.3bn invested in environment-related equity mandates and NOK 13.4bn in green bonds, a reduction of NOK 24.5bn from NOK 67.8bn invested in environment-related equity mandates at year-end 2017. Investments in green bonds increased by NOK 6.3bn from NOK 7.1bn. The environment-related equity mandates returned -8.3% in 2018. The fund's equity benchmark index generated a return of -7.3% in the same period. The environment-related mandates have from the outset been

Deputy Governor Egil Matsen giving a speech on the GPFG entitled "Management and risk"

managed both internally and externally. To reduce management costs, the Bank decided to discontinue the externally managed environment-related mandates in 2018. The environment-related mandates are now exclusively managed internally.

The Ministry of Finance has decided that selected industries and companies must be excluded from the GPFG's investment universe. Not investing in such companies reduces the fund's exposure to unacceptable risk. The Storting (Norwegian parliament) has decided that the GPFG must not be invested in companies that produce certain types of weapons, tobacco or coal. In addition, the fund must not be invested in companies that contribute to violations of fundamental ethical norms through their operations. In 2018, Norges Bank excluded 13 companies, placed four companies under observation and decided to exercise ownership rights in one company. The Executive board's decisions were based on recommendations from the Council on Ethics. The Council's recommendations were primarily followed, with the exception of one case where the Executive Board decided to exercise ownership rights instead of placing the company under observation.

The GPFG can also divest from companies that expose other companies and society as a whole to substantial costs and are therefore not sustainable in the long term. In 2018, the fund divested from 30 companies following risk assessments related to governance and sustainability. The fund divested from 15 companies based on climate change risk, nine companies based on corruption risk, four companies based on their conduct with regard to human rights and two companies based on other unacceptable risks. In all, the GPFG has divested from 240 companies since 2012.

Research and knowledge-sharing

Norges Bank's research is largely focused on monetary policy, financial stability and investment management. The Bank's research is recognised by international and Norwegian research communities and informs the Bank's

Deputy Governer Jon Nicolaisen giving a speech at the Norwegian Academy of Science and Letters entitled "Should central banks be governed"

policy decisions. In 2018, eight articles written by Norges Bank's researchers were accepted for publication in peer-reviewed journals. An overview of published articles can be found on the Bank's website. Norges Bank participates in international cooperation through several channels to update and further develop standards for the performance of core central bank tasks.

On behalf of the Ministry of Finance, Norges Bank contributes to IMF financing schemes to assist countries facing financial imbalances. In 2018, in cooperation with the IMF, Norges Bank based an advisor in Maputo to provide technical assistance with the aim of modernising the central bank's functions in Mozambique. Eleven short-term visits related to this project were completed by specialists from Norges Bank. The current phase of the assistance will continue until the end of 2019.

To strengthen ties with academia, Norges Bank has established the Teaching Initiative, a regular series of lectures on macroeconomics and finance for universities.

In December 2018, Norges Bank became a member of the Network for Greening the Financial System (NGFS). NGFS is a network for central banks and supervisory authorities to exchange experiences, share best practices and contribute to the development of environment and climate risk management in the financial sector.

The NBIM Talk seminars are arranged to promote dialogue and knowledge-sharing with academics and other interested parties on topics of importance to the Bank as financial investor.

The Bank supports research on the effects of climate change on investment management through the Norwegian Finance Initiative (NFI). Two such research projects were awarded NFI grants in 2018. The New York University Stern School of Business (NYU Stern) Volatility Institute conducts financial research on environmental risks. The project studies methods of measuring and modelling environmental risk and explores how modern methods of risk management and match portfolios might be used to dynamically take account of climate risk in the composition of investment portfolios. To foster further research into climate issues by leading financial researchers, Columbia University has also been awarded a three-year NFI grant to conduct research and hold two research conferences on climate change and efficient capital markets.

The Norges Bank Education Centre uses interactive learning to teach visitors about the central bank's core tasks and economic issues. The primary target group is upper secondary school pupils and teachers and college students, but the centre is also visited by groups of employees, companies and institutions. In 2018, the number of visitors to the Education Centre increased by 45%, and close to 6 000 people have visited the Centre since it opened in November 2016. More than 50 upper secondary schools and colleges make regular visits. In 2018, KS Kommunespillet, NHO Besøkssenter, Aker Engineerium and Norges Bank joined forces to boost the availability of information outside school. The purpose of the network, "Ut av klasserommet" [out of the classroom] is to provide a platform for the educational activities offered by the network partners and to share experience and knowledge about their operation and development. Norges Bank also cooperates closely with the academic community and organisations such as Finance Norway, Aksje Norge and the Norwegian Association of Economists.

Ethical conduct

Ethics and anti-corruption

It is 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 to promote a uniform attitude to ethical issues at Norges Bank. These principles reflect the Bank's commitment to maintaining high ethical standards, respecting human rights, acting in a socially responsible manner and complying with current legislation. Ethical rules include employees' personal trading, activities outside the Bank, gifts and loyalty to the Bank in general. In 2017, the rules on personal trading were changed in line with the amendments to the Securities Trading Act. Norges Bank does not accept any form of discrimination or corruption. Anti-corruption programmes have been established for all areas of the Bank. The main elements are published on the Bank's website.

More detailed rules and procedures have been issued to ensure compliance with the rules on personal trading. No violations of the rules on personal trading under Section 8 of the Securities Trading Act were reported to Finanstilsynet (Financial Supervisory Authority of Norway) in 2018.

The Ministry of Finance has laid down a regulation concerning impartiality and conflicts of interest for Norges Bank's Executive Board, and an administrative procedure has been established to assist Board members in complying with the regulation. The Executive Board also adopted ethical rules for the external members of the Executive Board. The principles were changed in 2018, particularly the provisions on personal trading and the management of inside information.

The Executive Board has laid down principles for internal disclosure of wrongdoing (whistleblowing) at Norges Bank. Norges Bank has established an internal whistleblowing procedure whereby an employee can report unethical or unlawful conduct. There is a whistleblowing channel in operation, with Internal Audit as report recipient. Appeals on procedural grounds or related to the processing of a report are filed with the General Counsel.

Whistleblowing reports are processed in line with the established case processing rules. Employees of Norges Bank's contractors can also report wrongdoing in connection with the completion of a contract for Norges Bank.

The ethical rules for employees are regularly reviewed.

Norges Bank places considerable emphasis on training staff and fostering awareness of the most important areas of ethical risk. All new employees complete a training programme to ensure that they know and understand the rules, which includes one-on-one training, e-learning and an introductory dilemma training course. To ensure that all employees have the necessary knowledge of the rules, a compulsory annual test is conducted using an e-learning tool. By completing the test, employees confirm that they have read and understood the rules and are aware of the consequences of non-compliance. Compliance with the rules is monitored and non-compliance is reported.

Direct environmental impact

The Bank's direct climate and environmental impact is primarily related to normal office operations and official travel. The environmental impact related to the Bank's real estate investments is described in "Responsible real estate investment in the Government Pension Fund Global".

Norges Bank adopted an environmental strategy for the Bank's activities in November 2018. The strategy was drawn up following a staff survey and a review of the environmental practices of other central banks and a selection of Norwegian companies. The environment strategy is a general document, with no time horizon, and sets out general environmental objectives and measures.

The strategy focuses both on the development of environmental competence within the Bank's core activities and the Bank's impact on the external environment.

The Bank strives continuously to find more environmentally friendly ways of operating and is currently involved in a programme to implement energy-reducing measures in collaboration with Enova SF (a state-owned enterprise responsible for the promotion of environmentally friendly production and consumption of energy).

Office waste is recycled and there is extensive re-use of interior structural elements and office furniture. Biodegradable disposable packaging has been introduced and will continue in 2019 with the aim of eliminating all use of disposable packaging in connection with the serving of refreshments at the Bank. A new contract with the canteen service provider was entered into where organic and locally sourced food were among the award criteria.

The Bank actively takes steps to promote cycling to and from the workplace. The number of outside parking stands for bicycles was increased in 2017 and indoor bicycle parking capacity was tripled at the expense of car parking in 2018.

The Bank's premises in the Kvadraturen district of Oslo are classified under an environmental classification system (BREEAM In Use) that determines the environmental footprint of commercial properties based on an overall assessment (ie both the inherent environmental quality of the building and how it is operated and used). The premises are classified as "Very Good" in terms of both management and use, ie level 4 of 6. This classification provides the Bank with a sound basis upon which to implement appropriate measures for improvement in order to reach level 5, "Excellent".

The Norges Bank building is a monumental structure of high cultural and historical value. Both the older and newer parts of the building and the surrounding area are maintained in close dialogue with the Directorate for Cultural Heritage. Norges Bank actively promotes safe and attractive urban spaces in the Kvadraturen district through its membership on the board of the Kvadraturen property owners' association and the board of Oslo Byes vel, a non-profit heritage association. Security features have been integrated with considerable emphasis on aesthetics.

Responsible real estate development in the GPFG

The GPFG collaborates with partners and real estate managers to integrate green measures into business plans for the fund's properties.

The environmental performance of the GPFG's real estate portfolio is measured against the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis. The fund's real estate portfolio scored 76 out of 100 points in 2018, an increase from 70 points in 2017. In 2018, 66% of the fund's portfolio of office and retail buildings were green-certified, up from 60% the previous year. In addition, 31 logistics properties were green-certified for sustainable design and construction.

Many of the GPFG's real estate investments are in cities exposed to the risk of extreme weather. Estimates show that 5% of the portfolio, based on value, is located in areas where there is a probability of flooding along the coast or in rivers at least once in the next 100 years. The risk of flooding has therefore been integrated into the fund's strategy for real estate procurement and management.

Responsible procurement and contracting

By adhering to public procurement regulations and using economies of scale, Norges Bank's procurement of goods and services is cost-effective. This promotes competition for contracts. To counteract social dumping, contracts include standard terms and conditions for wages and working conditions where relevant. Contractors in selected sectors must have this documented and confirmed annually by an auditor. In 2018, 14 controls were carried out. No violations of the provisions on wage and working conditions were found. Norges Bank accepts no more than two tiers of subcontractors. The Bank sets environmental requirements for procurement where this is relevant.

Norges Bank Central Banking Operations (NBCBO) has specific ethical rules for contractors with access to the Bank's premises and systems. These rules cover issues such as human rights, labour rights, corruption, discrimination and gifts. Norges Bank Investment Management (NBIM) contractors with access to the Bank's premises or systems are contractually bound by the same rules that apply to the Bank's employees.

Human resources and working environment

Personnel and expertise

Norges Bank's ambition is to recruit top candidates from leading national and international institutions. The Bank works systematically to attract and recruit staff with the expertise the Bank needs to perform its tasks. The Bank continues to systematically pursue the goal of strengthening the Bank's reputation as a preferred employer, as this reputation is crucial to the successful achievement of the Bank's other goals. For the third consecutive year, Norges Bank organised a national championship for economics students that was very popular. A total of 30 teams from four cities competed for a place in the finals. A higher number of female economics students took part in 2018 than previously. Work to revitalise the Bank's employer branding strategy started in 2018, including even more targeted initiatives to promote Norges Bank as an attractive workplace.

The team Ca-sera sera from the University of Oslo won Norges Bank's national championship for economics students in 2018. From left: Hanna Sørheim, Johannes Hveem Alsvik and Martine Myklebust. The fourth team member, Ingrid Trandern, was not present when the photo was taken

Part of the Bank's strategy is to work actively to promote professional development. In 2018 all the Bank's managers completed a management programme to further develop the Bank's collective management expertise and impact. In addition, all members of NBCBO staff have been offered a course in self-management. The programme focuses on personal efficiency, teamwork and communication awareness, breaking down goals into concrete tasks and prioritising them. The Bank also promotes professional development by assigning new tasks and through internal mobility and international internships and secondments.

At the end of 2018, there were 953 permanent employees at Norges Bank, compared with 922 at the end of 2017, of which 601 are employed by Norges Bank Investment Management, compared with 573 the previous year. The Bank has employees from a total of 38 countries.

Gender equality and diversity

Norges Bank's ethical guidelines state that the Bank is committed to respecting human rights and practises a zero tolerance approach to discrimination. Women and men at Norges Bank must be given the same opportunities with regard to salary, promotion and professional and personal development.

According to the recruitment guidelines, the best qualified candidates are hired regardless of gender, age, ethnicity or disability. In 2018, the gender breakdown of employees at Norges Bank was 67% men and 33% women, unchanged from 2017.

The Executive Board has set a minimum target of 40% for female employees as a long-term goal. This objective is integrated into strategic work and action plans and is given emphasis in the planning and execution of recruitment processes. The share of women on the staff of Norges Bank was 33% for executive-level employees in NBCBO and 22% for executive-level employees in NBIM. For non-executive employees, the share of women was 43% in NBCBO and 31% in NBIM. These shares are virtually unchanged compared with 2017.

Norges Bank has prioritised gender equality measures for the period 2017- 2019. The three main areas of priority in the current strategy period are recruitment and reputation, career development and an inclusive working environment. Norges Bank focuses particular attention on attracting and retaining female staff. In addition to the focus on the beginning and end of the recruitment process, measures to boost the percentage of women include choosing female economists to promote Norges Bank at educational institutions. The Bank also actively encourages internal and external female candidates to apply for vacant executive positions and assume responsibility for important projects and reports. With employees from 38 nations, Norges Bank has a widely diverse workforce. NBIM has established a women's network to attract, retain and develop female employees. These measures are also integrated into the relevant work processes with a view to ensuring that the work to promote gender equality is integrated as a natural part of the Bank's work processes and culture.

The pay level for women as a percentage of the pay level for men at year-end 2018 was 94% for executives in NBCBO, compared with 95% in 2017, and 88% for executives in NBIM, compared with 93% in 2017. For non-executive employees, the figure was 89% for NBCBO, compared with 88% in 2017, and 82% for NBIM, compared with 80% in 2017.

Norges Bank aims to be a good employer for its staff in all phases of life by offering employees the opportunity to reduce their working hours or to work from home if necessary. Employees over the age of 62 years are entitled to five extra days off per year.

Health and safety

Norges Bank's priority is protecting the lives and health of all those who work in the Bank. In 2018, three workplace accidents or injuries directly relating to work conducted at Norges Bank's office premises or conference and holiday facilities were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2018. These data do not include the health and safety results for properties in the investment portfolio.

The Bank has a safety representative system in accordance with the Working Environment Act. The employees in each safety area elect their safety representative. The senior safety representative, who is on the Bank's Working Environment Committee, is subsequently elected from among the elected safety representatives. The duty of each safety representative is to safeguard the interests of employees in matters relating to the working environment.

Reconstruction projects at the Bank are based on the principles of universal design and the Bank provides protective equipment as needed. The Bank has well-equipped fitness facilities for employees and has provided facilities to encourage employees to cycle to work. An indoor climate report has also been completed, describing measures to further improve the indoor climate and increase flexibility, which underpin the ongoing upgrade of the building. The Bank receives feedback on the physical and psycho-social working environment through annual individual employee health appraisal interviews conducted by the Bank's health service and through the Bank's annual working environment surveys.

Management programme seminar at Norges Bank

According to the reports, job satisfaction is high and working conditions in general are satisfactory. Upgrading of the building is in progress, and more work stations are being established to improve the indoor climate and the use of space. The Bank's Working Environment Committee, comprised of management and employee representatives, assesses the working environment and climate of cooperation at the Bank as positive.

Cooperation with trade unions

The Bank's management has close contact with the trade unions at the Bank. The cooperation is valuable and helps the Bank to develop in a positive direction. The Bank engages in negotiations and discussions to create the basis for a well-functioning workplace. Forums for discussion include the Co-determination and Personnel Committee, the Bank's Working Environment Committee and regular contact meetings. The Executive Board includes two employee representatives, who attend Board meetings when administrative matters are on the agenda.

Sickness absence and inclusion in the workplace

Sickness absence at the Bank remained stable at a low level of 2.0% in 2017, which is somewhat lower than the level of 2.2% at end-2017. As an inclusive workplace enterprise, the Bank is committed to working systematically and with a long-term perspective to maintain sickness absence at a low level. The Bank accommodates employees needing special adaptations and enables older employees to extend their professional careers in line with national objectives.

Norges Bank's environmental strategy

1. **Norges Bank will contribute to sustainable developments within the limits of our mission and tasks.**

   A. We will ensure that environmental considerations are integrated throughout.
   B. We will examine the Bank's interface with the external physical environment.
   C. We will use targeted measures to limit the Bank's negative effect on the environment.
   D. We will provide the facilities to enable employees and providers to make greener choices.

2. **Established environmental management practices will be integrated in the management of the Bank.**

   A. We will conduct operations in line with recognised standards for environmentally responsible operation.
   B. We will be an environmentally responsible and healthy workplace.
   C. We will choose cost-effective environmental measures that meet the needs of the Bank.

3. **Staff will have environmental competence in the operational areas where this is appropriate.**

   A. We will contribute to the spread of knowledge concerning the importance of climate change for economic developments and stability.
   B. We will use our environmental competence to understand our own effect on the environment and identify measures.
   C. We will assess environmental factors in investment management in order to protect the fund's assets in the long term.[1]

4. **Norges Bank will be transparent about our environmental responsibility.**

   A. We will inform the public through transparent and active communication.
   B. Our communication will contribute to knowledge-based social debate.

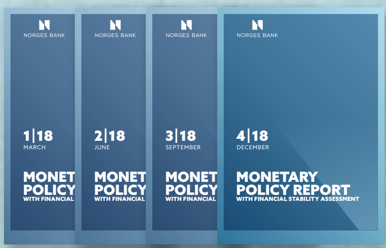
1 Assessments of environmental factors in investment management are governed by the GPFG's management mandate and the principles for responsible investment issued by Norges Bank's Executive Board.

Detailed information about Norges Bank's work in 2018 can be found in the following reports

ANNUAL REPORTING FOR 2018

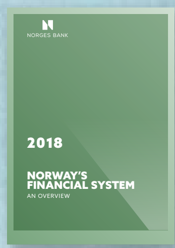
www.norges-bank.no/en/Published/Publications/
www.nbim.no/en/publications/reports/

NORGES BANK'S PUBLICATIONS IN 2018



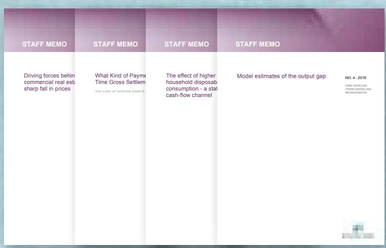
Monetary Policy Report with financial stability assessment

Financial infrastructure report

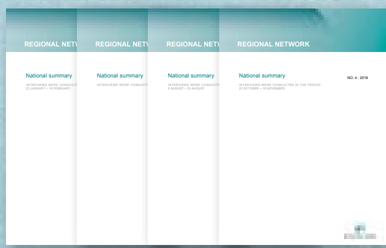


Norway's financial system

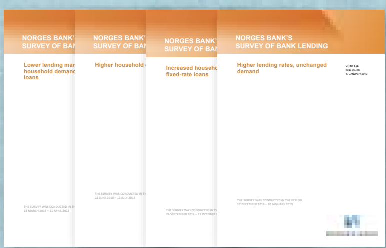
Financial stability report



Norges Bank Staff Memo

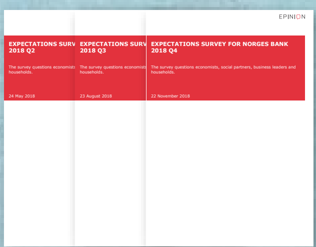


Regional Network reports (summary)



Norges Bank's Survey of Bank Lending

Management of Norges Bank's foreign exchange reserves



Expectations survey

Quarterly reports Government Pension Fund Global

Main points

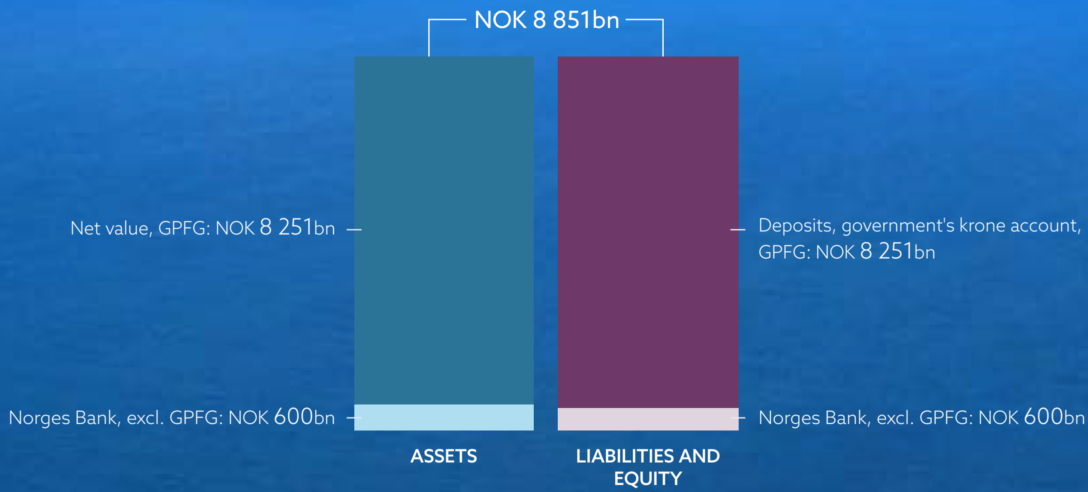
Income statement

	2018	2017
NET INCOME from financial instruments	NOK –2bn	NOK 30bn
FOREIGN EXCHANGE GAINS/LOSSES	NOK 19bn	NOK -1bn
OTHER INCOME	NOK 4.7bn	NOK 4.9bn
– of which management fee, GPFG	NOK 4.5bn	NOK 4.7bn
OPERATING EXPENSES	NOK -5.7bn	NOK -5.9bn
– of which management costs, GPFG	NOK -4.5bn	NOK -4.7bn
TOTAL COMPREHENSIVE INCOME	NOK 16bn	NOK 28bn
TRANSFER TO THE TREASURY	NOK 15bn	NOK 14bn

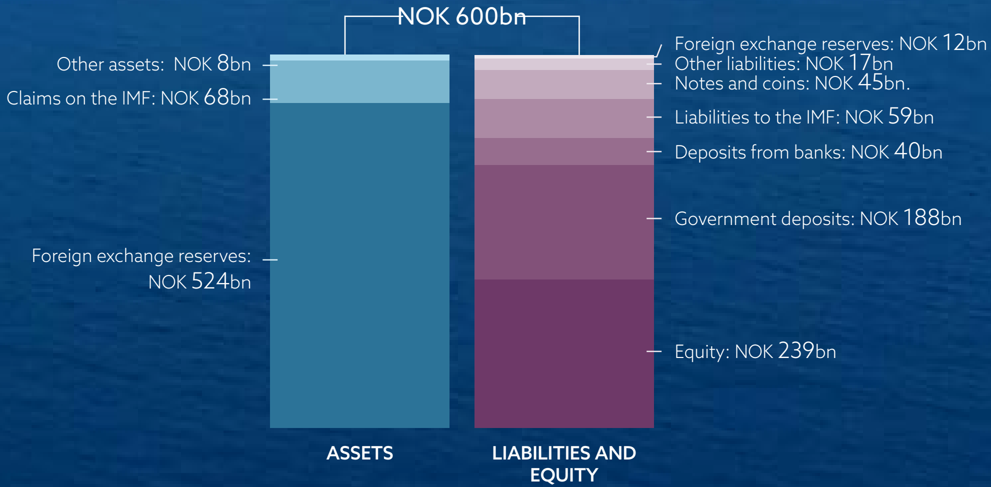
Main points

Balance sheet

NORGES BANK



NORGES BANK EXCL. GOVERNMENT PENSION FUND GLOBAL



Annual financial statements 2018

FINANCIAL STATEMENTS

NOTES

REPORT, RESOLUTION AND STATEMENT

Income statement

Amounts in NOK millions	Note	2018	2017
NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS			
Net income/expense from:			
-Equities	3	-4 310	29 063
-Bonds	3	3 437	1 618
-Financial derivatives		62	-92
-Secured lending	9,10	257	163
Interest income and expense from deposits and short-term borrowing		33	5
Interest income from lending to banks	18	81	14
Interest expense on deposits from banks and the Treasury	18	-1 918	-496
Net interest income from the IMF	17	68	33
Tax expenses	3	-64	-71
Other financial income/expenses		-25	-10
Net income from financial instruments before foreign exchange gains/losses		**-2 379**	**30 227**
Foreign exchange gains/losses	8	19 182	-1 488
Net income/expense from financial instruments		**16 803**	**28 739**
MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)			
Total comprehensive income, GPFG	20	-266 126	1 037 764
Withdrawn from/Transferred to the krone account of the GPFG	20	266 126	-1 037 764
Of which management fee, GPFG	13	4 544	4 728
Management of the Government Pension Fund Global		**4 544**	**4 728**
OTHER OPERATING INCOME			
Other operating income	**15**	**125**	**124**
OPERATING EXPENSES			
Personnel expenses	12	-1 799	-1 908
Other operating expenses	15	-3 612	-3 792
Depreciation, amortisation and impairment losses	14	-285	-235
Total operating expenses		**-5 696**	**-5 935**
Profit/loss for the period		**15 776**	**27 656**
STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the period		15 776	27 656
Change in actuarial gains/losses	11	110	-2
Total comprehensive income		**15 886**	**27 654**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
Financial assets			
Deposits in banks		23 894	8 533
Secured lending	9,10	5 984	25 559
Unsettled trades		796	2 046
Equities	4	91 127	173 403
Equities lent	4,9,10	7 292	10 584
Bonds	4	394 995	299 357
Financial derivatives		-	2
Claims on the IMF	17	68 015	67 965
Lending to banks	18	-	250
Other financial assets	13	5 030	5 707
Total financial assets		**597 133**	**593 406**
Net value, GPFG			
Net value, GPFG	**20**	**8 251 401**	**8 483 727**
Non-financial assets			
Pensions	11	141	-
Non-financial assets	14	2 420	2 563
Total non-financial assets		**2 561**	**2 563**
TOTAL ASSETS		**8 851 095**	**9 079 696**

Amounts in NOK millions	Note	31 Dec. 2018	31 Dec. 2017
LIABILITIES AND EQUITY			
Financial liabilities			
Short-term borrowing		685	-
Secured borrowing	9,10	201	286
Unsettled trades	9,10	10 034	6 617
Financial derivatives		20	10
Other financial liabilities		2 645	1 916
Liabilities to the IMF	17	58 713	59 221
Deposits from banks	18	40 434	63 968
Deposits from the Treasury	18	187 653	162 386
Notes and coins in circulation	16	44 803	48 420
Total financial liabilities		**345 188**	**342 824**
Deposits in krone account, GPFG			
Deposits in krone account, GPFG	**20**	**8 251 401**	**8 483 727**
Other liabilities			
Pensions	11	-	59
Other liabilities	19	15 419	15 087
Total other liabilities		**15 419**	**15 146**
Total liabilities		**8 612 008**	**8 841 697**
Equity		**239 087**	**237 999**
TOTAL LIABILITIES AND EQUITY		**8 851 095**	**9 079 696**

Oslo, 6 February 2019

Øystein Olsen
(Governor/Chair)

Jon Nicolaisen
(First Deputy Chair)

Egil Matsen
(Second Deputy Chair)

Kristine Ryssdal

Karen Helene Ulltveit-Moe

Kjetil Storesletten

Kathryn M. Baker

Steinar Juel

Arne Hyttnes
(First alternate)

Kristine Landmark
(Second alternate)

Mona Helen Sørensen
(Employee representative)

Kjersti-Gro Lindquist
(Employee representative)

Statement of cash flows

Amounts in NOK millions, inflows (+)/outflows (-)	2018	2017
Operating activities		
Receipts of dividend from equities	4 295	4 169
Receipts of interest from bonds	4 698	4 981
Net receipts of interest and fee from secured lending and borrowing	299	211
Receipts of dividend, interest and fee from holdings of equities and bonds	*9 292*	*9 361*
Net cash flow from purchase and sale of equities	80 727	16 858
Net cash flow from purchase and sale of bonds	-77 673	-30 898
Net cash flow financial derivatives	250	-227
Net cash flow related to deposits in banks	94	-5 210
Net cash flow secured lending and borrowing	19 464	-8 656
Net cash flow related to other expenses, other assets and other liabilities	-11 245	-9 385
Net cash flow related to other financial assets and other financial liabilities	-22 325	13 307
Net cash flow from the Treasury	25 267	15 194
Of which cash flows between the GPFG and the Treasury	*-32 520*	*60 837*
Management fee received from the GPFG	4 728	3 731
Net cash inflow/outflow from operating activities	**28 579**	**4 075**
Investing activities		
Net cash flow related to non-financial assets and liabilities	-144	-237
Net cash inflow/outflow from investing activities	**-144**	**-237**
Financing activities		
Cash flow to the Treasury from the Transfer Fund	-14 333	-17 726
Net cash inflow/outflow from financing activities	**-14 333**	**-17 726**
Net change in cash		
Deposits in banks at 1 January	8 533	22 728
Net increase/decrease of cash in the period	14 104	-13 888
Net foreign exchange gains and losses on cash	574	-307
Deposits in banks and short-term borrowing at 31 December	**23 209**	**8 533**

ACCOUNTING POLICY

The statement of cash flows has been prepared in accordance with the direct method. Major classes of cash receipts and cash payments are presented separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown net.

Cash transfers between the GPFG and the Norwegian government are classified as a financing activity in the statement of cash flows in the GPFG's financial statements. In Norges Bank's financial statements, transfers are classified as operating activities, since Norges Bank is the manager of the GPFG.

Statement of changes in equity

Amounts in NOK millions	Adjustment Fund	Transfer Fund	Total equity
1 January 2017	189 227	35 452	224 679
Total comprehensive income	20 107	7 547	27 654
Transferred to Other liabilities	-	-14 334	-14 334
31 December 2017	**209 334**	**28 665**	**237 999**
1 January 2018	209 334	28 665	237 999
Total comprehensive income	156	15 730	15 886
Transferred to Other liabilities	-	-14 798	-14 798
31 December 2018	**209 490**	**29 597**	**239 087**

ACCOUNTING POLICY

The statement of changes in equity for Norges Bank has been prepared in accordance with IAS 1 *Presentation of Financial Statements*.

Norges Bank's equity comprises an Adjustment Fund and a Transfer Fund. 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, as follows:

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[1] *and 40% of the Bank's net foreign exchange reserves, excluding the immunisation portfolio*[2] *and capital managed for the Government Petroleum Fund*[3]*, other claims/liabilities abroad*[4] *or any other commitments that the Executive Board considers to involve a not insignificant foreign 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.

1 The Bank does not hold any Norwegian securities at 31 December 2018.
2 The immunisation portfolio is not in use at 31 December 2018.
3 Government Pension Fund Global (GPFG).
4 Primarily net claims on/liabilities to the IMF.

Notes

Note 1 General information

1. INTRODUCTION

Norges Bank is Norway's central bank. Norges Bank performs important public tasks and manages substantial assets on behalf of the nation. The aim of central banking operations is to promote stability in the economy. Under the Norges Bank Act, the Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy, promote robust and efficient payment systems and financial markets and manage Norway's foreign exchange reserves. Norges Bank manages the Government Pension Fund Global (GPFG) on behalf for the Ministry of Finance in accordance with Section 2, second paragraph, of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

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 Storting (Norwegian parliament) has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to Norges Bank Investment Management (NBIM).

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the *krone account*). Norges Bank manages the krone account in its own name by investing the funds in an investment portfolio consisting of equities, fixed income instruments and real estate. The GPFG is invested in its entirety outside of Norway.

In accordance with the management mandate for the GPFG, transfers are made to and from the krone account. When the government's petroleum revenues exceed government spending of petroleum revenues over the central government budget, funds will be deposited in the krone account. In the opposite case, funds will be withdrawn. Transfers to and from the krone account entail a corresponding change in *Owner's capital* for the GPFG.

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 investment portfolio under management is equal to the amount on deposit in the krone account at the time in question. The net value of the investment portfolio, which comprises the GPFGs market value less management fee payable, is presented on a separate line as an asset in Norges Bank's balance sheet, and the krone account is, in the same amount, presented as a liability to the Ministry of Finance.

2. APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements of Norges Bank for 2018, which include the financial reporting for the GPFG, were approved by the Executive Board on 6 February 2019 and adopted by the Supervisory Council on 26 February 2019.

Note 2 Accounting policies

This note describes accounting policies, significant estimates and accounting judgements that are relevant to the financial statements as a whole. Additional accounting policies, significant estimates or accounting judgements are included in the respective statements and notes.

SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

The preparation of the financial statements involves the use of uncertain estimates and assumptions regarding future events that affect recognised amounts for assets, liabilities, income and expenses. Estimates are prepared on the basis of historical experience and reflect management's expectations about future events. The actual outcome may deviate from the estimates. The preparation of the financial statements also involves making accounting judgements in connection with the application of accounting policies, which can have a considerable effect on the financial statements.

1. BASIS OF PREPARATION

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, 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 adopted by the EU, but sets certain specific requirements for the presentation of the GPFG and subsidiaries. Norges Bank's financial statements include the financial reporting for the GPFG (Note 20 *Government Pension Fund Global (GPFG)*). Pursuant to the regulation concerning annual financial reporting for Norges Bank (the Regulation), the financial reporting for the GPFG is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, with the additions and exceptions set out in the Regulation.

The annual financial statements are prepared with a closing date of 31 December, and are presented in Norwegian kroner (NOK), rounded to the nearest million. Rounding differences may occur.

2. CHANGES IN ACCOUNTING POLICIES AND IMPLEMENTATION OF NEW AND/OR AMENDED STANDARDS OR INTERPRETATIONS

IFRS 9 *Financial Instruments* was implemented on 1 January 2018 and replaced IAS 39 *Financial Instruments – Recognition and Measurement*. IFRS 9 introduced new principles for classification and measurement, impairment of some financial assets and hedge accounting. Principles relevant for financial reporting are discussed below. IFRS 9 had no impact on how financial instruments are classified and measured. The accounting policies applied are consistent with those of the previous financial year.

No other amendments to IFRS that became effective in 2018 had any effect on the preparation and presentation of the financial statements.

3. ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS AS A WHOLE

3.1 Financial assets and liabilities

<u>Recognition and derecognition</u>

Financial assets and liabilities are recognised in the balance sheet upon becoming a party to the instrument's contractual provisions.

Financial assets are derecognised when the contractual rights to the cash flows expire, or when the financial assets and substantially all the risks and rewards of ownership are transferred. See Note 9 *Secured lending and borrowing* and Note 20.12 *Secured lending and borrowing* for details on transferred assets that are not derecognised.

Financial liabilities are derecognised when the obligation has been settled, extinguished or cancelled.

Purchase or sale of a financial asset is recognised on the trade date when the contractual terms require settlement on normal market terms.

Classification and measurement
Financial assets are classified based on the business model used for managing the assets and their contractual cash flow characteristics. The investment portfolio of the GPFG is managed in accordance with the management mandate issued by the Ministry of Finance, the investment mandate issued by the Executive Board of Norges Bank and investment strategies established by the management of Norges Bank Investment Management. These mandates and strategies, including the risk management strategies, require financial assets to be managed and evaluated on a fair value basis. The financial assets in the GPFG are therefore measured at fair value through profit or loss. The same applies to Norges Bank's foreign exchange reserves. The foreign exchange reserves are managed in accordance with the principles issued by the Executive Board and are managed and their performance evaluated on a fair value basis. Other financial assets are measured at amortised cost.

Financial liabilities are classified as measured at amortised cost, except for financial liabilities designated as at fair value through profit or loss. This applies to financial liabilities integrated into the foreign exchange reserves that are managed and their performance evaluated on a fair value basis. For the GPFG, financial liabilities, except for *Management fee payable*, are integrated into the investment portfolio that is managed and evaluated on a fair value basis, and are therefore designated at fair value through profit or loss. *Management fee payable* is measured at amortised cost.

Financial derivatives are held for trading and are therefore measured at fair value through profit or loss.

Impairment
For financial assets classified as measured at amortised cost, an allowance for expected credit losses is recognised. The recognised amount comprises expected credit losses within the 12 months after the reporting date. In the event of a substantial increase in credit risk, an expected loss allowance is recognised over the expected life of the asset.

3.2 Subsidiaries
Investments in unlisted real estate are made through entities controlled by the GPFG, which are exclusively established as part of the management of the GPFG. Control over an entity exists when the GPFG is exposed to or has rights to variable returns from its participation in the entity in question and is able to influence these returns by exercising power over the entity to which those rights relate. For further information, see Note 20.15 *Interests in other entities*.

The GPFG is an investment entity in accordance with IFRS 10 *Consolidated Financial Statements*. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities.

! ACCOUNTING JUDGEMENT
The GPFG is an investment entity based on the following:

a) It obtains funds from the Norwegian government, a related party and its sole owner, and delivers professional investment services, being the management of the fund, to the Norwegian government,
b) It commits to the Norwegian government that its business purpose is to invest solely for capital appreciation and investment income,
c) It measures and evaluates returns for all its investments exclusively on a fair value basis.

An investment entity shall have a strategy that defines the time horizon for the realisation of investments. The GPFG has a very long time horizon. After an overall assessment, it has been concluded that the GPFG meets the criteria in the definition of an investment entity.

Subsidiaries measured at fair value through profit or loss
Subsidiaries that invest in real estate through ownership interests in other entities, are investment entities. These subsidiaries are measured at fair value through profit and loss in accordance with the principles for financial assets, as described in Section 3.1 above and are presented in the balance sheet as *Unlisted real estate*. See Note 20.6 *Unlisted real estate* for supplementing policies.

Consolidated subsidiaries
Subsidiaries that perform investment-related services, and which are not investment entities themselves are consolidated. Consolidated subsidiaries do not own, directly or indirectly, investments in real estate.

4. NEW STANDARDS WITH EFFECT FROM 2019 OR LATER

Issued IFRS standards with effective dates from 2019 or later that are considered applicable to the Bank's financial reporting are described below. Other standards, changes to existing standards and interpretations that have been issued are expected to be immaterial or not applicable at the time of implementation.

IFRS 16 Leases
IFRS 16 *Leases* is effective from 1 January 2019 and regulates the recognition of lease agreements and related note disclosures. Norges Bank has assessed the expected impact on the financial statements. Based on the current portfolio of relevant contracts, the standard is not expected to have an impact on the financial statements upon implementation on 1 January 2019.

Note 3 Income/expense from Equities and Bonds

ACCOUNTING POLICY

The following accounting policies apply to the respective income and expense elements:

Dividends are recognised when the dividend is formally approved by the general meeting or equivalent decision-making body.

Interest income is recognised when the interest is earned. *Interest expense* is recognised as incurred.

Realised gain/loss primarily represents amounts realised when assets or liabilities have been derecognised. Realised gain/loss includes transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in *Equities* and *Bonds,* these normally include commission fees and stamp duties.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet line item that are not attributable to the aforementioned categories.

Table 3.1 Income/expense from equities

Amounts in NOK millions	2018	2017
Dividends	4 257	4 145
Realised gain/loss	30 691	8 708
Unrealised gain/loss	-39 258	16 210
Income/expense from equities before foreign exchange gains/losses	**-4 310**	**29 063**

Table 3.2 Income/expense from bonds

Amounts in NOK millions	2018	2017
Interest	4 872	4 880
Realised gain/loss	-1 411	-1 200
Unrealised gain/loss	-24	-2 062
Income/expense from bonds before foreign exchange gains/losses	**3 437**	**1 618**

Tax expense

Norges Bank is exempt from income tax on its operations in Norway, but is liable to taxes in a number of foreign jurisdictions. Tax expense comprises income tax that will not be refunded under local tax rules or tax treaties to Norges Bank. This pertains primarily to withholding tax on dividends related to the foreign exchange reserves' equity investments.

Tax expense for 2018 was NOK 63.5m, compared with NOK 71m in 2017.

Tax paid in Japan and Germany amounts to NOK 18.6m and NOK 16.4m, respectively. Norway's tax treaties with these countries entail a tax rate of 15%. Tax paid pertains to withholding tax on dividends. Tax expense in other respects refers to smaller amounts divided among a number of other jurisdictions.

Accounting policies for taxation are further detailed in Note 20.9 *Tax*.

Note 4 Holdings of Equities and Bonds

ACCOUNTING POLICY

Investments in equities and bonds are measured at fair value through profit or loss. Accrued dividends and interest are presented in the balance sheet on the same line as the underlying financial instrument and are specified in Tables 4.1 and 4.2 for *Equities* and *Bonds*, respectively. The balance sheet line *Equities* includes investments in depository receipts (GDR/ADR) and units in listed funds. Lent equities are presented separately. For more information on lent securities, see Note 9 *Secured lending and borrowing.*

Financial derivatives are measured at fair value through profit or loss. Variation margin for exchange traded futures is regarded as settled, and amounts are presented in the balance sheet as *Deposit in banks*. Norges Bank does not apply hedge accounting, and no financial instruments are therefore designated as hedging instruments.

For further information on fair value measurement, see Note 6 *Fair value measurement.*

Changes in fair value are recognised in the income statement and specified in Note 3 *Income/ expense from Equities and Bonds.*

Table 4.1 Equities

Amounts in NOK millions	31 Dec. 2018		31 Dec. 2017	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities	98 419	131	183 987	170
Total equities	**98 419**	**131**	**183 987**	**170**
Of which equities lent	*7 292*	-	*10 584*	-

Table 4.2 Bonds

Amounts in NOK millions	31 Dec. 2018			31 Dec. 2017		
	Nominal value[1]	Fair value including accrued interest	Accrued interest	Nominal value[1]	Fair value including accrued interest	Accrued interest
Bonds	390 401	394 995	1 733	292 122	299 357	1 559
Total bonds	**390 401**	**394 995**	**1 733**	**292 122**	**299 357**	**1 559**

[1] 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.

Bonds in Norges Bank's balance sheet are in their entirety associated with management of the foreign exchange reserves. Norges Bank issues government debt and enters into financial contracts in the area of government debt management in the name of the Ministry of Finance. Transactions related to government debt management are recognised in the government accounts and not in Norges Bank's balance sheet.

Bank for International Settlements (BIS)
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.

The BIS is a limited liability company owned by central banks. 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.

When the shares were issued, the BIS required payment of only 25% of the share capital, with the remaining 75% committed capital not recognised in the balance sheet.

Shares in the BIS and dividend received from the BIS, as shown in Table 4.3, are also included as part of equities in Table 4.1 and dividends in Table 3.1, respectively.

Table 4.3 Shares in the BIS

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Shares in the BIS	200	200
Commited capital, not recognised	387	374
Dividend received from the BIS	23	30

Note 5 Foreign exchange reserves

The foreign exchange reserves are to be available for use in foreign exchange market transactions or as part of the conduct of monetary policy, with a view to promoting financial stability and to meet Norges Bank's international commitments. The foreign exchange reserves excluding the petroleum buffer portfolio are divided into a fixed income portfolio and an equity portfolio. The fixed income portfolio and petroleum buffer portfolio are managed by Norges Bank Markets and ICT. The equity portfolio is managed by NBIM. See further discussion in Note 7 *Risk*.

The petroleum buffer portfolio is intended to receive the government's cash flow from petroleum activities in foreign currency and any transfers to and from the GPFG. The purpose of the portfolio is to provide for an appropriate management of the government's need for converting foreign currency and NOK.

Tables 5.1 and 5.2 show income statements and balance sheets, respectively, for the foreign exchange reserves by portfolio. Since the foreign exchange reserves are presented as they are operationally managed by Norges Bank, there may be minor differences between this presentation and presentation under the IMF definition of foreign exchange reserves.

Table 5.1 Foreign exchange reserves by portfolio

Amounts in NOK millions				2018
		Portfolios		
Income statement	Equities	Fixed Income	Petroleum buffer	Total exchange reserves
Net income/expenses from:				
- Equities	-4 333	-	-	-4 333
- Bonds	6	3 431	-	3 437
- Financial derivatives	107	-45	-	62
- Secured lending	59	-7	205	257
Interest income and expense from deposits and short-term borrowing	-2	35	-	33
Tax expense	-64	-	-	-64
Other financial income/expenses	-17	-	-	-17
Net income from financial instruments before foreign exchange gains/losses	**-4 244**	**3 414**	**205**	**-625**
Foreign exchange gains/losses	3 773	14 567	585	18 926
Net income from financial instruments	**-471**	**17 981**	**790**	**18 300**

Amounts in NOK millions				2017
		Portfolios		
Income statement	Equities	Fixed Income	Petroleum buffer	Total exchange reserves
Net income/expenses from:				
- Equities	29 033	-	-	29 033
- Bonds	-	1 618	-	1 618
- Financial derivatives	-10	-82	-	-92
- Secured lending	42	26	95	163
Interest income and expense from deposits and short-term borrowing	-	7	-2	5
Tax expense	-71	-	-	-71
Other financial income/expenses	-5	-	-	-5
Net income from financial instruments before foreign exchange gains/losses	**28 989**	**1 569**	**93**	**30 651**
Foreign exchange gains/losses	-1 285	794	-1 016	-1 507
Net income from financial instruments	**27 704**	**2 363**	**-923**	**29 144**

Table 5.2 Foreign exchange reserves by portfolio

Amounts in NOK millions		Portfolios		31 Dec. 2018
Balance sheet	Equities	Fixed income	Petroleum buffer	Total exchange reserves
FINANCIAL ASSETS				
Deposits in banks	49	19 224	4 447	23 720
Secured lending	201	3 786	1 997	5 984
Unsettled trades	3	793	-	796
Equities	90 927	-	-	90 927
Equities lent	7 292	-	-	7 292
Bonds	-	394 995	-	394 995
Financial derivatives	-	-	-	-
Other financial assets	33	-	-	33
Total financial assets	**98 505**	**418 798**	**6 444**	**523 747**
FINANCIAL LIABILITIES				
Short-term borrowing	685	-	-	685
Secured borrowing	201	-	-	201
Unsettled trades	-	9 994	40	10 034
Financial derivatives	-	3	17	20
Other financial liabilities	154	-	881	1 035
Total financial liabilities	**1 040**	**9 997**	**938**	**11 975**
Net foreign exchange reserves	**97 465**	**408 801**	**5 506**	**511 772**

Amounts in NOK millions		Portfolios		31 Dec. 2017
Balance sheet	Equities	Fixed income	Petroleum buffer	Total exchange reserves
FINANCIAL ASSETS				
Deposits in banks	63	3 867	4 446	8 376
Secured lending	286	4 856	20 417	25 559
Unsettled trades	88	1 958	-	2 046
Equities	173 203	-	-	173 203
Equities lent	10 584	-	-	10 584
Bonds	-	299 357	-	299 357
Financial derivatives	2	-	-	2
Other financial assets	74	-	399	473
Total financial assets	**184 300**	**310 038**	**25 262**	**519 600**
FINANCIAL LIABILITIES				
Short-term borrowing	-	-	-	-
Secured borrowing	286	-	-	286
Unsettled trades	-	4 794	1 823	6 617
Financial derivatives	-	-	10	10
Other financial liabilities	292	-	-	292
Total financial liabilities	**578**	**4 794**	**1 833**	**7 205**
Net foreign exchange reserves	**183 722**	**305 244**	**23 429**	**512 395**

Note 6 Fair value measurement

ACCOUNTING POLICY

All assets and liabilities presented as *Equities, Bonds, Financial derivatives, Secured lending and borrowing, Deposits in banks*, and *Cash collateral posted and received* are measured at fair value through profit or loss in the balance sheet.

Fair value, as defined by IFRS 13 *Fair Value Measurement*, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

1. INTRODUCTION

Fair value for the vast majority of assets and liabilities is based on official closing rates and quoted market prices. If the market for a security or an asset is not active, fair value is established by using standard valuation techniques. Estimating fair value may be complex and require the use of judgement, in particular when observable inputs are not available. The valuation risk addressed by the control environment at Norges Bank, which is responsible for fair value measurement, and is described in Section 5 of this note.

2. THE FAIR VALUE HIERARCHY

All securities in the foreign exchange reserves are measured at fair value. The securities have been classfied in the fair value hierarchy presented in Table 6.1. The classification is determined by the observability of the market inputs used in the fair value measurement:

- Level 1 comprises assets that are valued on based on unadjusted quoted prices in active markets. An active market is a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Assets and liabilities classified as Level 2 are valued using models with inputs that are either directly or indirectly observable. Inputs are considered observable when they are developed using market data reflecting actual events or transactions.
- Assets classified as Level 3 are valued using models with significant use of unobservable inputs. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset.

An overview of models and valuation techniques with their respective observable and unobservable inputs, categorised by type of instrument, is provided in Section 4 of this note.

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with significant use of unobservable inputs. A considerable degree of judgement is applied in determining the assumptions that market participants would use when pricing the asset or liability, when observable market data are not available.

Table 6.1 Foreign exchange reserves investments by level of valuation uncertainty

Amounts in NOK millions	Level 1		Level 2		Level 3		Total	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Equities	97 862	183 183	357	603	-	1	98 219	183 787
Bonds	392 507	299 357	2 488	-	-	-	394 995	299 357
Financial derivatives (assets)	-	2	-	-	-	-	-	2
Financial derivatives (liabilities)	-20	-10	-	-	-	-	-20	-10
Other[1]	-	-	18 578	29 259	-	-	18 578	29 259
Total	**490 349**	**482 532**	**21 423**	**29 862**	**-**	**1**	**511 772**	**512 395**
Total (percent)	**95.8**	**94.2**	**4.2**	**5.8**	**-**	**-**	**100.0**	**100.0**

[1] *Other* comprises other assets and liabilities limited to money market instruments, including reverse repurchase agreements, deposits in banks, short-term borrowing, unsettled trades and other assets and liabilities.

At year-end 2018, the valuation uncertainty for the foreign exchange reserves was generally unchanged compared with year-end 2017. The majority of foreign exchange reserves is associated with low valuation risk and is classified as Level 1. 99.6% of equity holdings and 99.4% of bond holdings are classified as Level 1, and valuation is thus based on quoted market prices.

3. MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

There have been no substantial movements between levels in the fair value hierarchy and the allocation is virtually unchanged from 2017.

4. VALUATION TECHNIQUES

Norges Bank has defined hierarchies for which price sources are to be used for valuation. Holdings that are included in the benchmark indices are normally valued in accordance with the index providers' prices, while the remaining holdings of equities and bonds are valued almost exclusively using prices from other reputable external price providers. For equities and derivatives traded in active markets (Level 1), the close price is used. For bonds traded in active markets, the bid price is generally used.

The next section sets out the valuation techniques used for equities and bonds classified as Level 2 in the fair value hierarchy.

Equities (Level 2)
Equities that are valued based on models with observable inputs provided by vendors are classified as Level 2 in the fair value hierarchy. These holdings are not traded in active markets and include listed shares in companies where trading has been suspended. The valuation models take into account various observable market inputs, such as the price of comparable equity quotes, last traded price and volume.

Bonds (Level 2)
Bonds that are valued based on indicative quotes or liquid comparable issues are classified as Level 2. These holdings usually consist of less liquid bonds than those that are actively traded.

5. CONTROL ENVIRONMENT

The control environment for fair value measurement in NBIM and Norges Bank Markets and ICT is organised around a formalised and documented accounting and valuation policy and guidelines which are supported by work and control procedures. The NBIM policy document lays down valuation policies and outlines procedures for NBIM's valuation committee. The portfolios managed by Norges Bank Markets and ICT contain only liquid government securities, where valuation risk is very low. Any questions are discussed by a separate management committee.

The valuation environment has been adapted in accordance with market standards and established practices for valuation. This is implemented in practice in the form of daily valuation of all holdings. These processes are scalable to market changes and are based on internal and external data solutions.

All holdings and investments are generally valued by external, independent price providers. They have been chosen on the basis of analyses performed by the Norges Bank units responsible for valuation.

Price providers are monitored 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 not sufficiently liquid for valuation to be based on quoted prices, widely accepted models are used. Observable inputs are used where 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 the valuation departments. Controls are based on defined thresholds and sensitivities, which are monitored and adjusted in accordance with prevailing market conditions. At each month-end, more extensive controls are performed to ensure valuation in accordance with fair value.

In NBIM, valuation memos and reports 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 includes several members of NBIM's 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.

6. OTHER INVESTMENTS

Norges Bank holds equity investments other than those mentioned in Table 6.1. These are investments undertaken by Norges Bank in its role as 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. The shares in the Bank for International Settlements (BIS) are valued at NOK 200m and are allocated to Level 3 in the fair value hierarchy. Valuation is 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.

Note 7 Investment risk

ORGANISATION
The *Executive Board* has the overarching responsibility for risk management at Norges Bank and has established principles for risk management in Central Banking Operations, including financial risk. The Executive Board also lays down the overarching principles for the management of Norges Bank's foreign exchange reserves, including strategic asset allocation, benchmark indexes, investment universe and overarching risk measures.

The Risk and Investment Committee is a preparatory and advisory body to strengthen and streamline the Executive Board's work related to investment strategy and risk limits for the foreign exchange reserves.

The Governor is responsible for the management of the foreign exchange reserves. The Governor has operationalised the Executive Board's principles in guidelines issued for the management for the equity portfolio, fixed income portfolio and petroleum buffer portfolio. Operational responsibility for management has been delegated to NBIM and Norges Bank Markets and ICT, respectively, with supplemental guidelines.

FRAMEWORK
The composition of the foreign exchange reserves and associated risk depends primarily on the strategic equity allocation and the portfolios' benchmark indexes, which are both defined by the Executive Board.

Towards the end of 2018, the Executive Board decided to reduce the strategic equity allocation in the total equity and fixed income portfolio from 35% to 20%. This was done in response to the annual review of the strategy for the foreign exchange reserves. The Executive Board's principles for management state that if the equity allocation deviates from the strategic equity allocation by more than 4 percentage points on the last trading day of the month, the equity portfolio shall be rebalanced to 20% by the last trading day of the subsequent month.

The benchmark index for the equity portfolio is a tax-adjusted version of the FTSE ALL World Developed Market Index, limited to euro area countries, the US, UK, Japan, Canada, Australia, Switzerland, Sweden and Denmark. The equity portfolio may be invested in cash deposits and equities listed on a regulated and recognised exchange.

The benchmark index for the fixed income portfolio is a market-weighted index of all nominal government bonds with a residual maturity of between one month and 10 years issued by France, Germany, Japan, the UK and the US. The fixed income portfolio may be invested in cash deposits and in Treasury bills and government bonds issued by France, Germany, Japan, the UK and the US.

No benchmark index has been set for the petroleum buffer portfolio. The purpose of the portfolio is to provide for an appropriate management of the government's need for converting foreign currency and NOK and for and any transfers to and from the GPFG. The petroleum buffer portfolio is invested in short-term fixed income instruments.

Through management of the foreign exchange reserves, Norges Bank is exposed to various types of financial risk, including market risk, credit risk and counterparty risk. For the management of the foreign exchange reserves, risk management is defined as the management of these risks. The units with operational responsibility for management have the responsibility for managing risk in accordance with current principles and guidelines.

Market risk is defined as the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, as a result of changes in the equity, fixed income or foreign exchange market, including changes in credit risks.

Credit risk is defined as the risk of loss due to an issuer being unable to meet its payment obligations.

Counterparty risk is defined as the risk of loss due to a counterparty default on its obligations. Counterparty risk includes the risk associated with counterparty insolvency, settlement risk and custodial risk.

Risk management process
Norges Bank employs several measurement methodologies, processes and systems to control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurement methods and processes.

MARKET RISK

Continuous monitoring, measurement and assessment of market risk are performed along multiple dimensions. Combining different and complementary risk measures provides a better insight into the portfolios' risk profile. Norges Bank measures both absolute and relative risk for the investments in the portfolios.

Allocation by country and currency

The foreign exchange reserves primarily contain investments in sovereign bonds and listed companies. In accordance with the investment management framework, the investments are allocated to several countries and currencies. The following tables show investments broken down by region, currency and industry.

Table 7.1 Foreign exchange reserves allocation by asset class and region/sovereign issuer

Amounts in NOK millions		Market value by region/ sovereign issuer	Market value by asset class	31 Dec. 2018 Assets minus liabilities
EQUITY PORTFOLIO				
Equities	Americas	64.8%		63 137
	Europe	22.9%		22 278
	Asia and Oceania	12.3%		12 050
Total equity portfolio			**100.0%**	**97 465**
FIXED INCOME PORTFOLIO				
Bonds	US	50.2%		198 094
	France	19.1%		75 598
	Germany	14.8%		58 540
	UK	7.9%		31 365
	Japan	8.0%		31 398
Total bonds			**96.6%**	**394 995**
Deposits	Americas	75.3%		10 397
	Europe	11.2%		1 547
	Asia and Oceania	13.5%		1 862
Total deposits			**3.4%**	**13 806**
Total fixed income portfolio			**100.0%**	**408 801**
Petroleum buffer portfolio				
Deposits	Europe	100.0%		5 506
Total petroleum buffer portfolio			**100.0%**	**5 506**
Total foreign exchange reserves				**511 772**

Amounts in NOK millions		Market value by region/ sovereign issuer	Market value by asset class	31 Dec. 2017 Assets minus liabilities
EQUITY PORTFOLIO				
Equities	Americas	62.7%		115 220
	Europe	24.4%		44 810
	Asia and Oceania	12.9%		23 692
Total equity portfolio			**100.0%**	**183 722**
FIXED INCOME PORTFOLIO				
Bonds	US	50.2%		150 269
	France	20.0%		60 039
	Germany	14.1%		42 078
	UK	8.0%		24 006
	Japan	7.7%		22 965
Total bonds			**98.1%**	**299 357**
Deposits	Americas	37.4%		2 202
	Europe	41.1%		2 421
	Asia and Oceania	21.5%		1 264
Total deposits			**1.9%**	**5 887**
Total fixed income portfolio			**100.0%**	**305 244**
Petroleum buffer portfolio				
Deposits	Americas	62.8%		14 722
	Europe	37.2%		8 707
Total petroleum buffer portfolio			**100.0%**	**23 429**
Total foreign exchange reserves				**512 395**

Table 7.2 Equity portfolio by industry

Amounts in NOK millions	31 Dec. 2018		31 Dec. 2017	
	Market value	Share	Market value	Share
Financials	20 466	21.0%	41 249	22.5%
Technology	15 074	15.5%	26 046	14.2%
Health care	13 213	13.6%	21 406	11.7%
Industrials	11 720	12.0%	22 972	12.5%
Consumer services	11 447	11.7%	20 157	11.0%
Consumer goods	10 819	11.1%	21 845	11.9%
Oil and gas	6 085	6.2%	11 889	6.5%
Basic materials	3 808	3.9%	8 263	4.5%
Telecommunications	2 826	2.9%	5 136	2.8%
Utilities	2 629	2.7%	4 658	2.5%
Cash	-622	-0.6%	101	0.1%
Total equity portfolio	**97 465**	**100.0%**	**183 722**	**100.0%**

Table 7.3 Foreign exchange reserves 10 largest holdings of equities

Amounts in NOK millions			31 Dec. 2018
	Sector	Market value	Share of equity holdings
Microsoft Corp	Technology	2 210	2.3%
Apple Inc	Technology	2 207	2.2%
Alphabet Inc	Technology	1 812	1.8%
Amazon.com Inc	Consumer services	1 772	1.8%
Berkshire Hathaway Inc	Financials	1 139	1.2%
Johnson & Johnson	Health care	995	1.0%
JPMorgan Chase & Co	Financials	949	1.0%
Facebook Inc	Technology	907	0.9%
Exxon Mobil Corp	Oil and gas	836	0.9%
Pfizer Inc	Health care	731	0.7%
Totalt		**13 558**	**13.8%**

Amounts in NOK millions			31 Dec. 2017
	Sector	Market value	Share of equity holdings
Apple Inc	Technology	4 268	2.3%
Microsoft Corp	Technology	3 125	1.7%
Alphabet Inc	Technology	3 041	1.7%
Amazon.com Inc	Consumer services	2 132	1.2%
Facebook Inc	Technology	1 960	1.1%
JPMorgan Chase & Co	Financials	1 826	1.0%
Johnson & Johnson	Health care	1 816	1.0%
Berkshire Hathaway Inc	Financials	1 793	1.0%
Exxon Mobil Corp	Oil and gas	1 638	0.9%
Bank of America Corp	Financials	1 388	0.8%
Total		**22 987**	**12.5%**

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the value of financial instruments will change owing to movements in foreign exchange rates. Norges Bank has, primarily through the foreign exchange reserves, invested in securities issued and traded in currencies other than NOK. Consequently, the value of Norges Bank's investments will change in a positive or negative direction owing to movements in foreign exchange rates and the value of these investments is therefore exposed to foreign exchange rate risk. See Note 8 *Currency* for further information.

Interest rate risk

A substantial portion of the foreign exchange reserves is invested in sovereign bonds issued by the US, Germany, France, the UK and Japan. The value of fixed income instruments is affected by changes in interest rates in these countries, which in turn affects earnings. Modified duration is a measure of the investments' interest rate sensitivity. At year-end, modified duration was 3.59 for the fixed income portfolio. In isolation, this means that a 1% fall in interest rates corresponds to a 3.59% rise in bond prices. By comparison, modified duration at year-end 2017 was 3.50.

Volatility and correlation risk

Norges Bank uses models to quantify the risk of value changes associated with the foreign exchange reserves. This is measured by the standard deviation of the return and is usually referred to as volatility. Absolute volatility provides an estimate of how much the portfolio value can be expected to change in the course of a year, given the current portfolio composition. Relative volatility provides an indication of how much the portfolio is expected to fluctuate compared with its benchmark index. In accordance with the Executive Board's principles for management of the foreign exchange reserves, the maximum expected relative volatility is set at 0.5 percentage point for the equity and fixed income portfolios, respectively. This implies that that the relative return on the portfolios is expected to lie within the range of ±0.5 percentage points in two out of three years.

For both the equity and fixed income portfolios, a parametric risk model is used. For the fixed income portfolio, daily return data are used where recent observations are given more weight than old ones. For the equity portfolio, the model uses equally weighted weekly return data from the past three years.

These types of risk models make it possible to estimate the risk in a portfolio across asset classes, markets, currencies, securities and instruments. Risk is then expressed as a single numerical value, which takes into account the correlation between risk factors. The models use historical relationships, which provide reliable forecasts in markets that are not experiencing substantial changes in volatility and correlation. Estimates will be less reliable in periods marked by significant market movements. Regular testing of the models is performed to validate the model's ability to estimate risk. Reported risk measures are annualised.

Table 7.4 Portfolio risk

	Expected volatility							
	31 Dec. 2018	Min 2018	Max 2018	Avg. 2018	31 Dec. 2017	Min 2017	Max 2017	Avg. 2017
Equity portfolio	12.2 %	11.9 %	14.2%	12.9%	14.1%	14.1 %	14.8 %	14.6%
Fixed income portfolio	6.4 %	6.0 %	8.0%	6.8%	7.1 %	6.2 %	9.1 %	7.2 %

	Expected relative volatility, basis points							
	31 Dec. 2018	Min 2018	Max 2018	Avg. 2018	31 Dec. 2017	Min 2017	Max 2017	Avg. 2017
Equity portfolio	12	8	18	10	9	9	36	11
Fixed income portfolio	7	6	15	11	10	2	11	8

At year-end 2018, expected absolute volatility was measured at 12.2% for the equity portfolio and 6.4% for the fixed income portfolio. This means that yearly value fluctuations on the order of NOK 12bn and NOK 26bn, respectively, can be expected. At year-end 2017, the corresponding expected value fluctuations were NOK 26bn and NOK 22bn, respectively. The decline volatility in NOK terms is primarily due to the transfer or approximately NOK 85bn from the equity portfolio to the fixed income portfolio in the course of 2018. At year-end 2018, expected relative volatility for the equity and fixed income portfolios was 12 and 7 basis points, respectively, compared with 9 and 10 basis points, respectively, at year-end 2017. During the period of rebalancing towards a lower equity allocation, the Executive Board's principles related to relative volatility were suspended by the Governor.

CREDIT RISK

The fixed income portfolio comprises only sovereign bonds issued by the US, Germany, France, the UK and Japan, all rated investment grade by an external credit rating agency. The credit risk of bond investments in the foreign exchange reserve is therefore low.

Table 7.5 Bonds specified by credit rating

Amounts in NOK millions		31 Dec. 2018		31 Dec. 2017	
	Credit rating[1]	Market value	Share	Market value	Share
Bonds	AAA	256 634	65.0%	192 347	64.2%
	AA	106 963	27.1%	84 045	28.1%
	A	31 398	7.9%	22 965	7.7%
	Lower rating	-	0.0%	-	0.0%
Total bonds		**394 995**	**100.0%**	**299 357**	**100%**

[1] AAA-rated holdings comprise US and German sovereign bonds denominated in USD and EUR, respectively. AA-rated holdings comprise French and UK sovereign bonds denominated in EUR and GBP, respectively. A-rated holding comprise Japanese sovereign bonds denominated in JPY.

COUNTERPARTY RISK

The management of the foreign exchange reserves uses a large number of counterparties. This helps to limit concentration. Counterparty risk is primarily related to securities lending, reverse repurchase agreements, unsecured bank deposits, foreign exchange contracts and futures.

To reduce counterparty exposure, requirements have been set for the credit quality of counterparties. Norges Bank's counterparties usually have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in instances when the counterparty risk is considered very low. Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators.

Counterparty risk is also reduced by setting exposure limits for individual counterparties. Netting agreements are in place for trades in currency contracts and reverse repurchase agreements, and there are collateral requirements for counterparty net positions with a positive market value. Minimum requirements have also been set relating to the credit quality, time to maturity and concentration of the collateral. Netting and collateral agreements are entered into for all counterparties approved for these types of trades. For securities lending transactions, a premium is added to the market value to reflect the position's volatility and these positions are also adjusted for netting and actual collateral received and posted when determining net exposure.

At year-end 2018, counterparty risk is regarded as being low. The risk exposure from securities lending has also been reduced during the year. Collateral has been posted in excess of the exposure in the open reverse repurchase agreements, and unsecured bank deposits almost exclusively comprise USD deposits with the Federal Reserve and EUR deposits with the BIS. Other positions are insubstantial in size and nature.

Table 7.6 Counterparties[1] by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
AAA	1	2	-	-
AA	30	29	13	11
A	44	49	36	41
BBB	9	6	16	8
BB	2	1	8	5
B	-	-	6	13
Total	**86**	**87**	**79**	**78**

[1] Counterparties in the category "Brokers" are defined as equity and bond brokers and futures brokers. Counterparties in other transactions are classified as "excluding brokers". In cases where a counterparty is used for trading securities and for other transactions, the same counterparty will be included in both categories. As counterparties are counted per legal entity, several counterparties may be included per corporate group.

Leverage

Leverage may be used to ensure effective management of the investments in the equity portfolio, but not with the aim of increasing the economic exposure to risky assets. Leverage is the difference between total net exposure and the market value of the portfolio. Leverage was 0.1% at year-end 2018, compared with no leverage at year-end 2017.

Sale of securities that Norges Bank does not own

The sale of securities that Norges Bank does not own is not permitted in the management of the foreign exchange reserves.

OTHER RISK

Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations at the agreed time. As a central bank, Norges Bank is not exposed to this type of liquidity risk in local currency. Owing to the balance sheet composition, liquidity risk is low. A large share of assets in foreign currency has short maturity. Liabilities are primarily in NOK.

Credit risk associated with lending to banks

Credit and counterparty risk associated with F-loans and intraday/overnight loans (D-loans) is managed by requiring collateral for such loans, in the form of securities pledged to Norges Bank. The total lending facility for banks is determined by collateral pledged to Norges Bank, F-deposits and deposits with the Scandinavian Cash Pool.

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. 1/2016 from March 2016.

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 loan value is lower than the market value of the collateral (haircut).

Credit risk associated with loans to the IMF
Norges Bank's loans to the IMF are intended to bolster the IMF's general borrowing agreements. 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 its general borrowing agreements. 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 subscriptions. In Norges Bank's assessment, the risk related to IMF loans is low, and no impairment losses have been recognised with regard to these loans.

Expected credit losses
The following table shows expected credit losses as a share of the carrying amount of assets classified as measured at amortised cost. All assets are Level 1.

Table 7.7 Expected credit loss

Amounts in NOK millions	31 Dec. 2018		31 Dec. 2017	
	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss
Loans to and net claims on the IMF	9 302	-	8 743	-
Lending to banks	-	-	250	-
Other[1]	4 828	-	5 065	-
Total	**14 130**	**-**	**14 058**	**-**

1 Primarily a receivable from the Ministry of Finance related to the management of the GPFG.

Note 8 Currency

ACCOUNTING JUDGEMENT

The functional currency is the Norwegian krone (NOK). Norges Bank has reached this conclusion on the basis of a number of factors, including the sole right to issue Norwegian banknotes and coins and the fact that deposits from banks and the Treasury are in NOK. The Bank's assets primarily comprise investments denominated in foreign currency, but are held among other reasons as part of the conduct of monetary policy or with a view to promoting financial stability in Norway. The GPFG's krone account is denominated in NOK and a share of the costs related to management of the GPFG are in NOK. The financial reporting for the GPFG constitutes a part of Norges Bank's financial statements, and on this basis, the judgement is that the functional currency of the GPFG is also NOK. The investment portfolio's nominal return is reported internally and to the owner in NOK, while the percentage return is reported in NOK and in the currency basket specified in the management mandate issued by the Ministry of Finance. Furthermore, no single investment currency stands out as dominant in the asset management.

Transactions in foreign currency are recognised in the financial statements at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are translated into NOK using the exchange rate at the balance sheet date.

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. Upon realisation, the exchange rate at the transaction date is used.

ACCOUNTING JUDGEMENT

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gains and losses) and changes in foreign exchange rates (foreign exchange gains and losses). These are presented separately in the income statement. The method for allocating total gains and losses in NOK to a security element and a foreign exchange element is described below. Different methods will result in different estimates.

Foreign exchange element

Unrealised gains or losses due to changes in foreign exchange rates are calculated based on the original cost of the holding in local currency 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 recognised in the income statement in previous periods are deducted to arrive at the gain or loss for the current period. For realised gains or losses, the foreign exchange rate on the date of sale is used for calculating realised gains or losses, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Security element

Unrealised gains or losses from changes in the security price are calculated based on the change in the instrument's price from the purchase date to the balance sheet date and the closing exchange rate at the balance sheet date. If the holding was acquired in a previous period, 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. When the holding is sold, the holding's selling price is used for calculating realised gains or losses, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Table 8.1 Foreign exchange reserves by currency

Amounts in NOK millions						31 Dec. 2018
	USD	EUR	GBP	JPY	Other	Total
FINANCIAL ASSETS						
Deposits in banks	10 569	10 326	935	1 890	-	23 720
Secured lending	1 240	3 786	958	-	-	5 984
Unsettled trades	3	204	-	589	-	796
Equities	60 659	11 240	6 626	9 679	2 723	90 927
Equities lent	2 853	1 015	151	2 626	647	7 292
Bonds	198 094	134 138	31 365	31 398	-	394 995
Financial derivatives	-	-	-	-	-	-
Other financial assets	2	27	2	-	2	33
Total financial assets	**273 420**	**160 736**	**40 037**	**46 182**	**3 372**	**523 747**
FINANCIAL LIABILITIES						
Short-term borrowing	592	1	16	-	76	685
Secured borrowing	201	-	-	-	-	201
Unsettled trades	4 628	4 988	40	378	-	10 034
Financial derivatives	1	18	1	-	-	20
Other financial liabilities	-	974	15	119	-73	1 035
Total financial liabilities	**5 422**	**5 981**	**72**	**497**	**3**	**11 975**
Net foreign exchange reserves	**267 998**	**154 755**	**39 965**	**45 685**	**3 369**	**511 772**

Amounts in NOK millions						31 Dec. 2017
	USD	EUR	GBP	JPY	Other	Total
FINANCIAL ASSETS						
Deposits in banks	2 144	183	4 485	1 513	51	8 376
Secured lending	14 949	10 306	304	-	-	25 559
Unsettled trades	1 730	-	316	-	-	2 046
Equities	98 747	23 290	12 330	18 853	19 983	173 203
Equities lent	10 584	-	-	-	-	10 584
Bonds	150 270	102 117	24 006	22 964	-	299 357
Financial derivatives	-	2	-	-	-	2
Other financial assets	3	15	-	-	455	473
Total financial assets	**278 427**	**135 913**	**41 441**	**43 330**	**20 489**	**519 600**
FINANCIAL LIABILITIES						
Short-term borrowing	-	-	-	-	-	-
Secured borrowing	286	-	-	-	-	286
Unsettled trades	1 493	4 404	471	249	-	6 617
Financial derivatives	2	8	-	-	-	10
Other financial liabilities	292	-	-	-	-	292
Total financial liabilities	**2 073**	**4 412**	**471**	**249**	**-**	**7 205**
Net foreign exchange reserves	**276 354**	**131 501**	**40 970**	**43 081**	**20 489**	**512 395**

Table 8.2 shows the exchange rates applied in the preparation of the financial statements at 31 December 2018. A depreciation of the krone results in a positive impact on the income statement, and an appreciation of the krone has the opposite effect.

Table 8.2 Exchange rates

	31 Dec. 2018	31 Dec. 2017	Change[1]
US dollar	8.66	8.18	6%
Euro	9.90	9.82	1%
Pound sterling	11.03	11.06	0%
Japanese yen (per 100)	7.89	7.26	9%

1 Percentage change in the exchange rate.

Note 9 Secured lending and borrowing

Secured lending and borrowing comprises transactions in which securities or cash is transferred or received secured by other securities or cash. Transactions are carried out under various agreements such as securities lending agreements, repurchase or reverse repurchase agreements.

The purpose of secured lending and borrowing is to generate additional income from securities and cash holdings. These transactions are also used as part of liquidity management.

ACCOUNTING POLICY

Income and expense from secured lending and borrowing transactions
Income and expenses primarily comprise interest and net fees, which are recognised on a straight-line basis over the term of the agreement. This is presented in the income statement as *Income/expense from secured borrowing* and *Income/expense from secured lending*, respectively.

Table 9.1 Income/expense from secured lending and borrowing

Amounts in NOK millions	2018	2017
Income/expense from secured lending	257	163
Net income/expense from secured lending and borrowing	**257**	**163**

ACCOUNTING POLICY

Transferred financial assets
Securities lent to counterparties in connection with secured lending and borrowing are not derecognised when the agreement is entered into, as the derecognition criteria are not met. As the counterparty has the right to sell or pledge the security, the security is considered transferred. Transferred securities are presented on separate lines in the balance sheet, as *Equities lent* and *Bonds lent*. During the lending period, the accounting for the underlying securities is in accordance with accounting policies for the relevant securities.

Secured lending
Cash collateral posted to counterparties is derecognised. A corresponding receivable reflecting the cash amount that will be returned is recognised in the balance sheet as an asset, *Secured lending*. This asset is designated at initial recognition as a financial asset measured at *fair value through profit or loss*.

Secured borrowing
Cash collateral received is recognised as *Deposits in banks* together with a corresponding liability, *Secured borrowing*. This liability is designated at initial recognition as a financial liability measured at *fair value through profit or loss*.

Collateral received in the form of securities
Collateral received in the form of securities through secured lending and borrowing transactions, where Norges Bank has the right to sell or pledge the security, is not recognised in the balance sheet, unless reinvested.

Table 9.2 presents *Secured lending* as well as associated collateral received in the form of securities.

Table 9.2 Lending associated with securities financing transactions

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Secured lending	5 984	25 559
Of which unsettled trades (liability)	*3 827*	*4 403*
Secured lending excluding unsettled trades	**2 157**	**21 156**
Associated collateral in the form of securities (off-balance sheet)		
Bonds received as collateral	2 232	22 013
Total security collateral received related to lending	**2 232**	**22 013**

Table 9.3 presents securities transferred with the associated liability in the form of *Secured borrowing*, as well as collateral received in the form of securities.

Table 9.3 Transferred financial assets and secured borrowing

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Transferred financial assets		
Equities lent	7 292	10 584
Total transferred financial assets	**7 292**	**10 584**
Associated cash collateral, recognised as liability		
Secured borrowing	201	286
Secured borrowing excluding unsettled trades	**201**	**286**
Associated collateral in the form of securities (off-balance sheet)		
Equities received as collateral	5 194	8 255
Bonds received as collateral	2 617	3 071
Total security collateral received related to transferred financial assets	**7 811**	**11 326**

Cash collateral received is reinvested in its entirety. No securities received as collateral have been reinvested at year-end 2018 or 2017. Therefore, these securities are not recognised in the balance sheet.

Note 10 Collateral and offsetting

ACCOUNTING POLICY

Cash collateral, OTC derivative transactions

Cash collateral posted in connection with OTC derivative transactions is derecognised. A corresponding receivable reflecting the cash amount that will be returned is recognised as an asset in the balance sheet as *Cash collateral posted*. Cash collateral received in connection with OTC derivative transactions is recognised as *Deposits in banks* together with a corresponding liability, *Cash collateral received*. Both *Cash collateral posted* and *Cash collateral received* are designated at initial recognition as financial assets and/or liabilities measured at *fair value through profit or loss*.

Offsetting

Financial assets and liabilities are not offset and presented net in the balance sheet, as the criteria in IAS 32 *Financial Instruments: Presentation,* are not met. Therefore, Table 10.1 does not include a column for amounts offset/netted in the balance sheet.

COLLATERAL

For various counterparties and transaction types, cash collateral will be both posted to and received from the same counterparty. Therefore, received cash collateral can be netted against posted cash collateral and vice-versa, as shown in Table 10.1.

The balance sheet lines *Cash collateral posted* and *Cash collateral received* are exclusively associated with OTC derivative transactions. In connection with secured lending and borrowing transactions, collateral will be posted or received in the form of securities or cash, see Note 9 *Secured lending and borrowing* for further information.

OFFSETTING

Table 10.1 shows an overview of financial assets and liabilities, the effects of legally enforceable netting agreements and related collateral to reduce credit risk. The column *Assets/Liabilities in the balance sheet subject to netting* shows the carrying amounts of financial assets and liabilities that are subject to legally enforceable netting agreements. These amounts are adjusted for effects of potential netting of recognised financial assets and liabilities, together with posted or received cash collateral, with the same counterparty. The resulting net exposure is presented in the column *Assets/Liabilities after netting and collateral*.

In the event of counterparty default, a collective settlement between Norges Bank and the bankruptcy estate could be performed for certain groups of instruments, irrespective of whether the instruments belong to the GPFG or Norway's foreign exchange reserves. Such cross nettings will be settled between these portfolios but are therefore not adjusted for in this table.

Table 10.1 Assets and liabilities subject to netting agreements

Amounts in NOK millions							31 Dec. 2018
ASSETS	Amounts subject to enforceable netting agreements						Gross financial assets as recognised in the balance sheet
	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsettled trades	
Secured lending	2 158	-	-	2 158	-	3 826	5 984
Financial derivatives	-	-	-	-	-	-	-
Total	**2 158**	**-**	**-**	**2 158**	**-**	**3 826**	**5 984**

Amounts in NOK millions							31 Dec. 2018
LIABILITIES	Amounts subject to enforceable netting agreements						Gross financial liabilities as recognised in the balance sheet
	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades	
Secured borrowing	201	-	-	196	5	-	201
Financial derivatives	-	-	-		-	20	20
Total	**201**	**-**	**-**	**196**	**5**	**20**	**221**

Amounts in NOK millions							31 Dec. 2017
ASSETS	Amounts subject to enforceable netting agreements						Gross financial assets as recognised in the balance sheet
	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsettled trades	
Secured lending	21 156	-	-	21 156	-	4 403	25 559
Financial derivatives	-	-	-	-	-	2	2
Total	**21 156**	**-**	**-**	**21 156**	**-**	**4 405**	**25 561**

Amounts in NOK millions							31 Dec. 2017
LIABILITIES	Amounts subject to enforceable netting agreements						Gross financial liabilities as recognised in the balance sheet
	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades	
Secured borrowing	286	-	-	286	-	-	286
Financial derivatives	-	-	-		-	10	10
Total	**286**	**-**	**-**	**286**	**-**	**10**	**296**

Note 11 Pension

ACCOUNTING POLICY

Accounting treatment of pension and other benefit obligations is in accordance with IAS 19 *Employee 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 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. Recognised pension expense is presented in its entirety under the line *Personnel expenses*. Actuarial gains and losses are recognised in total comprehensive income.

Norges Bank has funded and unfunded pension and other benefit obligations. All funded and unfunded plans are included in the Bank's actuarial settlement. Norges Bank has a pension plan where the benefits are in line with the Norwegian Public Service Pension Fund and other comparable public sector pension plans. This means that pension benefits are subject to a life expectancy adjustment and are coordinated with benefits from the National Insurance scheme.

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 two-thirds 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 contributions are covered by cash payments or the premium fund.

Table 11.1 Number of pension plan members (funded plan)

	31 Dec. 2018	31 Dec. 2017
Members drawing retirement benefits	954	988
Active members (including all those affected by restructuring)	781	735
Members who have left the Bank with vested rights	970	861
Total number of pension plan members	**2 705**	**2 584**

NORGES BANK'S BENEFIT OBLIGATION

Norges Bank has funded pension plans associated with membership of 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 12 G 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 2018 or later.

SIGNIFICANT ESTIMATE

Measurement of the present value of Norges Bank's pension benefit obligation requires determination of a number of economic and actuarial assumptions. Changes in these assumptions may affect the pension expense and the pension benefit obligation recognised in the balance sheet. Norges Bank follows Norwegian Accounting Standards Board (NASB) guidelines in determining assumptions. The guideline assumptions are assessed against actual conditions at Norges Bank before a decision is made to apply them.

Table 11.2 Economic and demographic assumptions

	31 Dec. 2018	31 Dec. 2017
Discount rate	2.60%	2.40%
Interest rate on assets	2.60%	2.40%
Rate of compensation increase	2.75%	2.50%
Rate of pension increase	1.75%	1.50%
Increase in social security base amount (G)	2.50%	2.25%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0
Payroll tax/social security tax	14.10%	19.10%
Mortality table	K2013BE	K2013BE
Disability table	KU	KU

Table 11.3 Net liability recognised in the balance sheet

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Change in defined benefit obligation (DBO) incl. payroll tax		
DBO at beginning of year	4 310	4 014
Service cost	159	150
Interest cost	102	103
Plan amendments	-	1
Payroll tax on employer contribution	-30	-36
Benefits paid	-148	-144
Remeasurement loss (gain)	42	222
DBO at year-end	**4 435**	**4 310**
Change in plan assets		
Fair value of assets at beginning of year	4 252	3 885
Interest income	96	95
Plan amendments	-	-
Employer contribution incl. payroll tax	247	223
Payroll tax on employer contribution	-30	-36
Benefits paid	-140	-135
Remeasurement (loss) gain	152	220
Fair value of assets at year-end	**4 577**	**4 252**
Pension scheme not recognised in the actuarial calculation	1	1
Net amount recognised in the balance sheet	**-141**	**59**

Table 11.4 Specification of funded and unfunded plans

Amounts in NOK millions	31 Dec. 2018 Funded plan	Unfunded plans	Total	31 Dec. 2017 Funded plan	Unfunded plans	Total
Accrued benefit obligations	4 254	182	4 436	4 127	184	4 311
Plan assets	-4 577	-	-4 577	-4 252	-	-4 252
Net benefit obligation (net plan assets)	**-323**	**182**	**-141**	**-125**	**184**	**59**

Table 11.5 Allocation of plan assets for funded plan

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Bonds	2 563	2 254
Equities	1 419	1 488
Real estate	595	510
Total	**4 577**	**4 252**

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.

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

Expenses relating to employees associated with the operational areas NBIM and Norges Bank Real Estate Management (NBREM) are covered in their entirety by the management fee and amounted to NOK 77.3m for 2018 and NOK 75.2m for 2017.

Table 11.6 Pension expense

Amounts in NOK millions		2018		2017
Service cost and cost of benefit changes		**154**		**155**
Service cost incl. interest and payroll tax	150		150	
Administration cost incl. payroll tax	4		4	
Effect of plan amendments incl. payroll tax	-		1	
Financial cost (income)		**1**		**3**
Net interest cost (income) incl. payroll tax	1		3	
Net periodic pension cost (income)		**155**		**158**
Other comprehensive income (OCI) in the period				
Remeasurement loss (gain) - change in discount rate		-157		151
Remeasurement loss (gain) - change in other economic assumptions		168		9
Remeasurement loss (gain) - experience adjustments, DBO		30		63
Remeasurement loss (gain) - experience adjustments, assets		-172		-245
Investment management cost		21		24
OCI losses (gains) in the period		**-110**		**2**

PENSION PLANS FOR LOCALLY EMPLOYED STAFF OF FOREIGN OFFICES

Locally employed staff at Norges Bank's offices in London, New York and Singapore 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 10% of fixed salary for employees in London, up to 8% of fixed salary for employees in New York, and up to 20% of fixed salary for employees in Singapore to the plans in line with market practice. The plans are managed externally, within rules determined by Norges Bank. Locally employed staff at Norges Bank's offices in Shanghai have no pension plan beyond what has been established by the authorities, which is in line with market practice. Recognised expenses for the plans in London, New York, Singapore and Shanghai amounted to NOK 30.3m in 2018 and NOK 29m in 2017. The cost of pension plans for locally employed staff of offices outside of Norway is presented under Other personnel expenses in Table 12.1.

SENSITIVITY ANALYSIS

The sensitivity analysis has been prepared in the light of possible changes in the assumptions expected to have the most pronounced effect on the pension obligation, the discount rate and general wage growth. The other actuarial assumptions are kept unchanged in the sensitivity analysis.

Table 11.7 Sensitivity analysis

				31 Dec. 2018
	Discount rate	General compensation increase	ABO pensioners / DBO other, amounts in NOK millions	Change[1]
Assumptions at 31 Dec. 2018	2.60%	2.75%	4 435	**N/A**
Discount rate + 0.5%	3.10%	2.75%	4 023	**-9.29%**
Discount rate - 0.5%	2.10%	2.75%	4 824	**8.77%**
General compensation increase + 0.5%	2.60%	3.25%	4 568	**3.00%**
General compensation increase - 0.5%	2.60%	2.25%	4 312	**-2.77%**

1 Percentage change in the pension benefit obligation.

Note 12 Personnel expenses

ACCOUNTING POLICY

Pay comprises all types of remuneration to the Bank's own employees and is expensed as earned. Ordinary pay may be either a fixed salary or hourly wages and is earned and disbursed on an ongoing basis. Holiday pay is earned on the basis of ordinary pay and is normally disbursed during the holiday months of the subsequent year. Any performance-based pay is earned and calculated on the basis of various performance targets and is disbursed in subsequent years (See separate discussion in the section on the salary system at Norges Bank).

Payroll tax is calculated and expensed for all pay-related expenses and normally paid in arrears every other month. Pensions are earned under separate rules (see Note 11 *Pension*).

SALARY SYSTEM AT NORGES BANK

Norges Bank's Executive Board sets the limits for the Bank's salary and remuneration schemes and monitors how they are put into practice. The Bank's salary system is based on individual assessments and is subject to agreements with the unions representing Bank employees. There is a separate system of individually determined salaries at NBIM and NBREM.

Salary levels at Norges Bank are to be competitive, but not market-leading. Norges Bank employs external consultants to perform annual comparisons of salary levels with other employers. The Executive Board has a Remuneration Committee comprising three of the external members that contributes to thorough and independent discussion of matters pertaining to the salary and remuneration schemes.

The Executive Board sets a salary cap for executive management in Central Banking Operations (CBO) and salary bands for senior executives at NBIM and NBREM. The Governor determines annual salary for executive managers and others in CBO who report to the Governor, as well as for the CEO of NBIM within the band set by the Executive Board. Salaries for other senior executives at NBIM and the CEO of NBREM are determined by the CEO of NBIM in accordance with the salary bands set by the Executive Board. The CEO of NBREM determines salaries for the other senior executives at NBREM in the same manner.

Principles for performance-based pay, including caps on such pay, have been established on the basis of the regulation relating to remuneration schemes in financial institutions etc.

Performance-based pay

Employees of NBIM whose work directly involves investment decisions, and certain other NBIM employees, may be entitled to performance-based pay. Performance-based pay is capped at 100% of fixed salary, but for a limited number of employees at offices outside of Norway, the cap may be 200% of fixed salary.

Performance-based pay is calculated on the basis of the performance of the GPFG, group and individual measured against set targets. Accrued performance-based pay is paid over several years, with 50% paid the year after it is accrued. The other 50% is held back and paid over the following three years. The amount held back is adjusted for the return on the GPFG.

At year-end, 251 out of a total 622 employees earned performance-based pay, 12 of whom were employed by subsidiaries. Their total fixed salaries amounted to NOK 345m in 2018, while the total upper limit for performance-based pay was NOK 375.4m. Employees with performance-based pay earned an average of 51% of the total limit for 2018, based on performance over serveral years. For 2018 alone, average earnings were 33% of the limit over several years. For 2017 alone, average earnings were 72% of the limit.

Employees of CBO whose work directly involves investment decisions for the foreign exchange reserves may be entitled to performance-based pay. Performance-based pay is calculated on the basis on performance measured against set targets for the management of the foreign exchange reserves. Accrued performance-based pay is paid over several years. The maximum bonus payment per year may not exceed the fixed salary. Two-thirds is paid in the year after it is accrued and the remaining third is held back and paid over the following two years. Employees with performance-based pay earned an average of 16% of the total limit for 2018, based on performance over the past two years.

Table 12.1 Personnel expenses

Amounts in NOK millions	2018	2017
Salary and fees	1 265	1 262
Employer's social security contributions	107	202
Pension expense/(income), see Note 11 *Pension*	155	158
Other personnel expenses	272	286
Personnel expenses	**1 799**	**1 908**

Table 12.2 Number of employees/FTEs

	31 Dec. 2018	31 Dec. 2017
Number of employees	953	922
Number of FTEs	949	918

BENEFITS TO GOVERNING BODIES

Supervisory Council

Total remuneration paid in 2018 was NOK 1 125 833. Of this amount, fixed remuneration was NOK 915 100 and remuneration of alternates for attending meetings of the Permanent Committee was NOK 199 933. Total remuneration paid in 2017 was NOK 901 000.

Remuneration rates for 2018 were set by the Storting as from 1 January 2018 (cf. Recommendation 70 S (2017–2018)).

With regard to remuneration to the director of the Office of the Supervisory Council and other expenses, see the Supervisory Council's report to the Storting for 2018.

Table 12.3 Remuneration to the Supervisory Council and the Permanent Committee

Amounts in NOK			2018
	Total remuneration per member	Supervisory Council	The Permanent Committee
Chair	155 900	62 400	93 500
Deputy chair	104 000	41 600	62 400
Three members of the Permanent Committee	93 600	31 200	62 400
10 members of the Supervisory Council	31 200	31 200	-
Two permanent alternates[1]	31 200	31 200	-

1 In addition, alternates to the Permanent Committee received NOK 3 600 for each meeting.

Amounts in NOK			2017
	Total remuneration per member	Supervisory Council	The Permanent Committee
Chair	150 000	60 000	90 000
Deputy chair	100 000	40 000	60 000
Three members of the Permanent Committee	90 000	30 000	60 000
10 members of the Supervisory Council	30 000	30 000	-
Two permanent alternates[1]	30 000	30 000	-

1 In addition, alternates to the Permanent Committee received NOK 3 500 for each meeting.

Executive Board – external members
Remuneration to members and alternates of the Executive Board is determined by the Ministry of Finance. Total remuneration to members and alternates of the Executive Board and its committees was NOK 2 283 000 in 2018 compared with NOK 2 213 000 in 2017.

Table 12.4 Remuneration to the Executive Board

Amounts in NOK						2018
Name	Total remuneration[1]	Executive Board	Audit Committee	Remuneration Committee	Ownership Committee	Risk and Investment Committee
Kjetil Storesletten	341 500	258 000	-	-	-	83 500
Karen Helene Ulltveit-Moe	380 000	258 000	76 500	-	45 500	-
Kathryn M. Baker	405 500	258 000	64 000	-	-	83 500
Steinar Juel	347 500	258 000	64 000	25 500	-	-
Kristine Ryssdal[2]	303 500	258 000	-	-	45 500	-
Arne Hyttnes (alernate)	252 500	227 000	-	25 500	-	-
Kristine Landmark (alernate)	252 500	227 000	-	25 500	-	-

1 Service on the Executive Board and its committees is remunerated at fixed annual rates.
2 Kristine Ryssdal was appointed on 1 January 2018.

Amounts in NOK						2017
Name	Total remuneration[1]	Executive Board	Audit Committee	Remuneration Committee	Ownership Committee	Risk and Investment Committee
Hilde Myrberg	275 000	250 000	-	25 000	-	-
Kjetil Storesletten	331 000	250 000	-	-	-	81 000
Karen Helene Ulltveit-Moe	405 000	250 000	74 000	-	-	81 000
Kathryn M. Baker	356 000	250 000	62 000	-	44 000	-
Steinar Juel	337 000	250 000	62 000	25 000	-	-
Arne Hyttnes (alernate)	264 000	220 000	-	-	44 000	-
Kristine Landmark (alernate)	245 000	220 000	-	25 000	-	-

1 Service on the Executive Board and its committees is remunerated at fixed annual rates.

BENEFITS TO SENIOR EXECUTIVES

Senior executives, except for the Governor and Deputy Governors, 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 11 *Pension* and loans to employees are discussed in a separate section in this note.

Senior executives in CBO and NBIM do not earn performance-based or other variable remuneration. Senior executives who previously held positions entitling them to performance-based pay will not earn additional entitlements, but will be paid remaining performance-based pay in accordance with the Norges Bank Investment Management Long-Term Performance Plan.

Governor and Deputy Governors

The salaries of the Governor and Deputy Governors of Norges Bank are determined by the Ministry of Finance. In addition, they have a free telephone, free newspaper subscription and insurance covered by their employer. The Governor has a company car at his disposal and commuter accommodation and travel home were covered for Deputy Governor Egil Matsen. The Ministry of Finance has established a separate pension plan for the Governor and Deputy Governors. The plan is based on the pension plan for members of the Storting and of the Government. The period of service for full benefit under the pension plan is 30 years, pensionable income is limited to 12 times the National Insurance Scheme basic amount (G) and members do not pay pension contributions. The pension is subject to life expectancy adjustments and is not coordinated with other public sector pension plans. The plan is funded out of the Bank's current income. Governor Øystein Olsen was a member of Norges Bank's pension fund during his first term of office. In addition, Deputy Governor Jon Nicolaisen has entitlements retained from previous employment at Norges Bank. Neither the Governor nor the Deputy Governors receive any performance-based or other variable remuneration.

Table 12.5 Remuneration to the Governor and the Deputy Governors

Amounts in NOK					2018
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 397 011	163 396	301 104	-
Deputy governor	Jon Nicolaisen	1 970 426	8 710	134 558	93 333
Deputy governor	Egil Matsen	1 963 265	14 528	128 189	-

Amounts in NOK					2017
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 359 061	156 606	356 160	-
Deputy governor	Jon Nicolaisen[1]	1 999 800	8 130	227 570	163 333
Deputy governor	Egil Matsen	1 964 224	13 476	139 780	-

1 Pension benefits earned for 2017 are restated to reflect corrected calculation basis.

Benefits to senior executives in Norges Bank's Central Banking Operations

Table 12.6 Remuneration to senior executives in Norges Bank's Central Banking Operations

Amounts in NOK					2018
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Torbjørn Hægeland	1 667 821	8 628	395 242	-
Executive Director, Monetary Policy	Ida Wolden Bache	1 686 562	14 256	240 733	-
Executive Director, Markets and ICT	Olav Andreas Bø	1 940 865	8 628	289 201	-
Executive Director, Corporate and Shared Services	Jane Kristin Aamodt Haugland	1 644 885	11 781	343 847	1 998 764
Executive Director, General Secretariat	Birger Vikøren[1]	747 563	8 708	237 894	-
Director, Internal Audit	Ingunn Valvatne[2]	1 684 712	17 212	375 780	882 128
Director, Communications and External Relations	Runar Malkenes[3]	1 268 674	8 759	481 731	-
General Counsel	Marius Ryel	1 755 681	18 929	528 185	-

1 On leave from his position as Executive Director, General Secretariat, until 30 August 2018. Remuneration is shown from 31 August 2018, including pension premiums paid by Norges Bank under current rules.
2 On leave from her position as Executive Director, Internal Audit until 31 August 2018. During her leave, she served as Executive Director, General Secretariat. Remuneration is shown for the full-year 2018.
3 Unpaid leave in the period 16 July 2018 to 14 August 2018.

Amounts in NOK					2017
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Torbjørn Hægeland	1 587 987	7 980	344 248	-
Executive Director, Monetary Policy	Ida Wolden Bache	1 653 115	13 476	223 210	-
Executive Director, Markets and ICT	Olav Andreas Bø[1]	616 667	2 660	89 015	-
Executive Director, Corporate and Shared Services	Jane Kristin Aamodt Haugland[2]	533 333	3 146	106 668	2 091 623
Executive Director, General Secretariat	Birger Vikøren[3, 5]	1 496 843	13 477	283 428	-
Director, Internal Audit	Ingunn Valvatne[4]	1 676 354	9 119	362 915	952 928
Director, Communications and External Relations	Runar Malkenes	1 357 884	11 700	482 233	-
General Counsel	Marius Ryel[5]	1 709 812	17 990	484 467	-

1 Began in this position on 1 September 2017. Remuneration is shown from the date the appointment became effective.
2 Began in this position on 1 September 2017. Remuneration is shown from the date the appointment became effective.
3 On leave from his position as Executive Director, General Secretariat from 23 November 2017. Remuneration is shown from the date his leave became effective.
4 On leave from her position as Executive Director, Internal Audit, from 23 November 2017. Began in the position of Executive Director, General Secretariat, from the date her leave became effective. Remuneration is shown for the full-year 2017.
5 Pension benefits earned for 2017 are restated to reflect corrected calculation basis.

Table 12.7 Remuneration to senior executives in Norges Bank Investment Management

Amounts in NOK	Name	Gross salary	Gross performance pay	Value of other benefits	Pension benefits earned	Employee loan 2018
Norges Bank Investment Management						
Chief Executive Officer	Yngve Slyngstad	6 721 094	-	8 814	550 932	-
Deputy Chief Executive Officer	Trond Grande	4 697 597	-	8 628	354 744	-
Chief Compliance and Control Officer	Stephen A. Hirsch	4 207 019	-	11 804	320 929	-
Chief Corporate Governance Officer	Carine Smith Ihenacho[1,2]	3 466 550	174 485	77 071	346 655	-
Chief Financial Officer	Hege Gjerde[1]	2 790 083	318 979	8 628	299 032	1 465 575
Chief Human Resources Officer	Sirine Fodstad	2 738 907	-	6 756	432 105	-
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen[1]	4 480 402	217 930	10 969	252 455	-
Chief Investment Officer Asset Strategies	Geir Øivind Nygård[1]	4 632 367	958 159	9 172	211 936	500 000
Chief Investment Officer Equity Strategies	Petter Johnsen[2]	7 583 076	-	87 047	758 308	-
Chief Operating Officer	Age Bakker	3 768 939	-	8 628	385 739	-
Chief Risk Officer	Dag Huse[1]	4 620 774	209 733	8 628	577 068	-
Norges Bank Real Estate Management					-	
Chief Executive Officer	Karsten Kallevig	5 322 133	-	9 027	338 497	-
Chief Administrative Officer	Mie Caroline Holstad	2 044 234	-	8 628	233 428	-
Chief Compliance and Control Officer	Jan Thomsen	3 446 713	-	9 015	386 198	-
Chief Investment Officer – Europe	Romain Veber[1,2]	4 874 836	1 522 259	66 085	487 484	-
Chief Investment Officer – US	Per Løken[1]	2 572 855	73 542	7 068	232 007	-
Chief Operating Officer	Nina Kathrine Hammerstad	3 025 926	-	8 695	300 128	-
Chief Risk Officer	Lars Oswald Dahl	3 430 421	-	8 628	398 033	-

1 Members of the Norges Bank Investment Management leader group receive only a fixed salary. New members of the leader group previously entitled to performance-based pay are no longer a part of this arrangement, but over the coming years will receive accrued performance-based pay that has been held back. The amounts reported in the table are performance-based pay disbursed during the financial year, but accrued and expensed in earlier periods.

2 Receives a salary in GBP. Amounts therefore include the foreign currency translation effect. Pension benefits earned correspond to the year's payment into the defined-contribution plan.

Amounts in NOK	Name	Gross salary	Gross performance pay	Value of other benefits	Pension benefits earned	Employee loan 2017
Norges Bank Investment Management						
Chief Executive Officer	Yngve Slyngstad[5]	6 706 974	-	7 980	502 402	-
Deputy CEO and CAO	Trond Grande	4 550 966	-	8 101	331 376	-
Chief Compliance and Control Officer	Stephen A. Hirsch[5]	4 240 267	-	11 259	298 077	-
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen[1]	4 298 958	402 033	7 980	230 318	-
Chief Investment Officer Asset Strategies	Geir Øivind Nygård[1]	4 197 889	1 668 240	8 541	191 101	500 000
Chief Investment Officer Equity Strategies	Petter Johnsen[2]	7 452 483	-	86 887	745 248	-
Chief Operating Officer	Age Bakker	3 491 971	-	8 202	372 350	-
Chief Risk Officer	Dag Huse[1, 5]	4 629 654	575 879	7 980	535 611	-
Norges Bank Real Estate Management						
Chief Executive Officer	Karsten Kallevig	5 322 133	-	8 475	312 655	-
Chief Administrative Officer	Mie Caroline Holstad[4]	1 393 824	-	13 598	211 126	-
Chief Compliance and Control Officer	Jan Thomsen	3 446 713	-	8 844	370 669	-
Chief Investment Officer – Europe	Romain Veber[1,2,3]	1 613 562	-	21 546	161 356	-
Chief Investment Officer – US	Per Løken[1,3]	866 667	-	4 199	55 777	
Chief Operating Officer	Nina Kathrine Hammerstad	2 862 004	-	8 070	277 846	-
Chief Risk Officer	Lars Oswald Dahl	3 294 653	-	8 044	378 173	-

1 Members of the Norges Bank Investment Management leader group receive only a fixed salary. New members of the leader group previously entitled to performance-based pay are no longer a part of this arrangement, but over the coming years will receive accrued performance-based pay that has been held back. The amounts reported in the table are performance-based pay disbursed during the financial year, but accrued and expensed in earlier periods. Romain Veber became a senior executive in 2017, but has NOK 1 225 845 in accrued performance-based pay in 2017 from his previous position, which will be disbursed in future periods.
2 Receives a salary in GBP. Amounts therefore include the foreign currency translation effect.
3 Began in this position on 1 September 2017. Remuneration is shown as from the date the appointment became effective.
4 Unpaid leave in the period 1 June 2018 to 31 August 2018.
5 Pension benefits earned for 2017 are restated to reflect corrected calculation basis.

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 within 80% of assessed value, limited to NOK 2 902 000 and a maximum term of 30 years. Consumer loans are limited to a maximum of four times the employee's monthly salary, though not exceeding NOK 350 000. The loan schemes apply to all employees. The interest rate is linked to the norm rate for loans on favourable terms from an employer. The Ministry of Finance sets the norm rate six times a year. Total loans to employees at 31 December 2018 were NOK 285m, compared with NOK 339m at 31 December 2017.

Note 13 Management fee, GPFG

ACCOUNTING POLICY

The management fee accrues during the financial year, but is cash-settled in the following year. Management fee receivable is classified as a financial asset and measured at amortised cost.

Norges Bank's total operating expenses related to the management of the GPFG are reimbursed by the Ministry of Finance as principal. The management fee corresponds to actual costs incurred by Norges Bank, including performance-based fees to external managers. The management fee is recognised in the income statement of the GPFG as an expense, and is recognised in Norges Bank's income statement as income, on the line *Of which management fee, GPFG*. The management fee was NOK 4 544m in 2018 and NOK 4 728m in 2016. See Note 20.11 *Management costs* for a specification and detailed description.

Note 14 Non-financial assets

ACCOUNTING POLICY

Non-current assets are recognised at cost, less accumulated straight-line depreciation over their expected useful life.

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.

Art and numismatic collections

Norges Bank has a collection of art and numismatic objects such as medals, banknotes and coins. The collection was recognised at estimated cost on the basis of the most recent appraisal.

Impairment testing

An impairment test is performed if there is an indication that an asset is impaired. 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 of gold are not revalued.

Table 14.1 Non-financial assets

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Non-current assets	1 947	2 089
Gold	291	291
Art and numismatic collections	89	88
Other assets	93	95
Non-financial assets	**2 420**	**2 563**

Table 14.2 Non-current assets

Amounts in NOK millions						2018
	Intangible assets	Property, plant and equipment				
	Software	Buildings	Land	Other	Plant under construction	Total
Cost at 1 Jan.	666	3 035	60	297	266	4 323
+ Additions	65	109	-	71	-	245
- Disposals	-	1	-	-	112	113
Cost at 31 Dec.	**731**	**3 143**	**60**	**368**	**153**	**4 455**
- Accumulated depreciation and impairment	494	1 742	-	272	-	2 508
Carrying amount at 31 Dec.	**237**	**1 401**	**60**	**96**	**153**	**1 947**
Depreciation for the year	**103**	**109**	**-**	**62**	**-**	**274**
Impairment for the year	**-**	**-**	**-**	**-**	**11**	**11**
Depreciation schedule, no. of years	3-6	5-75	none	4-10	none	

Amounts in NOK millions						2017
	Intangible assets	Property, plant and equipment				
	Software	Buildings	Land	Other	Plant under construction	Total
Cost at 1 Jan.	689	2 911	60	230	270	4 159
+ Additions	35	137	-	68	-	240
- Disposals	58	13	-	1	4	76
Cost at 31 Dec.	**666**	**3 035**	**60**	**297**	**266**	**4 323**
- Accumulated depreciation and impairment	391	1 633	-	210	-	2 234
Carrying amount at 31 Dec.	**275**	**1 403**	**60**	**87**	**266**	**2 089**
Depreciation for the year	**93**	**107**	**-**	**35**	**-**	**235**
Impairment for the year	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation schedule, no. of years	3-6	5-75	none	4-10	none	

BUILDINGS

Bankplassen 4 is being leased to the government for 80 years, beginning in November 1986. The building is fully depreciated and its carrying amount at 31 December 2018 is NOK 0.

Note 15 Other operating expenses and other operating income

OTHER OPERATING EXPENSES

Table 15.1 Other operating expenses

Amounts in NOK millions	2018	2017
Custody costs	408	425
IT services, systems and data	885	876
Research, consulting and legal fees	424	359
Other costs	498	453
Total other operating expenses excl. external managers	**2 215**	**2 113**
Base fees to external managers	724	755
Performance-based fees to external managers	673	924
Total fees to external managers	**1 397**	**1 679**
Total other operating expenses	**3 612**	**3 792**
Depreciation, amortisation and impairment losses	285	235
Personnel expenses	1 799	1 908
Total operating expenses	**5 696**	**5 935**

Table 15.2 Fees, external auditor

Amounts in NOK thousands, inclusive VAT	Norges Bank		Subsidiaries[1]	
	2018	2017	2018	2017
Statutory audit	15 046	14 718	5 716	5 474
Other assurance services[2]	1 021	3 621	200	-
Tax advice	-	-	4	100
Other services	-	-	-	-
Total fees, external auditor	**16 067**	**18 339**	**5 920**	**5 574**

1 Norges Bank has established subsidiaries whose activities exclusively constitute investments as part of the management of the investment portfolio of the GPFG.
2 In 2017, the external auditor assisted the Office of the Supervisory Council on a number of supervisory reviews. Fees related to this are shown as *Other assurance services*.

ACCOUNTING POLICY

Other operating income is recognised at the time a service is rendered to banks and the government, respectively. The transaction price is agreed annually and primarily contains fixed elements.

OTHER OPERATING INCOME

Table 15.3 Other operating income

Amounts in NOK millions	2018	2017
Services, banks	58	59
Services, government (see Note 19 *Related parties*)	38	37
Rent (see Note 19 *Related parties*)	25	25
Other income	4	3
Total other operating income	**125**	**124**

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.

Note 16 Notes and coins

ACCOUNTING POLICY

Notes and coins in circulation are recognised at face value when they are put into circulation and derecognised when they are withdrawn from circulation and no later than the expiry of the ten-year deadline for redemption, in accordance with Section 15 of the Norges Bank Act. Notes and coins are put into circulation at the time they are removed from a central bank depot and transferred to private banks. Notes and coins not redeemed by the ten-year deadline are recognised as income in profit or loss as *Other financial income/expenses*. After the ten-year deadline, notes and coins may be redeemed and are then recognised as an expense on the same line in profit or loss. Expenses for the production of notes and coins are recognised in profit or loss as incurred in *Other operating expenses*.

Of notes and coins in circulation at 31 December 2018, NOK 1 893m comprised withdrawn notes. This pertains to Series VII 100-krone and 200-krone notes, which from 31 May 2018 are no longer legal tender.

Table 16.1 Notes and coins in circulation

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
DENOMINATION		
50-krone	1 079	1 110
100-krone	2 095	2 145
200-krone	6 184	6 197
500-krone	17 119	18 830
1000-krone	13 868	15 609
Total notes	**40 346**	**43 891**
Total coins	**4 457**	**4 529**
Total	**44 803**	**48 420**

No withdrawn notes and coins were recognised as income in 2018 or 2017. In 2018, withdrawn notes and coins were redeemed in the amount of NOK 13.9m, compared with NOK 13.6m in 2017.

Note 17 International Monetary Fund (IMF)

ACCOUNTING POLICY

Allocated Special Drawing Rights (SDRs)

Norges Bank's holdings of SDRs are recognised as an asset in the balance sheet, under *Claims on the IMF*. The value of SDRs is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling. The equivalent value of SDR allocations by the IMF shows Norges Bank's total allocations of SDRs and is recognised as a liability, under *Liabilities to the IMF*. Norges Bank's holdings of SDRs and the equivalent value of SDRs are measured at amortised cost.

Reserve tranche position

The reserve tranche position comprises Norges Bank's allocated IMF quota less the IMF's krone deposit with Norges Bank. The outstanding balance with the IMF is recognised gross in the balance sheet, under *Claims on the IMF* and *Liabilities to the IMF*, respectively. The IMF quota and the krone liability to the IMF are measured at amortised cost.

Loans to the IMF and international commitments under the auspices of the IMF

Loans and international commitments are recognised in the balance sheet at fair value at initial recognition, under *Claims on the IMF*. Subsequent measurement is at amortised cost.

Pursuant to Section 25 of the Norges Bank Act, Norges Bank administers Norway's financial rights and fulfils the obligations ensuing from participation in the International Monetary Fund (IMF).

Norway helps to finance the IMF in the following manner:

1. Through Norway's IMF quota subscription
2. Though various lending agreements with the IMF:
   a. The multilateral lending programme New Arrangements to Borrow (NAB)
   b. Bilateral borrowing agreements with the IMF
   c. Financing the Poverty Reduction and Growth Trust (PRGT)

Table 17.1 Claims on and liabilities to the IMF

Amounts in NOK millions	Loan resource commitments[1]	Amounts drawn on commitments	Subscription[2]	SDRs	Total amount recognised 31 Dec. 2018
Financial assets					
IMF subscription (quota)	-	-	45 289	-	45 289
Holdings of Special Drawing Rights (SDRs)	-	-	-	18 456	18 456
Loans to the IMF – NAB	*23 681*	1 876	-	-	1 876
Loans to the IMF – Bilateral borrowing agreement	*72 245*	-	-	-	-
Loans to the IMF – PRGT	*7 224*	2 394	-	-	2 394
Claims on the IMF	**103 150**	**4 270**	**45 289**	**18 456**	**68 015**
Financial liabilities					
Krone liability to the IMF	-	-	39 859	-	39 859
Equivalent value of SDR allocations	-	-	-	18 854	18 854
Liabilities to the IMF	**-**	**-**	**39 859**	**18 854**	**58 713**
Net positions with the IMF	**103 150**	**4 270**	**5 430**	**-398**	**9 302**

1 Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet.
2 The net subscription refers to the reserve tranche position and is Norway's quota less Norway's krone liability to the IMF. If necessary, Norges Bank may draw from the IMF an amount equal to Norway's reserve tranche position.

Amounts in NOK millions	Loan resource commitments[1]	Amounts drawn on commitments	Subscription[2]	SDRs	Total amount recognised 31 Dec. 2017
Financial assets					
IMF subscription (quota)	-	-	43 815	-	43 815
Holdings of Special Drawing Rights (SDRs)	-	-	-	18 729	18 729
Loans to the IMF – NAB	*22 923*	2 539	-	-	2 539
Loans to the IMF – Bilateral borrowing agreement	*69 934*	-	-	-	-
Loans to the IMF – PRGT	*6 993*	2 882	-	-	2 882
Claims on the IMF	**99 850**	**5 421**	**43 815**	**18 729**	**67 965**
Financial liabilities					
Krone liability to the IMF	-	-	40 981	-	40 981
Equivalent value of SDR allocations	-	-	-	18 240	18 240
Liabilities to the IMF	**-**	**-**	**40 981**	**18 240**	**59 221**
Net positions with the IMF	**99 850**	**5 421**	**2 834**	**489**	**8 744**

1 Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet.
2 The net subscription refers to the reserve tranche position and is Norway's quota less Norway's krone liability to the IMF. If necessary, Norges Bank may draw from the IMF an amount equal to Norway's reserve tranche position.

The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in and commitments to the IMF are denominated in SDRs. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling. The currency weights are adjusted each year in accordance with changes in bilateral foreign exchange rates. At 31 December 2018, SDR 1 was equal to NOK 12.04.

Norges Bank's potential credit exposure to the IMF is considerable. However, the risk associated with loans to the IMF is very low, among other reasons because of the conditionality in the IMF's adjustment and stabilisation programmes. In addition, IMF claims have precedence over claims from other creditors. The IMF has never realised a loss on loans under their general borrowing agreements. Since all claims are against the IMF, Norway has no credit exposure to third countries in connection with these loans.

The various rights, commitments, claims and liabilities are described below.

NORWAY'S IMF QUOTA SUBSCRIPTION

The IMF is owned and directed by member countries and functions like a credit union in which each member country pays in a subscription, also called its quota. These subscriptions are the IMF's basic source of funding for loans. The amount of the subscription reflects the member country's relative position in the global economy. The quota determines a member country's voting power in IMF decisions, the member's financial contribution to the IMF, the amount of financing the member can access in the event of balance of payments problems and the amount of SDRs the member receives when SDRs are allocated. Norway's quota at 31 December 2018 was SDR 3 755m, unchanged from 2017.

HOLDINGS AND EQUIVALENT VALUE OF SPECIAL DRAWING RIGHTS (SDRS)

SDRs are periodically allocated to IMF member countries, most recently in 2009. *Equivalent value of SDR allocations* shows the amount of SDRs Norway has been allocated since the scheme was established. As at 31 December 2018, a total of SDR 1 563m had been allocated to Norway, unchanged from 2017. Norway's holdings of SDRs have been deposited with the IMF and amounted to SDR 1 520m in 2018, compared with SDR 1 605m in 2017. Holdings of SDRs may be used to pay in quota increases, for other transactions with the IMF or for purchase or sale of SDRs from or to other IMF members. However, SDRs cannot be used for direct purchases of goods and services.

NORGES BANK'S LOANS TO THE IMF

In addition to quota subscriptions, various lending programmes are important sources of IMF financing.

a) New Arrangements to Borrow (NAB)

The New Arrangements to Borrow (NAB) programme is used for loans if the IMF has a need for funds in excess of subscriptions from member countries. Norway's total resource commitments under the NAB are SDR 1 967, unchanged from 2017. Norges Bank's loans to the IMF under the NAB at 31 December 2017 totalled SDR 156m, or NOK 1 876m. The corresponding amount for 2017 was SDR 218m or NOK 2 539m.

b) Bilateral borrowing agreement

In 2017, the IMF and Norges Bank concluded a new bilateral borrowing agreement, after the previous such agreement terminated on 4 November 2016. Under the agreement, the IMF is provided with a borrowing facility in the form of a drawing arrangement of up to SDR 6bn. The agreement is part of a broader international effort to ensure the IMF sufficient resources to meet the borrowing requirements of member countries in times of crisis. This borrowing agreement has for the time being not been drawn on.

c) Poverty Reduction and Growth Trust (PRGT)

Norway participates in the financing of the IMF's subsidised lending programme for low-income countries under two agreements. Norway signed an agreement in June 2010 to provide SDR 300m. This facility has been fully drawn by the IMF, and the IMF will henceforth only make interest and principal payments on this facility. On 17 November 2016, Norway signed a new borrowing agreement with the IMF for a further SDR 300m. Norway's commitments for future payments to the PRGT are thus limited to SDR 300m. Loans to the PRGT at 31 December 2018 totalled SDR 199m, or NOK 2 394m. The corresponding amount for 2017 was SDR 246m, or NOK 2 882m.

THE IMF'S DEPOSITS WITH NORGES BANK

The IMF has deposited its entire NOK holdings with Norges Bank, referred to as the *Krone liability to the IMF*. However, the value of these deposits is adjusted so that the IMF bears no risk associated with exchange rate movements between the krone and the SDR. At 31 December 2018, krone deposits from the IMF totalled SDR 3 304m, compared with SDR 3 512m in 2017.

NET INTEREST INCOME ON CLAIMS ON AND LIABILITIES TO THE IMF

Table 17.2 Net interest income, claims on/liabilities to the IMF

Amounts in NOK millions				2018
	Amount drawn on loan resource commitments	Subscription	SDRs	Total
Interest income from the IMF	46	399	164	609
Interest expenses to the IMF	-	-372	-169	-541
Net interest income from the IMF	**46**	**27**	**-5**	**68**

Amounts in NOK millions				2017
	Amount drawn on loan resource commitments	Subscription	SDRs	Total
Interest income from the IMF	32	221	85	338
Interest expenses to the IMF	-	-210	-95	-305
Net interest income from the IMF	**32**	**11**	**-10**	**33**

INTEREST ON THE IMF QUOTA SUBSCRIPTION AND INTEREST ON THE KRONE LIABILITY TO THE IMF

Interest on the reserve tranche position (as defined in the footnote to Table 17.1) is calculated by the IMF. Interest is calculated net by the IMF, but presented gross in Norges Bank's financial statements as interest income and interest expenses associated with the quota subscription. Interest is calculated monthly and netted quarterly. The interest rate is based on the IMF's SDR interest rate and updated weekly by the IMF.

INTEREST ON SPECIAL DRAWING RIGHTS AND INTEREST ON EQUIVALENT VALUE OF SDR ALLOCATIONS

Norges Bank earns interest income on its holdings of SDRs, and is charged for interest expenses on the equivalent value of SDR allocations. Interest is calculated monthly and netted quarterly. The interest rate is based on the IMF's SDR interest rate and updated weekly by the IMF.

INTEREST ON IMF LENDING PROGRAMMES

Interest is calculated monthly and netted quarterly (NAB) and semi-annually (PRGT). The interest rate is based on the IMF's SDR interest rate and updated weekly by the IMF.

Note 18 Loans and deposits

ACCOUNTING POLICY

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. Subsequent measurement is at amortised cost, where the effective interest is recognised in profit or loss. 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.

Interest income is recognised in profit or loss when the interest is earned. *Interest expense* is recognised in profit or loss as incurred.

Table 18.1 Lending to banks

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Fixed-rate loans to banks	-	250
Total lending to banks	**-**	**250**

See Note 7 *Risk* for a discussion of credit risk associated with lending.

Table 18.2 Deposits from banks

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Sight and reserve deposits from banks	35 069	36 478
Fixed-rate deposits from banks	5 000	26 002
Other deposits	365	1 488
Deposits from banks	**40 434**	**63 968**

Table 18.3 Interest income from lending to banks

Amounts in NOK millions	2018	2017
Interest income on Fixed-rate loans to banks	81	14
Total interest income from lending to banks	**81**	**14**

INTEREST TERMS FOR LOANS TO BANKS

Fixed-rate loans (F-loans) are the instrument primarily used to supply liquidity to the banking system. They are issued at a fixed or floating rate and specified maturity 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 5.5 days in 2018 and 3.8 days in 2017.

The interest rates on F-loans are normally determined by multi-price auctions. In a 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 descending order. Banks that place bids within the aggregate amount will be awarded in the amount and at the interest rate submitted. The interest rate is normally close to the policy rate.

D-loans may be intraday or overnight. Intraday D-loans improve the efficiency of payment settlement, as banks can obtain cover for their positions. These loans are interest-free and are normally repaid by the end of the day. If the loan extends overnight, it becomes an interest-bearing D-loan. The interest rate on these D-loans is 1 percentage point above the policy rate.

Table 18.4 Interest expense on banks' and Treasury deposits

Amounts in NOK millions	2018	2017
Interest expense on deposits from the Treasury	-1 637	-181
Interest expense on sight and reserve deposits from banks	-196	-174
Interest expense on fixed-rate deposits from banks	-82	-137
Interest expense on depots operated by banks	-3	-4
Total interest expense on banks' and Treasury deposits	**-1 918**	**-496**

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 policy rate (sight deposit rate). Sight deposits in excess of this quota, referred to as reserve deposits, are remunerated at a lower rate, the reserve rate. The reserve rate is 1 percentage point lower than the policy rate.

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. 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, ie the interest rate on the F-deposits depends on the benchmark rate in the money market. Average maturity on F-deposits from banks was 4.2 days in 2018 and 4.8 days in 2017.

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 rate on the government's account is calculated on the basis of yields on foreign short-term government securities rates, weighted by the investments in the foreign exchange reserves.

In 2018, interest on Treasury deposits was paid at an annual rate of 0.5% in Q1, 0.75% in and Q2 and 1% in Q3 and Q4. In 2017, interest was paid on these deposits at an annual rate of 0% in Q1 and Q2 and 0.25% in Q3 and Q4.

Note 19 Related parties

ACCOUNTING POLICY

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the Norwegian government. This includes transactions with other entities that are related parties because the Norwegian government has control of, joint control of, or significant influence over both Norges Bank and the other entities.

Norges Bank, including the GPFG, is a separate legal entity that is wholly owned by the government through the Ministry of Finance. See Note 1 *General information* for information regarding the relationship between the Ministry of Finance, Norges Bank and the GPFG. Norges Bank carries out all transactions in its own name and on market terms.

For information regarding transactions with governing bodies and senior executives of Norges Bank, see Note 12 *Personnel expenses*.

MANAGEMENT OF THE GPFG

The Ministry of Finance has placed funds for asset management by the GPFG as a krone deposit in a special account with Norges Bank (the krone account). GPFG assets are invested further in an investment portfolio comprising equities, fixed income instruments and real estate. See information regarding inflows during the period in Note 20 GPFG *Statement of changes in owner's capital*.

Norges Bank charges the Ministry of Finance a management fee relating to management of the GPFG, which amounted to NOK 4 544m in 2018 and NOK 4 728m in 2017. For further information, see Note 20.11 *Management costs*.

TRANSACTIONS BETWEEN NORGES BANK AND THE GPFG

Internal trades in the form of money market lending or borrowing and reverse repurchase agreements between the GPFG and Norges Bank's equity portfolio are presented in the balance sheet as a net balance between the two reporting entities, on the balance sheet lines *Other financial assets* and *Other financial liabilities*. Associated income and expense items are presented gross in the respective income statement as either interest income or interest expense. All transactions are carried out at market prices.

OTHER TRANSACTIONS WITH THE GOVERNMENT

Under agreements with the Ministry of Finance, Norges Bank performs tasks in connection with:

- Government debt management
- Administering the central government's group account
- Managing commemorative coins

The Ministry of Finance covers Norges Bank's costs related to these tasks, which amounted to NOK 37.6m for 2018 and NOK 37m for 2016.

However, the remuneration scheme for primary dealers in Norwegian government bonds and Treasury bills is financed by Norges Bank. Remuneration for 2018 amounted to NOK 6m of a total limit of NOK 10m.

Pursuant to point 5 of the guidelines for provisions and allocations of Norges Bank's profit or loss, *"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."* This transfer amounted to NOK 14.8bn for 2018 and NOK 14.3bn for 2017.

On the basis of the prepared financial statements, the transfer takes place in the following year, but the amount due is recognised as *Other liabilities* in the balance sheet at 31 December.

OTHER RELATED PARTY TRANSACTIONS

Norges Bank has transactions with other government agencies and bodies. These transactions are primarily related to leasing of buildings, and amounted to NOK 25.4m in 2018 and NOK 25.5m in 2017.

Note 20 Government Pension Fund Global (GPFG)

Income statement

Amounts in NOK millions	Note	2018	2017
Profit/loss on the portfolio before foreign exchange gain/loss			
Income/expense from:			
- Equities	4	-517 214	933 501
- Bonds	4	14 568	81 410
- Unlisted real estate	6	16 421	14 237
- Financial derivatives	4	2 819	278
- Secured lending	12	4 733	3 532
- Secured borrowing	12	-1 466	-345
Tax expense	9	-5 050	-4 796
Interest income/expense		10	-16
Other income/expense		-13	-11
Profit/loss on the portfolio before foreign exchange gain/loss		**-485 192**	**1 027 790**
Foreign exchange gain/loss	10	223 611	14 701
Profit/loss on the portfolio		**-261 581**	**1 042 492**
Management fee	11	-4 544	-4 728
Profit/loss and total comprehensive income		**-266 126**	**1 037 764**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2018	31 Dec. 2017
Assets			
Deposits in banks		11 561	11 027
Secured lending	12,13	216 768	185 046
Cash collateral posted	13	1 806	1 894
Unsettled trades		13 767	13 389
Equities	5	5 048 647	5 250 871
Equities lent	5,12	437 651	411 664
Bonds	5	1 996 929	2 080 061
Bonds lent	5,12	662 920	591 277
Financial derivatives	5,13	3 576	9 025
Unlisted real estate	6	243 818	217 160
Other assets		3 448	3 219
Total assets		**8 640 892**	**8 774 633**
Liabilities and owner's capital			
Secured borrowing	12,13	360 105	260 136
Cash collateral received	13	5 017	5 804
Unsettled trades		15 565	15 905
Financial derivatives	5,13	4 222	3 919
Other liabilities		37	415
Management fee payable	11	4 544	4 728
Total liabilities		**389 491**	**290 907**
Owner's capital		8 251 401	8 483 727
Total liabilities and owner's capital		**8 640 892**	**8 774 633**

ACCOUNTING POLICY

The statement of cash flows is prepared in accordance with the direct method. Major classes of gross cash receipts and payments are presented separately, with the exception of specific transactions that are presented on a net basis, primarily relating to the purchase and sale of financial instruments.

Inflows and withdrawals between the GPFG and the Norwegian government are financing activities. These transfers have been settled in the period. Accrued inflows/withdrawals are shown in the *Statement of changes in owner's capital*.

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

Statement of cash flows

Amounts in NOK millions, receipt (+) / payment (-)	Note	2018	2017
Operating activities			
Receipts of dividend from equities		146 082	128 293
Receipts of interest from bonds		70 360	73 575
Receipts of interest and dividend from unlisted real estate	6	5 822	3 869
Net receipts of interest and fee from secured lending and borrowing		3 330	3 426
Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate		*225 594*	*209 163*
Net cash flow from purchase and sale of equities		-345 478	-141 382
Net cash flow from purchase and sale of bonds		36 052	17 878
Net cash flow to investments in unlisted real estate	6	-8 638	-17 234
Net cash flow financial derivatives		11 494	-4 886
Net cash flow cash collateral related to derivative transactions		-1 685	2 754
Net cash flow secured lending and borrowing		59 834	-21
Net payment of taxes	9	-4 343	-6 786
Net cash flow related to interest on deposits in banks and bank overdraft		-14	-84
Net cash flow related to other income/expense, other assets and other liabilities		263	-857
Management fee paid to Norges Bank	11	-4 728	-3 731
Net cash inflow/outflow from operating activities		**-31 650**	**54 813**
Financing activities			
Inflow from the Norwegian government		42 320	-
Withdrawal by the Norwegian government		-9 799	-60 837
Net cash inflow/outflow from financing activities		**32 520**	**-60 837**
Net change deposits in banks			
Deposits in banks at 1 January		11 027	17 759
Net increase/decrease of cash in the period		870	-6 024
Net foreign exchange gain/loss on cash		-336	-708
Deposits in banks at end of period		**11 561**	**11 027**

ACCOUNTING POLICY

Owner's capital for the GPFG comprises contributed capital in the form of accumulated net inflows from the Norwegian government and retained earnings in the form of total comprehensive income. *Owner's capital* corresponds to the Ministry of Finance's krone account in Norges Bank.

Statement of changes in owner's capital

Amounts in NOK millions	Inflows from owner	Retained earnings	Total owner's capital
1 January 2017	3 393 340	4 113 423	7 506 763
Profit/loss and total comprehensive income	-	1 037 764	1 037 764
Withdrawal during the period[1]	-60 800	-	-60 800
31 December 2017	**3 332 540**	**5 151 187**	**8 483 727**
1 January 2018	3 332 540	5 151 187	8 483 727
Profit/loss and total comprehensive income	-	-266 126	-266 126
Inflow during the period[1]	43 200	-	43 200
Withdrawal during the period[1]	-9 400	-	-9 400
31 December 2018	**3 366 340**	**4 885 061**	**8 251 401**

[1] In 2018 there was an inflow to the krone account of NOK 43.2bn, while NOK 14.1bn was withdrawn from the krone account. Of this, NOK 4.7bn was used to pay the accrued management fee for 2017. In 2017, there was a withdrawal from the krone account of NOK 64.5bn. Of this, NOK 3.7bn was used to pay the accrued management fee for 2016.

GPFG Note 1 General information

General information relating to the GPFG appears in Note 1 *General information.*

GPFG Note 2 Accounting policies

The accounting policies for the financial reporting of the GPFG appear in Note 2 *Accounting policies*.

GPFG Note 3 Returns

Table 3.1 Returns

	2018	2017
Returns measured in the fund's currency basket (percent)		
Return on equity investments	-9.49	19.44
Return on fixed-income investments	0.56	3.31
Return on unlisted real estate investments	7.53	7.52
Return on fund	-6.12	13.66
Relative return on fund (percentage points)	-0.30	0.70
Returns measured in Norwegian kroner (percent)		
Return on equity investments	-6.56	19.74
Return on fixed-income investments	3.82	3.57
Return on unlisted real estate investments	11.02	7.80
Return on fund	-3.07	13.95

Table 3.1 shows return for the fund and for each asset class. A time-weighted rate of return methodology is applied, where the fair value of holdings is determined at the time of cash flows into and out of the asset classes and the fund as a whole, and periodic returns are geometrically linked. Returns are calculated net of non-reclaimable withholding taxes on dividends and interest, and taxes on capital gains. Returns are measured both in Norwegian kroner and in the fund's currency basket. The currency basket is weighted according to the currency composition of the benchmark index for equities and bonds. Returns measured in the fund's currency basket are calculated as the geometric difference between the fund's returns measured in Norwegian kroner and the return of the currency basket.

The fund's relative return is calculated as the arithmetic difference between the fund's return and the return of the fund's benchmark index. The fund's relative return includes returns on unlisted real estate investments. The fund's benchmark index consists of global equity and bond indices determined by the Ministry of Finance and is calculated by weighting the monthly returns of the benchmark indices for each of the two asset classes, using the weight in the actual benchmark at the beginning of the month for the respective asset class.

GPFG Note 4 Income/expense from equities, bonds and financial derivatives

ACCOUNTING POLICY

The following accounting policies relate to the respective income and expense elements presented in Tables 4.1 to 4.3:

Dividends are recognised when the dividend is formally approved by the general meeting or equivalent decision-making body.

Interest income is recognised when the interest is accrued. *Interest expense* is recognised as incurred.

Realised gain/loss mainly represents amounts realised when assets or liabilities have been derecognised. Average acquisition cost is assigned upon derecognition. Realised gain/loss includes transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in equities and bonds, these normally comprise commission fees and stamp duty.

Unrealised gain/loss represents changes in fair value for the period for the related balance sheet line item, that are not attributable to the aforementioned categories.

Tables 4.1 to 4.3 specify the income and expense elements for *Equities*, *Bonds* and *Financial derivatives,* where the line *Income/expense* shows the amount recognised in profit or loss for the respective income statement line.

Table 4.1 Specification Income/expense from equities

Amounts in NOK millions	2018	2017
Dividends	147 630	128 846
Realised gain/loss	190 643	233 652
Unrealised gain/loss	-855 488	571 003
Income/expense from equities before foreign exchange gain/loss	**-517 214**	**933 501**

Table 4.2 Specification Income/expense from bonds

Amounts in NOK millions	2018	2017
Interest	69 505	71 811
Realised gain/loss	-17 918	9 283
Unrealised gain/loss	-37 020	316
Income/expense from bonds before foreign exchange gain/loss	**14 568**	**81 410**

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK millions	2018	2017
Dividends	6	140
Interest	541	-1 933
Realised gain/loss	2 181	128
Unrealised gain/loss	91	1 943
Income/expense from financial derivatives before foreign exchange gain/loss	**2 819**	**278**

GPFG Note 5 Holdings of equities, bonds and financial derivatives

ACCOUNTING POLICY

Investments in equities and bonds are measured at fair value through profit or loss. Accrued dividends and interest are presented in the balance sheet on the same line as the underlying financial instruments, and are specified in Tables 5.1 and 5.2 for *Equities* and *Bonds*, respectively. The balance sheet line *Equities* includes investments in depository certificates (GDR/ADR) and units in listed funds, such as REITs. Lent equities and bonds are presented separately. For more information on lent securities, see Note 12 *Secured lending and borrowing.*

Financial derivatives are measured at fair value through profit or loss. Variation margin for exchange traded futures is considered to be settlement, and amounts are presented as *Deposits in banks*. Norges Bank does not engage in hedge accounting, and therefore no financial instruments are designated as hedging instruments.

For further information on fair value measurement of equities, bonds and financial derivatives, see Note 7 *Fair value measurement.* Changes in fair value are recognised in the income statement and specified in Note 4 *Income/expense from equities, bonds and financial derivatives*.

Table 5.1 Equities

	31 Dec. 2018		31 Dec. 2017	
Amounts in NOK millions	**Fair value incl. accrued dividends**	**Accrued dividends**	**Fair value incl. accrued dividends**	**Accrued dividends**
Equities	5 486 298	7 659	5 662 535	6 111
Total equities	**5 486 298**	**7 659**	**5 662 535**	**6 111**
Of which equities lent	*437 651*		*411 664*	

Table 5.2 specifies investments in bonds per category. Nominal values represent the amount that shall be returned at maturity, also referred to as the par value of the bond.

Table 5.2 Bonds

Amounts in NOK millions	31 Dec. 2018 Nominal value	31 Dec. 2018 Fair value incl. accrued interest	31 Dec. 2018 Accrued interest	31 Dec. 2017 Nominal value[1]	31 Dec. 2017 Fair value incl. accrued interest	31 Dec. 2017 Accrued interest
Government bonds						
Government bonds issued in the government's local currency	1 370 667	1 433 456	9 859	1 372 187	1 458 828	10 712
Total government bonds	**1 370 667**	**1 433 456**	**9 859**	**1 372 187**	**1 458 828**	**10 712**
Government-related bonds						
Sovereign bonds	9 221	9 443	116	7 477	8 094	119
Bonds issued by local authorities	103 401	110 036	671	94 610	101 287	615
Bonds issued by supranational bodies	55 770	57 409	349	54 476	57 374	472
Bonds issued by federal agencies	157 576	159 691	781	146 737	150 032	732
Total government-related bonds	**325 968**	**336 579**	**1 917**	**303 300**	**316 787**	**1 938**
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	135 717	139 396	398	123 090	131 125	375
Total inflation-linked bonds	**135 717**	**139 396**	**398**	**123 090**	**131 125**	**375**
Corporate bonds						
Bonds issued by utilities	42 717	43 401	513	42 619	46 599	522
Bonds issued by financial institutions	259 045	252 867	2 461	244 859	248 894	2 322
Bonds issued by industrial companies	314 502	313 046	3 057	322 230	336 464	3 116
Total corporate bonds	**616 264**	**609 314**	**6 031**	**609 708**	**631 957**	**5 960**
Securitised bonds						
Covered bonds	138 121	141 105	938	128 365	132 642	1 013
Total securitised bonds	**138 121**	**141 105**	**938**	**128 365**	**132 642**	**1 013**
Total bonds	**2 586 737**	**2 659 849**	**19 144**	**2 536 650**	**2 671 338**	**19 999**
Of which bonds lent		*662 920*			*591 277*	

[1] Certain comparative amounts have been restated to conform to current year presentation.

Financial derivatives, such as foreign exchange derivatives, interest rate derivatives and futures, are used to adjust the exposure in various portfolios, as a cost-efficient alternative to trading in the underlying securities. Furthermore, foreign exchange derivatives are used in liquidity management. Equity derivatives with an option component are often a result of corporate actions and these can be converted to equities or be sold.

Table 5.3 gives a specification of financial derivatives recognised in the balance sheet. Notional amounts (the nominal values of the underlying) are the basis for calculating any cash flows and gains/ losses for the contracts. This provides information regarding the extent to which different types of financial derivatives are used. The GPFG also uses equity swaps in combination with purchases or sales of equities. Equity swaps are not recognised in the balance sheet. See Note 12 *Secured lending and borrowing* and Note 13 *Collateral and offsetting* for further information.

Table 5.3 Financial derivatives

	31 Dec. 2018			31 Dec. 2017		
		Fair value			Fair value	
Amounts in NOK millions	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Foreign exchange derivatives	451 527	3 022	3 863	252 601	770	2 687
Interest rate derivatives	25 693	504	358	34 225	1 304	1 232
Equity derivatives	593	50	-	7 379	6 951	-
Total financial derivatives	**477 812**	**3 576**	**4 222**	**294 205**	**9 025**	**3 919**

OVER-THE-COUNTER (OTC) FINANCIAL DERIVATIVES

Foreign exchange derivatives

This consists of foreign currency exchange contracts (forwards), which are agreements to buy or sell a specified quantity of foreign currency on an agreed future date.

Interest rate derivatives

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

Equity derivatives

Equity derivatives are derivatives with exposure to an underlying equity. Equity derivatives include instruments with an option component such as warrants and rights. These instruments grant the owner the right to purchase an equity at an agreed price within a certain time frame. During 2018, the fund's holdings of participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange, Tadawul. See Note 7 *Fair value measurement* for further information. Participatory certificates were classified as equity derivatives.

EXCHANGE-TRADED FUTURES CONTRACTS

Futures contracts are listed contracts to buy or sell a specified asset (security, index, interest rate or similar assets) at an agreed price at a future point in time. Gains and losses are settled daily with margin payments.

GPFG Note 6 Unlisted real estate

ACCOUNTING POLICY

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. Subsidiaries presented as *Unlisted real estate* in the balance sheet are measured at fair value through profit or loss. See Note 2 *Accounting policies* for more information.

The fair value of unlisted real estate is determined as the sum of the GPFG's share of assets and liabilities in the underlying subsidiaries, measured at fair value. For further information, see Note 7 *Fair value measurement*.

Changes in fair value are recognised in the income statement and presented as *Income/expense from unlisted real estate*.

The following accounting policies apply to the respective income and expense elements presented in Table 6.1:

Interest is recognised when the interest is accrued.

Dividends are recognised when the dividend is formally approved by the general meeting/equivalent decision-making body, or as a consequence of the company's articles of association.

Payments of interest and dividend in the period are presented in Table 6.1. Accrued interest and dividends which are not cash-settled are included in *Unrealised gain/loss*.

Table 6.1 provides a specification of the income statement line *Income/expense from unlisted real estate*, before foreign exchange gain/loss.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK millions	2018	2017
Payments of interest and dividend from unlisted real estate	5 822	3 869
Unrealised gain/loss	10 599	10 368
Income/expense from unlisted real estate before foreign exchange gain/loss	**16 421**	**14 237**

The change in the period for the balance sheet line *Unlisted real estate* is specified in Table 6.2.

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Unlisted real estate, opening balance for the period	217 160	188 469
Net cash flow to investments in unlisted real estate	8 638	17 234
Unrealised gain/loss	10 599	10 368
Foreign exchange gain/loss	7 421	1 089
Unlisted real estate, closing balance for the period	**243 818**	**217 160**

CASH FLOWS BETWEEN THE GPFG AND SUBSIDIARIES PRESENTED AS UNLISTED REAL ESTATE

The GPFG makes cash contributions to subsidiaries in the form of equity and long-term loan financing, to fund investments in real estate assets, primarily properties. Net income in the underlying real estate companies may be distributed back to the GPFG in the form of interest and dividend as well as repayment of equity and long-term loan financing. Some of the net income generated in the underlying real estate companies is not distributed back to the GPFG, but is reinvested in the underlying entities to finance for instance property development and repayment of external debt. There are no significant restrictions on distribution of interest and dividend from subsidiaries to the GPFG.

Table 6.3 provides a specification of the cash flows between the GPFG and subsidiaries presented as *Unlisted real estate* as presented in the statement of cash flows. *Receipts of interest and dividend from unlisted real estate* comprise the share of net income in the underlying real estate companies which is distributed back to the GPFG. *Net cash flows to/from investments in unlisted real estate* comprise cash flows related to equity and long-term loan financing between the GPFG and the subsidiaries. This is further specified by transaction type in Table 6.3. A net cash flow from the GPFG to subsidiaries will result in an addition to the balance sheet value of unlisted real estate, while a net cash flow from subsidiaries to the GPFG will result in a decrease.

Table 6.3 Cash flow to/from unlisted real estate subsidiaries

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Interest and dividend from ongoing operations	4 440	3 839
Interest and dividend from sales	1 381	30
Receipts of interest and dividend from unlisted real estate	**5 822**	**3 869**
Payments to new investments	-12 710	-14 771
Repayments from sales	4 717	1 059
Payments for property development	-1 562	-1 590
Repayments from ongoing operations	1 430	888
Net payments external debt	-513	-2 820
Net cash flow to investments in unlisted real estate	**-8 638**	**-17 234**

UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For further information, see Note 15 *Interests in other entities*.

A further specification of *Unlisted real estate* is provided in Tables 6.4 and 6.5. Table 6.4 specifies the GPFG's share of net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in Table 6.1. Table 6.5 specifies the GPFG's share of assets and liabilities in the underlying real estate companies, which comprises the closing balance for *Unlisted real estate* as presented in Table 6.2.

PRINCIPLES FOR MEASUREMENT AND PRESENTATION

The following principles apply for the respective income and expense elements presented in Table 6.4:

Rental income is recognised on a straight-line basis over the lease term. *Net rental income* mainly comprises accrued rental income, less costs relating to the operation and maintenance of properties.

Asset management fees are directly related to the underlying properties and are primarily linked to the operation and development of properties and leases. Fixed fees are expensed as incurred. Variable fees to external asset managers are based on achieved performance over time. The provision for variable fees is based on the best estimate of the incurred fees to be paid. The change in best estimate in the period is recognised in profit and loss.

Unrealised gain/loss presented in Table 6.1 includes undistributed profits and will therefore not reconcile with fair value changes for properties, debt and other assets and liabilities presented in Table 6.4.

Transaction costs for purchases and sales of properties are incurred as one-off costs and are expensed as incurred.

Table 6.4 Income from underlying real estate companies

Amounts in NOK millions	2018	2017
Net rental income	9 312	8 579
External asset management – fixed fees	-506	-482
External asset management – variable fees	-88	-248
Internal asset management – fixed fees[1]	-38	-32
Management costs within the limit from the Ministry of Finance[2]	-88	-97
Other operating costs, not within the limit from the Ministry of Finance	-94	-88
Interest expense external debt	-506	-626
Tax expense payable	-256	-140
Net income from ongoing operations	*7 736*	*6 866*
Realised gain/loss – properties	1 212	199
Unrealised gain/loss – properties	7 807	8 375
Unrealised gain/loss – debt	233	-420
Unrealised gain/loss – other assets and liabilities	-176	-461
Realised and unrealised gain/loss	*9 077*	*7 693*
Stamp duty and registration fees	-147	-217
Due diligence and insurance costs	-244	-107
Transaction costs purchases and sales	*-391*	*-324*
Net income underlying real estate companies	**16 421**	**14 237**

1 Internal asset management is carried out on 100% owned properties by employees in a wholly-owned, consolidated subsidiary.

2 See Table 11.2 for specification of management costs that are measured against the upper limit from the Ministry of Finance.

Table 6.5 Assets and liabilities underlying real estate companies

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Properties	262 364	235 507
External debt	-18 361	-17 694
Net other assets and liabilities[1]	-185	-653
Total assets and liabilities underlying real estate companies	**243 818**	**217 160**

1 *Net other assets and liabilities* comprise cash, tax and operational receivables and liabilities.

AGREEMENTS FOR PURCHASES AND SALES OF REAL ESTATE

When purchasing and selling property, there will normally be a time period between entering into the agreement and completion of the transaction. Properties are recognised or derecognised in the underlying real estate companies upon transfer of control. This will normally be the date the consideration is transferred and the transaction is completed. Transactions are normally announced when the agreement is entered into.

Table 6.6 provides an overview of announced agreements for purchases and sales of real estate which are not completed at the balance sheet date.

Table 6.6 Announced agreements for purchases and sales of real estate[1]

Type	Property address	City	Ownership percent	Currency	Price in stated currency (millions)[2]	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	3Q 2017	4Q 2019
Purchase	79 avenue des Champs-Elysées	Paris	100.0	EUR	613	4Q 2018	4Q 2019

1 Purchases and sales above USD 25m are announced.
2 The stated price is for the GPFG's share.

GPFG Note 7 Fair value measurement

ACCOUNTING POLICY

All assets and liabilities presented as *Equities*, *Bonds*, *Unlisted real estate*, *Financial derivatives*, *Secured lending and borrowing*, *Deposits in banks* and *Cash collateral posted* and *received* are measured at fair value through profit or loss.

Fair value, as defined by IFRS 13 *Fair value measurement*, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

1. INTRODUCTION

Fair value for the majority of assets and liabilities is based on quoted market prices. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value may be complex and require the use of judgement, in particular when observable inputs are not available. This valuation risk is addressed by the control environment in Norges Bank Investment Management, which is described in Section 6 of this note.

2. THE FAIR VALUE HIERARCHY

All assets and liabilities measured at fair value are classified in the three categories in the fair value hierarchy presented in Table 7.1. The classification is determined by the observability of the market inputs used in the fair value measurement:

- Level 1 comprises assets that are valued based on unadjusted quoted prices in active markets. An active market is defined as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Assets and liabilities classified as Level 2 are valued using models with inputs that are either directly or indirectly observable. Inputs are considered observable when they are developed using market data reflecting actual events and transactions.
- Assets classified as Level 3 are valued using models with significant use of unobservable inputs. Inputs are considered to be unobservable when market data is not available and the input is developed using the best available information on the assumptions that market participants would use when pricing the asset.

An overview of models and valuation techniques with their respective observable and unobservable inputs, categorised per type of instrument, is provided in Section 4 of this note.

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with significant use of unobservable inputs. A considerable degree of judgement is applied in determining the assumptions that market participants would use when pricing the asset or liability, when observable market data is not available.

Table 7.1 classifies the investment portfolio into the three categories in the fair value hierarchy.

Table 7.1 Categorisation of the investment portfolio by level in the fair value hierarchy

	Level 1		Level 2		Level 3		Total	
Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Equities	**5 450 137**	**5 616 897**	**35 808**	**34 265**	**353**	**11 373**	**5 486 298**	**5 662 535**
Government bonds	1 331 386	1 417 376	102 070	41 452	-	-	1 433 456	1 458 828
Government-related bonds	284 545	271 415	51 609	43 151	425	2 221	336 579	316 787
Inflation-linked bonds	131 271	126 023	8 125	5 102	-	-	139 396	131 125
Corporate bonds	519 829	597 276	89 457	34 572	28	109	609 314	631 957
Securitised bonds	126 377	113 337	14 728	18 863	-	442	141 105	132 642
Total bonds	**2 393 408**	**2 525 427**	**265 989**	**143 140**	**453**	**2 772**	**2 659 849**	**2 671 338**
Financial derivatives (assets)	20	120	3 544	8 905	12	-	3 576	9 025
Financial derivatives (liabilities)	-	-	-4 222	-3 919	-	-	-4 222	-3 919
Total financial derivatives	**20**	**120**	**-678**	**4 986**	**12**	**-**	**-646**	**5 106**
Unlisted real estate	**-**	**-**	**-**	**-**	**243 818**	**217 160**	**243 818**	**217 160**
Other (assets)[1]	**-**	**-**	**247 351**	**214 575**	**-**	**-**	**247 351**	**214 575**
Other (liabilities)[2]	**-**	**-**	**-380 724**	**-282 260**	**-**	**-**	**-380 724**	**-282 260**
Total	**7 843 565**	**8 142 444**	**167 746**	**114 706**	**244 636**	**231 305**	**8 255 945**	**8 488 454**
Total (percent)	**95.0**	**95.9**	**2.0**	**1.4**	**3.0**	**2.7**	**100.0**	**100.0**

1 *Other* (assets) consists of the balance sheet line items *Deposits in banks, Secured lending, Cash collateral posted, Unsettled trades* (assets) and *Other assets*.
2 *Other* (liabilities) consists of the balance sheet line items *Secured borrowing, Cash collateral received, Unsettled trades* (liabilities) and *Other liabilities*.

The majority of the total portfolio is priced based on observable market prices. At the end of 2018, 97.04% was classified as Level 1 or 2, which is a marginal reduction compared to year-end 2017. Movements between levels in the fair value hierarchy are described in Section 3 of this note.

Equities
Measured as a share of total value, virtually all equities (99.34%) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.65%) are classified as Level 2. These are mainly equities for which trading has recently been suspended, or illiquid securities that are not traded daily. For a few securities (0.01%) that are not listed, or where trading has been suspended over a longer period, unobservable inputs are used to a significant extent in the fair value measurement. These holdings are therefore classified as Level 3.

Bonds
The majority of bonds (89.98%) have observable, executable market quotes and are classified as Level 1. 10.00% of bonds are classified as Level 2. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A few bonds (0.02%) that do not have observable quotes, are classified as Level 3 as the valuation is based on significant use of unobservable inputs.

Unlisted real estate
All unlisted real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of unobservable market inputs. All unlisted real estate investments are measured at the value determined by external valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally considered to be the best estimate of fair value, or where there are indications that external valuation reports do not reflect fair value so that adjustments to valuations are warranted.

Financial derivatives
Some equity derivatives (rights and warrants) that are actively traded on exchanges are classified as Level 1. The majority of derivatives are classified as Level 2 as the valuation of these is based on standard models using observable market inputs. Certain derivatives are valued based on models with significant use of unobservable inputs and are classified as Level 3.

Other assets and liabilities are classified as Level 2.

3. MOVEMENTS BETWEEN THE LEVELS IN THE FAIR VALUE HIERARCHY

ACCOUNTING POLICY

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

Reclassifications between Level 1 and Level 2
The relative share of equities classified as Level 1 has increased marginally by 0.15 percentage point compared to year-end 2017.

In 2018, the fund's holdings of participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange, Tadawul. Participatory certificates were previously classified as Level 2 derivatives, while the shares received are classified as Level 1. The participatory certificates had a carrying value of NOK 6 802m at year-end 2017.

The share of bonds classified as Level 1 has decreased by 4.56 percentage points in 2018 with a corresponding increase in the share of Level 2 holdings of 4.64 percentage points. This is due to reclassifications from Level 1 to Level 2, mainly as a result of reduced liquidity for bonds in emerging markets and corporate bonds denominated in US dollar. Some of the reclassification for corporate bonds denominated in US dollar is due to an improved information base for analysis of liquidity and observable quotes compared to prior periods.

Reclassifications between Level 2 and Level 3
A shareholding with a lock-in period which was received as compensation following the merger of two companies in 2016 has been reclassified from Level 3 to Level 2. This is because the remaining lock-in period no longer entails significant use of unobservable inputs in the valuation. At year-end 2017, this shareholding comprised almost 90% of the value of equities classified as Level 3. Several government-related bonds and corporate bonds denominated in US dollar and euro have been reclassified from Level 3 to Level 2, as they were valued based on comparable bonds at year-end 2018.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK millions	1 Jan. 2018	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31 Dec. 2018
Equities	11 373	39	-480	-11	77	45	-10 705	15	353
Bonds	2 772	2	-17	-87	-34	-	-2 215	32	453
Financial derivatives (assets)	-	12	-	-	-	-	-	-	12
Unlisted real estate[1]	217 160	8 638	-	-	10 599	-	-	7 421	243 818
Total	**231 305**	**8 691**	**-497**	**-98**	**10 642**	**45**	**-12 920**	**7 468**	**244 636**

Amounts in NOK millions	1 Jan. 2017	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31 Dec. 2017
Equities	11 863	97	-1 534	-48	-632	1 099	-258	786	11 373
Bonds	1 390	406	-327	-71	-33	1 457	-6	-44	2 772
Unlisted real estate[1]	188 469	17 234	-	-	10 368	-	-	1 089	217 160
Total	**201 722**	**17 737**	**-1 861**	**-119**	**9 703**	**2 556**	**-264**	**1 831**	**231 305**

1 *Purchases* represent the net cash flow in the period to investments in unlisted real estate. See Table 6.3 in Note 6 *Unlisted real estate*.

The GPFG's aggregate holdings in Level 3 was NOK 244 636m at year-end, an increase of NOK 13 331m compared to year-end 2017.

The relative share of equities classified as Level 3 has decreased by 0.19 percentage point compared to 2017. The decrease is primarily due to the aforementioned reclassification of the shareholding with a lock-in period from Level 3 to Level 2.

The relative share of bond holdings classified as Level 3 has decreased compared to 2017. Bonds classified as Level 3 have decreased by NOK 2 319m compared to 2017, mainly due to reclassifications of holdings to Level 2.

All unlisted real estate investments are classified as Level 3, and the increase of NOK 26 658m in 2018 is mainly due to new investments, value increases and currency effects.

4. VALUATION TECHNIQUES

Norges Bank Investment Management has defined hierarchies for which price sources to be used for valuation. Holdings that are included in the benchmark indices are normally valued in accordance with the index providers' prices, while the remaining holdings of equities and bonds are valued almost exclusively using prices from other reputable external price providers. For equities and derivatives traded in active markets (Level 1), the close price is used. For bonds traded in active markets, the bid price is generally used.

The next section sets out the main valuation techniques for instruments included in Level 2 and Level 3 of the fair value hierarchy. Furthermore, it highlights the most significant observable and unobservable inputs used in the valuation models.

Unlisted real estate (Level 3)

The fair value of unlisted real estate is determined as the sum of the underlying assets and liabilities as presented in Note 6 *Unlisted real estate*. Assets and liabilities consist mainly of properties and external debt. Properties are valued each reporting date by external independent valuation specialists using valuation models. Valuation of properties is inherently predisposed to significant forward-looking judgements. These include key assumptions and estimates with respect to each individual property type, location, future revenue streams and relevant yields. These assumptions represent mainly unobservable inputs and *Unlisted real estate* is therefore classified as Level 3 in the fair value hierarchy. Estimates used reflect recent comparable market transactions of properties with a similar location, condition and quality, and are based on market conditions.

Valuation of commercial real estate is based on variations of discounted cash flow models.

Yields and assumptions regarding expected future cash flows are the most important inputs in the valuation models. Expected future cash flows are impacted by changes in assumptions related to, but not limited to:

- Expected inflation (market, consumer price index, costs, etc.)
- Market rental value, market rental value growth, renewal probabilities, void periods and costs
- Tenant defaults
- Changes in credit spreads and discount rates for commercial real estate loans.

Equities (Level 2 and Level 3)
Equities that are valued based on models with observable inputs provided by vendors are classified as Level 2 in the fair value hierarchy. These holdings are not traded in active markets and include listed shares in companies where trading has been suspended. The valuation models take into account various observable market inputs such as comparable equity quotes, last traded price and volume.

Holdings in Level 3 consist of equities that have been suspended from trading for a prolonged period. Valuation models for these holdings take into account unobservable inputs such as historical volatility, company performance and analysis of comparable companies.

Bonds (Level 2 and Level 3)
Bonds that are valued based on indicative quotes or liquid comparable issues are classified as Level 2. These holdings usually consist of less liquid bonds than those that are actively traded.

Bonds classified as Level 3 are valued based on models using unobservable inputs such as probability for future cash flows and spreads to reference curves. These holdings include defaulted and highly illiquid bonds.

Financial derivatives (Level 2 and Level 3)
Foreign exchange derivatives consist mainly of foreign exchange forward contracts, and are valued using industry standard models which predominantly use observable market data inputs such as forward rate yields.

Interest rate derivatives, which consist entirely of interest rate swaps, are valued using industry standard models with predominantly observable market data inputs such as interest from traded interest rate swaps.

Equity derivatives, such as rights and warrants, are mainly valued based on prices provided by vendors according to the fair value hierarchy. In some cases where an equity derivative is not traded, inputs such as conversion factors, subscription price and strike price are utilised to value the instruments.

5. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK millions	Specification of Level 3 holdings 31 Dec. 2018	Sensitivities 31 Dec. 2018 Unfavourable changes	Sensitivities 31 Dec. 2018 Favourable changes	Specification of Level 3 holdings 31 Dec. 2017	Sensitivities 31 Dec. 2017 Unfavourable changes	Sensitivities 31 Dec. 2017 Favourable changes
Equities	**353**	**-116**	**116**	**11 373**	**-2 409**	**2 409**
Government-related bonds	425	-43	43	2 221	-222	222
Corporate bonds	28	-3	3	109	-11	11
Securitised bonds	-	-	-	442	-44	44
Total bonds	**453**	**-45**	**45**	**2 772**	**-277**	**277**
Financial derivatives (assets)	**12**	**-1**	**1**	**-**	**-**	**-**
Unlisted real estate	**243 818**	**-14 627**	**17 888**	**217 160**	**-12 969**	**14 988**
Total	**244 636**	**-14 790**	**18 050**	**231 305**	**-15 655**	**17 674**

The valuation of holdings in Level 3 involves the use of judgement when determining the assumptions that market participants would use when observable market data is not available. In the sensitivity analysis for Level 3 holdings, the effect of using reasonable alternative assumptions is shown.

Unlisted real estate
Changes in key assumptions can have a material effect on the valuation of the unlisted real estate portfolio. This is illustrated in the sensitivity analysis by using other reasonable alternative assumptions for yield and market rents. The sensitivity analysis is based on a statistically relevant sample that is representative for the real estate portfolio, and reflects both favourable and unfavourable changes.

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in future market rents of 2% will result in a decrease in value of the real estate portfolio of approximately 6.0% (6.0% in 2017) or NOK 14 627m. In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future market rents of 2% will increase the value of the real estate portfolio by 7.3% (6.9% in 2017) or NOK 17 888m.

Equities
Fair value of equities classified as Level 3 is sensitive to whether trading is resumed and how markets have moved from the time the trading was suspended, as well as specific factors related to the individual company such as the financial situation and volatility.

Sensitivity in absolute values has decreased for the equity portfolio, in line with the holdings classified as Level 3. The increase in relative sensitivity for the equity portfolio compared to 2017 is due to the reclassification of the equity holding with a lock-in period from Level 3 to Level 2. This holding had a slightly lower relative sensitivity compared to other equity holdings classified as Level 3.

Bonds
The fair value of bonds classified as Level 3 is sensitive to changes in risk premiums and liquidity discounts, as well as the future recovery in the event of default. In some instances, sensitivity analyses are carried out on the underlying discount rate or spread against the discount curve.

The sensitivity in fair value for bonds is somewhat lower than for equities, particularly for bonds with shorter maturities. The decrease in sensitivity in 2018 in absolute terms is in line with the decrease in the holdings classified as Level 3.

Financial derivatives
The fair value of financial derivatives classified as Level 3 is sensitive to changes in the assumption used for the historical volatility of the underlying equity.

6. CONTROL ENVIRONMENT
The control environment for fair value measurement of financial instruments and investments in unlisted real estate is organised around a formalised and documented valuation policy and guidelines, supported by work and control procedures. The policy document lays down valuation policies and outlines procedures for the Norges Bank Investment Management valuation committee.

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

All holdings and investments are generally valued by external, independent price providers. These have been selected based on analyses performed by the departments responsible for valuation.

Price providers are monitored 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 not sufficiently liquid for valuation to be based on quoted prices, widely recognised models are used. Observable inputs are used where possible, but unobservable inputs are used in some cases, due to illiquid markets.

The valuation process is subject to numerous daily controls by the valuation departments. These 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 unlisted real estate investments, more extensive controls are performed to ensure valuation is in accordance with fair value. As part of this review, particular attention is paid to illiquid financial instruments and unlisted real estate investments, i.e. investments deemed to pose valuation challenges. Illiquid instruments are identified using sector and currency classifications, credit rating indicators, bid/ask spreads, and market activity.

Valuation memos and reports are prepared each quarter-end, documenting the results of the controls performed and the most important sources of uncertainties in the valuations.

The valuation committee, which includes several members of Norges Bank Investment Management's leader group, meets every quarter prior to the publication of the financial reporting. The committee reviews the valuation documentation, discusses major pricing issues and approves the valuation.

GPFG Note 8 Investment risk

MANAGEMENT MANDATE FOR THE GPFG

The GPFG is managed by Norges Bank on behalf of the Ministry of Finance, in accordance with Section 2, second paragraph of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

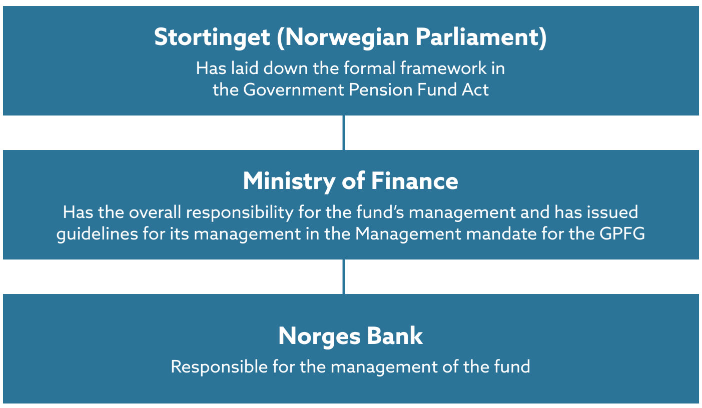
The GPFG shall seek to obtain the highest possible return after costs measured in the currency basket of the benchmark, within the set management limits. The strategic benchmark index set by the Ministry of Finance is divided into two asset classes, equities and bonds, with an allocation of 70% to equities, and 30% to bonds. The Ministry of Finance has established a plan to increase the strategic equity share to 70%.

The benchmark index for equities is constructed based on the market capitalisation for equities in the countries included in the benchmark. The benchmark index for bonds specifies a defined allocation between government bonds and corporate bonds, where government bonds have a weight of 70% and corporate bonds 30%. The currency distribution is a result of these weighting principles.

Investments in real estate are not defined by the fund's benchmark index. The investment mandate sets a maximum allocation to unlisted real estate of 7% of the investment portfolio. The fund's allocation to real estate is further regulated in the investment mandate issued by the Executive Board of Norges Bank. It is up to Norges Bank to determine the allocation to real estate, within the limits set in the investment mandate, and how it shall be financed.

The fund may not invest in securities issued by Norwegian entities, securities issued in Norwegian kroner and real estate located in Norway. The fund can also not invest in companies which are excluded following the guidelines for observation and exclusion from the GPFG.

Chart 8.1 Management mandate for 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.

The CEO of Norges Bank Investment Management is authorised through a job description and an investment mandate. The Executive Board has issued principles for risk management, responsible investment and compensation to employees in Norges Bank Investment Management. Internationally recognised standards are applied in the areas of valuation and performance measurement as well as management, measurement and control of risk. Reporting to the Executive Board is carried out monthly, and more extensively on a quarterly basis. The Governor of Norges Bank and the Executive Board are notified immediately in the event of special events or significant matters.

Investment responsibilities within Norges Bank Investment Management are further delegated through investment mandates. Responsibility for processes and personnel is delegated through job descriptions, while process requirements are described in policies and guidelines. The composition of the leader group and the delegation of authority shall ensure segregation of duties between the investment areas, trading, operations, risk management and compliance and control. Norges Bank Real Estate Management is structured as a separate unit with its own leader group, and the CEO for Norges Bank Real Estate Management reports to the CEO of Norges Bank Investment Management.

Chart 8.2 Norges Bank's governance structure

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 set by the CEO of Norges Bank Investment Management through job descriptions in the risk area. Reporting to the CEO is carried out on a daily, weekly and monthly basis. The CEO shall be notified immediately of any special events or serious breaches of the investment mandate. Equivalent reporting requirements are embedded in Norges Bank Real Estate Management.

FRAMEWORK FOR INVESTMENT RISK

In the management mandate for the GPFG, there are a number of limits and restrictions within the combined equity and bond asset class, as well as within the individual asset classes. Investments in unlisted real estate are regulated by a separate management framework in the investment mandate. The framework underpins how a diversified exposure to unlisted real estate shall be established and managed.

Clear roles and responsibilities are a cornerstone of process design at Norges Bank Investment Management. Changes to investment mandates, the portfolio hierarchy and new counterparties are monitored and require approval by the Chief Risk Officer (CRO), or a person authorised by the CRO.

The Executive Board's principles for risk management are further described through policies and guidelines. Responsibility for effective processes related to risk management is delegated to the CRO and Chief Compliance and Control Officer (CCO). Risk management related to unlisted real estate investments is delegated to the CRO and CCO in Norges Bank Real Estate Management.

Risk management 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 as investment risk. The investment area in Norges Bank Investment Management is responsible for managing risk in the portfolio and in individual mandates, while the risk management areas independently measure, manage and report investment risk across the portfolio, at asset class level and other levels within the portfolio that reflect the investment process. Risk analyses are required in advance of investments in unlisted real estate.

Table 8.1 Investment risk

Type	Market risk	Credit risk	Counterparty risk
Definition	Risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to changes in financial market variables and real estate values	Risk of loss due to a bond issuer not meeting its payment obligations	Risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting
Main dimensions	Measured both absolute and relative to the benchmark - Concentration risk - Volatility and correlation risk - Systematic factor risk - Liquidity risk	Measured at single issuer and portfolio levels - Probability of default - Loss given default - Correlation between instruments and issuers at portfolio level	Measured risk exposure by type of position - Securities lending - Unsecured bank deposits and securities - Derivatives including FX contracts - Repurchase and reverse repurchase agreements - Settlement risk towards brokers and long settlement transactions

Investment risk - market risk
Norges Bank Investment Management defines market risk as the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to changes in financial market variables and real estate values. Market risk for the investment portfolio, both absolute and relative to the benchmark, is measured along the dimensions concentration risk, volatility and correlation risk, systematic factor risk and liquidity risk. For unlisted real estate, this involves measurement of the share of real estate under construction, vacancy, tenant concentration and geographic concentration. Market risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – credit risk
Norges Bank Investment Management defines credit risk as the risk of loss due to an issuer not meeting its payment obligations. Credit risk is measured both in relation to single issuers, 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 of credit losses between instruments and issuers. Credit risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – counterparty risk
Norges Bank Investment Management defines counterparty risk as the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. Counterparties are necessary to ensure effective liquidity management and effective trading and management of market and credit risk. Counterparty risk also arises in connection with securities lending and with the management of the equity and bond portfolios, as well as the unlisted real estate portfolio. Counterparty risk is controlled and limited to the greatest extent possible, given the investment strategy.

Risk management process
Norges Bank Investment Management employs several measurement methodologies, processes and systems to control investment risk. Robust and widely recognised risk management systems and processes are complemented by internally developed measurement methodologies and processes.

MARKET RISK
Norges Bank Investment Management measures market risk in both absolute terms for the actual portfolio, and the relative market risk for holdings in the GPFG.

Continuous monitoring, measurement and assessment of market risk is 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 8.2.

Table 8.2 Allocation by asset class, country and currency

		Market value in percent by country and currency[1]			Market value in percent by asset class		Assets minus liabilities excluding management fee	
Asset class	**Market**	**31 Dec. 2018**	**Market**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
Equities	**Developed**	**89.0**	**Developed**	**89.0**				
	US	38.4	US	35.4				
	UK	9.4	UK	9.7				
	Japan	8.8	Japan	9.1				
	France	5.1	Germany	6.1				
	Germany	4.9	France	5.1				
	Total other	22.5	Total other	23.6				
	Emerging	**11.0**	**Emerging**	**11.0**				
	China	3.6	China	3.6				
	Taiwan	1.7	Taiwan	1.6				
	India	1.2	India	1.2				
	Brazil	1.0	Brazil	0.9				
	South Africa	0.7	South Africa	0.7				
	Total other	2.8	Total other	3.0				
Total equities					**66.34**	**66.60**	**5 477 159**	**5 653 440**
Fixed income	**Developed**	**91.8**	**Developed**	**90.5**				
	US dollar	44.6	US dollar	44.9				
	Euro	26.1	Euro	25.8				
	Japanese yen	7.7	Japanese yen	6.7				
	British pound	4.2	British pound	4.6				
	Canadian dollar	3.3	Canadian dollar	3.2				
	Total other	5.9	Total other	5.3				
	Emerging	**8.2**	**Emerging**	**9.5**				
	Mexican peso	1.7	Mexican peso	1.6				
	South Korean won	1.3	South Korean won	1.4				
	Indonesian rupiah	1.1	Indonesian rupiah	0.9				
	Indian rupee	0.7	Indian rupee	0.7				
	Malaysian ringgit	0.6	Brazilian real	0.7				
	Total other	2.9	Total other	4.1				
Total fixed income					**30.68**	**30.82**	**2 532 774**	**2 616 372**
Unlisted real estate	US	47.8	US	46.2				
	UK	23.0	UK	23.5				
	France	16.5	France	16.6				
	Switzerland	3.7	Switzerland	3.9				
	Germany	3.5	Germany	3.5				
	Total other	5.5	Total other	6.3				
Total unlisted real estate					**2.98**	**2.58**	**246 013**	**218 643**

[1] *Market value in percent per country and currency* includes derivatives and cash.

At the end of 2018, the share of equities in the fund was 66.3%, compared with 66.6% at year-end 2017. The bond portfolio's share of the fund was 30.7%, compared to 30.8% at year-end 2017. The unlisted real estate portfolio's share of the fund was 3.0% at year-end 2018, an increase of 0.4 percentage point from year-end 2017.

Concentration risk
The GPFG has substantial investments in government-issued bonds.

Table 8.3 shows the largest holdings in bonds issued by governments. These include government bonds issued in local currency, sovereign bonds and inflation-linked bonds issued in local currency.

Table 8.3 Largest holdings within the segment government bonds

Amounts in NOK millions	Market value 31 Dec. 2018
US	638 715
Japan	237 179
Germany	106 116
UK	64 844
France	47 998
South Korea	43 366
Mexico	42 594
Spain	41 388
Italy	36 517
Australia	36 399

Amounts in NOK millions	Market value 31 Dec. 2017
US	607 651
Japan	190 956
Germany	119 591
UK	70 061
France	63 517
Spain	48 221
Mexico	46 036
South Korea	45 425
Italy	42 150
Australia	34 860

The portfolio is also invested in companies which issue both equities and bonds. Table 8.4 shows the portfolio's largest holdings of non-government issuers, including both bond and equity holdings. Covered bonds issued by financial institutions and debt issued by other underlying companies are included in the bonds column.

Table 8.4 Largest holdings excluding sovereigns, both bonds and equities

Amounts in NOK millions, 31 Dec. 2018	Sector	Equities	Bonds	Total
Apple Inc	Technology	62 740	7 176	69 915
Microsoft Corp	Technology	64 715	1 853	66 568
Alphabet Inc	Technology	57 634	792	58 426
Amazon.com Inc	Consumer services	54 771	2 985	57 756
Nestlé SA	Consumer goods	53 914	2 291	56 205
Royal Dutch Shell Plc	Oil and gas	51 274	1 627	52 902
Novartis AG	Health care	39 494	3 505	42 999
Roche Holding AG	Health care	39 573	1 968	41 541
Berkshire Hathaway Inc	Finance	33 423	4 936	38 359
JPMorgan Chase & Co	Finance	24 913	12 972	37 885

Amounts in NOK millions, 31 Dec. 2017	Sector	Equities	Bonds	Total
Apple Inc	Technology	66 029	8 122	74 152
Nestlé SA	Consumer goods	51 040	1 895	52 935
Royal Dutch Shell Plc	Oil and gas	50 258	2 673	52 930
Microsoft Corp	Technology	47 549	2 155	49 704
Alphabet Inc	Technology	47 892	844	48 737
Bank of America Corp	Finance	25 546	17 002	42 548
Novartis AG	Health care	36 770	3 952	40 722
Amazon.com Inc	Consumer services	36 579	3 428	40 006
JPMorgan Chase & Co	Finance	25 823	12 730	38 553
HSBC Holdings Plc	Finance	30 777	7 380	38 158

Table 8.5 shows the composition of the unlisted real estate asset class by sector.

Table 8.5 Distribution of unlisted real estate investments by sector, percent

Sektor	31 Dec. 2018	31 Dec. 2017
Office	59.3	58.2
Retail	18.0	19.4
Logistics	21.6	21.2
Other	1.2	1.1
Total	**100.0**	**100.0**

Volatility and correlation risk
Norges Bank Investment Management uses models to quantify the risk of value changes associated with all or parts of the portfolio. Volatility is a standard risk measure based on the statistical concept of standard deviation, which takes into account the correlation between different investments in the portfolio. This risk measure provides an estimate of how much one can expect the portfolio value to change or fluctuate during the course of a year, based on market conditions over the past three years. In two of three years, the portfolio return is expected to be within the negative and positive value of the estimated volatility. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. Norges Bank Investment Management uses the same model for portfolio risk and for relative volatility.

The fund's investments, including investments in unlisted real estate, are included in the calculations for relative volatility and are measured against the fund's benchmark index consisting of global equity and bond indices. The limit for the fund's expected relative volatility, including unlisted real estate, is 1.25 percentage points.

The Barra Private Real Estate 2 (PRE2) model from MSCI is used to calculate the market risk for the fund's investments in unlisted real estate. As a general modelling issue there are few, if any, available historical prices for individual properties. Available data sources which may be used as approximations for the pricing of unlisted real estate investments include return time series from listed real estate companies (REITs) and valuation-based indices. The risk model from MSCI uses time series of valuations and actual transactions as a starting point, but also includes listed real estate shares prices to establish representative time series for unlisted real estate prices. This hybrid model is calibrated to market data for each location and type of property, and constructs synthetic time series of risk factor returns with daily frequency. The main risk sources from being exposed to these risk factors are currency risk, variance and correlation of the location and property type specific appraisal data and, via exposure to listed real estate returns, correlation to the equity and fixed-income markets. The risk model from MSCI then uses these factors for unlisted real estate investments in the same way as ordinary equity and fixed-income risk factors to calculate expected absolute and relative volatility, as well as expected shortfall for the fund's investments.

CALCULATION OF EXPECTED VOLATILITY

Expected volatility for the portfolio, and volatility relative to the benchmark index, is estimated by using a parametric calculation method based on current investments. The model weights weekly return data equally over a sampling period of three years.

Tables 8.6 and 8.7 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 8.6 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31 Dec. 2018	Min 2018	Max 2018	Average 2018	31 Dec. 2017	Min 2017	Max 2017	Average 2017
Portfolio	8.6	8.5	11.0	9.5	10.8	10.7	11.2	11.0
Equities	11.6	11.4	13.7	12.4	13.6	13.6	14.1	14.0
Fixed income	7.0	6.8	9.4	7.8	9.4	9.4	9.8	9.7
Unlisted real estate	9.3	9.2	11.9	10.4	12.0	11.9	12.7	12.5

Table 8.7 Relative risk measured against the fund's reference indices, expected relative volatility, in basis points

	Expected relative volatility							
	31 Dec. 2018	Min 2018	Max 2018	Average 2018	31 Dec. 2017	Min 2017	Max 2017	Average 2017
Portfolio	33	29	37	31	33	31	35	33

Risk measured as expected volatility indicates an expected annual value fluctuation in the fund of 8.6%, or approximately NOK 710bn at the end of 2018, compared to 10.8% at year-end 2017. Expected volatility for the equity portfolio was 11.6% at year-end, down from 13.6% at year-end 2017, while expected volatility for the bond portfolio was 7.0%, down from 9.4% at year-end 2017. The decrease in expected volatility for the fund in 2018 is mainly due to decreased price volatility in the markets for the last three years than was the case at the end of 2017.

The management mandate specifies that expected relative volatility for the fund, including unlisted real estate, shall not exceed a limit of 1.25 percentage points. The measurement of risk and follow-up of the limit is performed based on the risk model described above. The fund's expected relative volatility was 33 basis points at the end of the year, which was the same level as the end of 2017.

In addition to the above-mentioned model, other risk models are employed that capture the market dynamics of recent periods to a greater extent, as well as models that measure tail risk.

Expected shortfall is a tail risk measure that measures the expected loss of a portfolio in extreme market situations. The expected shortfall measure provides an estimate of the annual expected loss for a given confidence level. Using historical simulations, relative returns of the current portfolio and benchmark are calculated on a weekly basis over a sampling period from January 2007 until the end of the last accounting period. The expected shortfall at a 97.5% confidence level is then given by the annualised average relative return, measured in the currency basket for the 2.5% worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall does not exceed 3.75 percentage points. Expected shortfall is measured and monitored based on the risk model described above. At the end of the year, expected shortfall was 1.37 percentage points, compared to 1.49 percentage points at year-end 2017.

CALCULATION OF EXPECTED SHORTFALL

Expected shortfall for the portfolio, measured against its benchmark index, is estimated using historical simulations based on current investments. The model weights weekly returns equally over a sampling period from January 2007 until the end of the last accounting period, so that the measure can capture extreme market movements. A confidence level of 97.5% is used for the calculations.

Strengths and weaknesses

The strength of these types of risk model is that one can estimate the risk associated with 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, as well as capturing deviations from the normal distribution.

The model-based risk estimates are based on historical relationships in the markets and are expected to provide reliable forecasts in markets without significant changes in volatility and correlation. Estimates will be less reliable in periods marked by significant changes in volatility and correlation. Calculated volatility gives a point estimate of risk and provides little information on the total risk profile and any tail risk. Annualisation means that it is assumed that volatility and the composition of the portfolio are constant over time. To compensate for these shortcomings, complementary models and methods are employed, such as stress tests and analyses of concentration risk and realised return.

Verification of models

Risk models used in estimating and controlling investment risk are continuously evaluated and verified for their ability to estimate risk. The special nature of the investment portfolio and the investment universe, as well as the GPFG's long-term investment horizon are taken into account when evaluating the models.

CREDIT RISK

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

Table 8.8 Bond portfolio specified by credit rating

Amounts in NOK millions, 31 Dec. 2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	739 266	186 417	358 892	101 955	46 926	1 433 456
Government-related bonds	145 988	127 414	46 766	15 274	1 136	336 579
Inflation-linked bonds	114 351	12 444	6 007	6 190	403	139 396
Corporate bonds	5 965	51 202	224 458	318 135	9 553	609 314
Securitised bonds	114 035	23 461	2 408	786	414	141 105
Total bonds	**1 119 606**	**400 939**	**638 532**	**442 341**	**58 431**	**2 659 849**

Amounts in NOK millions, 31 Dec. 2017	AAA	AA	A	BBB	Lower rating	Total
Government bonds	724 614	214 529	292 828	174 394	52 463	1 458 828
Government-related bonds	141 463	119 116	44 171	10 719	1 318	316 787
Inflation-linked bonds	112 634	8 131	3 038	7 322	-	131 125
Corporate bonds	5 988	54 763	241 644	316 896	12 666	631 957
Securitised bonds	112 106	15 977	2 961	1 598	-	132 642
Total bonds	**1 096 805**	**412 516**	**584 642**	**510 929**	**66 447**	**2 671 338**

The share of holdings in corporate bonds was somewhat reduced during the year, to 22.9 percent of the bond portfolio at year-end 2018, from 23.7 percent at year-end 2017. Government and government-related bonds, including inflation-linked bonds, amounted to 71.8 percent of the bond portfolio, compared to 71.4 percent at year-end 2017.

The share of bonds with credit rating BBB decreased by 2.5 percentage points to 16.6% of the total bond portfolio at year-end. This reduction was mainly due to an upgrade of Spain in 2018 from the BBB category to the A category, as well as a reduction in the share of emerging markets government bonds in the BBB category. The share of the bond portfolio with credit rating A increased mainly due to the upgrade of Spain as well as an increase in the holdings of Japanese government bonds. The share of the bond portfolio with credit rating AAA increased by 1.0 percentage point to 42.1% of the bond portfolio at year-end 2018. The increase is mainly due to an increase of American government bonds during the year.

The share of bonds grouped under *Lower rating* was reduced to 2.2% of the bond portfolio at year-end 2018, from 2.5% at year-end 2017. The decrease is mainly due to a lower exposure in both government bonds and corporate bonds in this category. Defaulted bonds had a market value of NOK 44m at year-end 2018, down from NOK 109m at year-end 2017. Defaulted bonds are grouped under *Lower rating*. The credit quality of the total bond portfolio improved slightly during the year.

Table 8.9 Bond portfolio by credit rating and currency, in percent

31 Dec. 2018	AAA	AA	A	BBB	Lower rating	Total
US dollar	25.3	2.4	6.5	9.1	0.2	43.5
Euro	9.5	6.3	4.8	4.3	0.2	25.1
Japanese yen	-	-	9.6	-	-	9.6
British pound	0.3	2.7	0.4	0.7	-	4.1
Canadian dollar	2.2	1.2	0.2	-	-	3.5
Other currencies	4.8	2.5	2.5	2.5	1.8	14.2
Total	**42.1**	**15.1**	**24.0**	**16.6**	**2.2**	**100.0**

31 Dec. 2017	AAA	AA	A	BBB	Lower rating	Total
US dollar	24.5	2.2	7.0	8.5	0.4	42.6
Euro	9.8	6.6	2.9	6.4	0.2	25.8
Japanese yen	-	-	7.6	-	-	7.6
British pound	0.2	2.9	0.6	0.8	-	4.5
Canadian dollar	2.1	1.0	0.5	0.2	-	3.7
Other currencies	4.4	2.6	3.4	3.3	2.0	15.7
Total	**41.1**	**15.4**	**21.9**	**19.1**	**2.5**	**100.0**

There were no credit derivatives in the portfolio at year-end 2018.

In addition to the credit ratings from credit rating agencies, measurement of credit risk is complemented with two credit risk models, of which one is based on credit ratings and the other is based on observable credit premiums. Both methods also take into account correlation and expected value of bonds in a bankruptcy situation. The models are used for risk measurement and monitoring of credit risk in the fixed-income portfolio.

COUNTERPARTY RISK

Counterparties are necessary to trade in the markets and to ensure effective management of liquidity, market and credit risk. Exposure to counterparty risk is related to trading in OTC derivatives and currency contracts, cleared OTC and listed derivatives, repurchase and reverse repurchase agreements, securities lending, and holdings of securities that are considered to be unsecured. Counterparty risk also arises from unsecured deposits in banks and in connection with the daily liquidity management of the fund, as well as in connection with purchases and sales of unlisted real estate. Furthermore, there is exposure to counterparty risk related to counterparties in the international settlement and custody systems where transactions settle. This can occur both for currency trades and for the purchase and sale of securities. Settlement risk and exposure from trades with a long settlement period are also defined as counterparty risk.

Various counterparties are used to reduce concentration risk and there are strict requirements for counterparty credit rating. Credit rating requirements are generally higher for counterparties to unsecured deposits in banks than in cases where collateral is received. Changes in counterparty credit ratings are monitored continuously.

Netting agreements are in place for trades in OTC derivatives, currency contracts and repurchase and reverse repurchase agreements, in order to reduce counterparty risk. Further reduction of counterparty risk is achieved through requirements for collateral for counterparty net positions with a positive market value. For instruments where collateral is used, minimum requirements have been set relating to the credit quality, time to maturity and concentration of the collateral. Netting and collateral agreements are entered into for all approved counterparties for these types of trades.

There are also requirements governing the way real estate transactions are conducted. Counterparty risk that arises is analysed in advance of the transaction and requires approval from the CRO. In 2018, 18 transactions were approved by the CRO through this process, compared to 11 in 2017.

Counterparty risk is also limited by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against limits set by the Executive Board and the CEO of Norges Bank Investment Management.

The methods used to calculate counterparty risk are in accordance with internationally recognised standards. As a rule, the Basel regulations for banks are used for measuring counterparty risk, with certain adjustments based on internal analyses. The risk model calculates the expected counterparty exposure in the event of a counterparty default. The method used to calculate counterparty risk exposure arising from derivatives and foreign exchange contracts has been changed in 2018, from the Current Exposure Method to the new Standardised Approach for counterparty risk (SA-CCR). Both methods are issued by the Basel Committee on Banking Supervision. The new Standardised Approach seeks to improve the Current Exposure Method by considering collateral received and netting arrangements to a larger extent when calculating counterparty risk. The treatment of collateral has also been further developed, and stressed periods in the financial markets are to a greater extent taken into account when calculating future expected risk exposure. The new Standardised Approach has resulted in a somewhat higher counterparty risk exposure for the portfolio at year-end 2018, compared to the Current Exposure Method.

For repurchase agreements, securities lending transactions executed through an external agent and securities posted as collateral in derivative trades, a method is used that adds a premium to the market value to reflect the position's volatility. These positions are also adjusted for netting and actual collateral received and posted when determining counterparty risk exposure.

Exposure to counterparty risk is related to counterparties in the settlement and custody systems, both for currency trades and for the purchase and sale of securities. Settlement risk for most currency trades is low. Settlement risk is reduced using the currency settlement system CLS (Continuous Linked Settlement), or by trading directly with the settlement bank. In a few currencies, Norges Bank is exposed to settlement risk when the sold currency is delivered to the counterparty before the receipt of currency is confirmed. This type of exposure is included on the line *Settlement risk towards brokers and long settlement transactions* in Table 8.10.

Norges Bank Investment Management also invests in Saudi Arabian equities. Counterparty risk arises from these listed equities as they are considered to be unsecured.

In Table 8.10, exposure is broken down by type of activity/instrument associated with counterparty risk.

Total counterparty risk increase to NOK 126.0bn at year-end 2018, from NOK 118.0bn at year-end 2017. The risk exposure from securities lending decreased, while the risk exposure from all other instruments has increased. Both bonds and equities are lent through the securities lending programme. The risk exposure for the programme was reduced to NOK 67.1bn at year-end 2018, from NOK 71.2bn at year-end 2017. Counterparty risk exposure from securities lending amounted to 53.3% of the fund's total counterparty risk exposure at year-end 2018.

Table 8.10 Counterparty risk by type of position

	Risk exposure	
Amounts in NOK millions	**31 Dec. 2018**	**31 Dec. 2017[1]**
Securities lending	67 110	71 150
Unsecured bank deposits[2] and securities[3]	23 619	14 008
Derivatives including foreign exchange contracts[4]	22 529	18 769
Repurchase and reverse repurchase agreements	8 293	4 662
Settlement risk towards brokers and long settlement transactions	4 437	2 598
Participatory certificates[3]	-	6 802
Total	**125 988**	**117 989**

[1] Certain comparative amounts have been restated to conform to current period presentation.
[2] Includes bank deposits in non-consolidated subsidiaries.
[3] The fund's holdings of participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange in 2018. Counterparty risk arises from these listed equities as they are considered to be unsecured.
[4] Comparative amounts are based on the methodology used at year-end 2017.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in cases where the counterparty risk is against a central counterparty or the counterparty risk is considered low. Credit ratings for counterparties are monitored and complemented by alternative credit risk indicators.

Table 8.11 shows approved counterparties classified according to their credit rating category. The table also includes brokers that are used when purchasing and selling securities.

Table 8.11 Counterparties by credit rating[1]

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
AAA	1	-	-	-
AA	33	30	33	30
A	61	63	76	77
BBB	8	11	28	16
BB	2	1	17	16
B	-	-	7	15
Total	**105**	**105**	**161**	**154**

1 The table shows the number of legal entities. The same legal entity can be included as both broker and counterparty.

The number of counterparties has remained stable during the year. There were 105 counterparties at year-end 2018, unchanged from year-end 2017. The number of brokers increased to 161 at year-end 2018, from 154 at year-end 2017. There was a slight improvement in the credit quality of brokers and counterparties compared to year-end 2017. This is mainly due to more upgrades than downgrades in credit ratings for existing brokers and counterparties during the year. New approved brokers in 2018 also had a positive impact on the total credit rating quality.

LEVERAGE

Leverage may be used to ensure effective management of the investments within the equity and bond portfolios, but not with the aim of increasing the economic exposure to risky assets. The use of leverage is regulated both in the management mandate and the investment mandate. Leverage is the difference between total net exposure and market value of the portfolio. Net exposure is determined by including securities at market value, cash at face value and positions in derivatives by converting them to the underlying exposure. When the exposure is greater than market value, the portfolio is leveraged.

The GPFG's leverage was 1.5% for the aggregated equity and bond portfolio at the end of 2018, compared to 0.7% at the end of 2017. For investments in unlisted real estate, requirements are set in the investment mandate, limiting the maximum leverage of the portfolio to 35%. The unlisted real estate investments had a leverage of 6.7% at the end of 2018, compared to 7.1% at the end of 2017.

SALE OF SECURITIES NORGES BANK DOES NOT OWN

Sale of securities not owned by Norges Bank (short sales) can only be carried out if there are established borrowing agreements to cover a negative position. Such transactions are rarely undertaken, and no securities had been sold in this manner at year-end 2018.

GPFG Note 9 Tax

ACCOUNTING POLICY

Norges Bank is exempt from income tax on its operations in Norway, but is subject to taxes in a number of foreign jurisdictions. *Tax expense* in the income statement represents income taxes that are not reimbursed through local tax laws or treaties, and consists of taxes on dividends, interest income and capital gains related to investments in *Equities* and *Bonds*, as well as tax on fee income from *Secured lending*. The majority of these taxes are collected at source.

Withholding taxes, net of deductions for refundable amounts, are recognised at the same time as the related dividend or interest income. See the accounting policy in Note 4 *Income/expense from equities, bonds and financial derivatives*. Refundable withholding taxes are recognised in the balance sheet as a receivable within *Other assets*.

Other income tax which is not collected at source, is recognised in the income statement in the same period as the related income or gain and is presented in the balance sheet as a payable within *Other liabilities,* until it has been settled. Deferred tax on capital gains is recognised as a liability in the balance sheet within *Other liabilities,* based on the expected future payment when GPFG is in a gain position in the applicable market. No deferred tax asset is presented in the balance sheet when GPFG is in a loss position, since the recognition criteria are not considered to be met. No deferred tax on capital gains is recognised in the balance sheet at year-end 2018.

Tax incurred in subsidiaries presented in the balance sheet line *Unlisted real estate* is recognised in the income statement as *Income/expense from unlisted real estate*. Only the tax expense in consolidated subsidiaries is included in the income statement line *Tax expense*. This is specified in Table 9.1 in the line *Other*.

All uncertain tax positions, such as disputed refundable amounts for withholding taxes, are assessed each reporting period. The best estimate of the probable amount for collection or payment is recognised in the balance sheet.

Table 9.1 shows tax expense by type of investment and type of tax.

Table 9.1 Specification tax expense

Amounts in NOK millions, 2018	Gross income before taxes	Income tax on dividend, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities	-517 214	-4 861	-15	-	-4 876	-522 090
Bonds	14 568	-32	-52	-	-84	14 484
Secured lending	4 733	-77	-	-	-77	4 656
Other	-	-	-	-13	-13	-
Tax expense		**-4 969**	**-67**	**-13**	**-5 050**	

Amounts in NOK millions, 2017	Gross income before taxes	Income tax on dividend, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities	933 501	-4 512	-153	-	-4 665	928 836
Bonds	81 410	-52	-16	-	-68	81 342
Secured lending	3 532	-55	-	-	-55	3 477
Other	-	-	-	-8	-8	
Tax expense		**-4 619**	**-169**	**-8**	**-4 796**	

Table 9.2 shows receivables related to withholding tax and tax payable recognised in the balance sheet within *Other assets* and *Other liabilities*, respectively.

Table 9.2 Specification of balance sheet items on income tax

Amounts in NOK millions	2018	2017
Withholding tax receivable	1 895	2 589
Tax payable	12	-

Table 9.3 specifies the line *Net payment of taxes* in the statement of cash flows.

Table 9.3 Specification of net payment of taxes

Amounts in NOK millions	2018	2017
Receipt of refundable withholding tax	4 469	3 699
Payment of taxes	-8 812	-10 485
Net payment of taxes	**-4 343**	**-6 786**

GPFG Note 10 Foreign exchange gain/loss

In accordance with the management mandate, the fund is not invested in securities issued by Norwegian companies, securities denominated in Norwegian kroner nor real estate located in Norway. The fund's return is measured primarily in the fund's currency basket, which is a weighted composition of the currencies in the fund's benchmark index for equities and bonds. The fund's market value in Norwegian kroner is affected by changes in exchange rates, but this has no bearing on the fund's international purchasing power.

ACCOUNTING JUDGEMENT

The management of Norges Bank has concluded that the Norwegian krone is the bank's functional currency, since this currency is dominant in relation to the bank's underlying activities. Owner's equity, in the form of the krone deposit for the GPFG, is denominated in Norwegian kroner and a share of the management costs for the GPFG are incurred in Norwegian kroner. The financial reporting for the GPFG is part of the financial statements of Norges Bank and the functional currency of the GPFG is therefore considered to be the Norwegian krone. Returns on the investment portfolio are reported both internally and to the owner in Norwegian kroner, while the percentage return is measured both in Norwegian kroner and in the currency basket defined by the Ministry of Finance. Furthermore, no single investment currency is dominant within the investment management.

ACCOUNTING POLICY

Foreign currency transactions are recognised in the financial statements using the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are translated into Norwegian kroner using the exchange rate at the balance sheet date. The foreign exchange element linked to realised and unrealised gains and losses on assets and liabilities is disaggregated in the income statement and presented on a separate line, *Foreign exchange gain/loss*.

ACCOUNTING JUDGEMENT

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gain/loss) and changes in foreign exchange rates (foreign exchange gain/loss). These are presented separately in the income statement. The method used to allocate the total gain/loss in Norwegian kroner to a security element and a foreign exchange element is described below. Different methods may result in different allocations.

Foreign exchange element

Unrealised gain/loss due to changes in foreign exchange rates are calculated based on the cost of the holding in foreign currency and the change in the exchange rate from the time of purchase until the balance sheet date. If the holding has been purchased in a prior period, previously recognised gain/loss is deducted to arrive at the gain/loss in the current period. Upon realisation, the exchange rate on the date of sale is used when calculating the realised gain/loss, and previously recognised unrealised gain/loss for the holding is reversed in the current period.

Security element

Unrealised gain/loss due to 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 exchange rate at the balance sheet date. If the holding has been purchased in a prior period, previously recognised gain/loss is deducted to arrive at the gain/loss for the security element in the current period. Upon realisation, the selling price is used when calculating the realised gain/loss due to changes in security prices, and previously recognised unrealised gain/loss for the holding is reversed in the current period.

The change in the market value of the investment portfolio that is due to changes in foreign exchange rates is presented in Table 10.1.

Table 10.1 Specification Foreign exchange gain/loss

Amounts in NOK millions	2018	2017
Foreign exchange gain/loss – USD/NOK	163 983	-126 868
Foreign exchange gain/loss – EUR/NOK	14 654	111 425
Foreign exchange gain/loss – JPY/NOK	50 721	-8 367
Foreign exchange gain/loss – GBP/NOK	-1 329	20 745
Foreign exchange gain/loss – other	-4 418	17 766
Foreign exchange gain/loss	**223 611**	**14 701**

Table 10.2 gives an overview of the distribution of the market value of the investment portfolio for the main currencies the GPFG is exposed to. This supplements the overview of the allocation by asset class, country and currency shown in Table 8.2 in Note 8 *Investment risk*.

Table 10.2 Specification of the investment portfolio by currency

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
US dollar	3 418 802	3 345 022
Euro	1 678 501	1 811 389
Japanese yen	682 120	694 782
British pound	631 180	677 593
Other currencies	1 845 342	1 959 668
Market value investment portfolio	**8 255 945**	**8 488 454**

Table 10.3 gives an overview of exchange rates at the balance sheet date for the main currencies the GPFG is exposed to.

Table 10.3 Exchange rates

	31 Dec. 2018	31 Dec. 2017	Percent change
US dollar	8.66	8.18	6%
Euro	9.90	9.82	1%
Japanese yen	0.08	0.07	13%
British pound	11.03	11.06	0%

GPFG Note 11 Management costs

ACCOUNTING POLICY

Management fee is recognised in the GPFG's income statement as an expense when incurred, but it is cash-settled in the following year. *Management fee payable* is a financial liability measured at amortised cost.

Performance-based fees to external managers are based on achieved excess returns relative to the applicable benchmark index over time. The provision for performance-based fees is based on the best estimate of the incurred fee to be paid. The effect of changes in estimates is recognised in profit or loss in the current period.

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, but management costs are also incurred in subsidiaries of Norges Bank exclusively established as part of the management of the GPFG's investments in unlisted real estate.

MANAGEMENT COSTS IN NORGES BANK

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in Table 11.1.

Table 11.1 Management fee

Amounts in NOK millions	2018	2018 Basis points	2017	2017 Basis points
Salary, social security and other personnel-related costs	1 262		1 325	
Custody costs	385		404	
IT services, systems, data and information	651		657	
Research, consulting and legal fees	282		252	
Other costs	400		251	
Allocated costs Norges Bank	167		161	
Base fees to external managers	724		755	
Management fee excluding performance-based fees	**3 872**	**4.6**	**3 804**	**4.8**
Performance-based fees to external managers	673		924	
Management fee	**4 544**	**5.4**	**4 728**	**6.0**

MANAGEMENT COSTS IN SUBSIDIARIES

Management costs incurred in subsidiaries consist of costs related to the management of the unlisted real estate portfolio. These costs are expensed directly in the portfolio result and are not part of the management fee. Management costs incurred in non-consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other income/expense*, respectively. These costs are specified in Table 11.2.

Table 11.2 Management costs, real estate subsidiaries

Amounts in NOK millions	2018	2018 Basis points	2017	2017 Basis points
Salary, social security and other personnel-related costs	25		33	
IT services, systems, data and information	41		42	
Research, consulting and legal fees	30		23	
Other costs	13		17	
Total management costs, real estate subsidiaries	**108**	**0.1**	**116**	**0.2**
Of which management costs non-consolidated subsidiaries	*88*		*97*	
Of which management costs consolidated subsidiaries	*20*		*19*	

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs. Norges Bank is only reimbursed for costs incurred within this limit. Norges Bank is also reimbursed for performance-based fees to external managers. These fees are not measured against the upper limit.

For 2018, total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, are limited to 7.0 basis points of average assets under management. The equivalent limit in 2017 was 7.5 basis points. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Total management costs measured against the upper limit amounted to NOK 3 980m in 2018. This consisted of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 3 872m and management costs in subsidiaries of NOK 108m. This corresponds to 4.7 basis points of assets under management.

Total management costs including performance-based fees to external managers amounted to NOK 4 652m in 2018. This corresponds to 5.5 basis points of assets under management.

OTHER OPERATING COSTS IN SUBSIDIARIES

In addition to the management costs presented in Table 11.2, other operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These are not costs related to investing in real estate, they are costs of operating the underlying properties once they are acquired. Therefore, they are not defined as management costs. Other operating costs are expensed directly in the portfolio result and are not part of the management fee. They are also not included in the costs measured against the upper limit.

Other operating costs incurred in non-consolidated companies are presented in the income statement line *Income/expense from unlisted real estate*. See Table 6.4 in Note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other income/expense*.

GPFG Note 12 Secured lending and borrowing

Secured lending and borrowing are collateralised (secured) transactions, where the GPFG posts or receives securities or cash from a counterparty, with collateral in the form of other securities or cash. These transactions take place under various agreements such as securities lending agreements, (reverse-) repurchase agreements and equity swaps in combination with purchases or sales of equities.

The objective of secured lending and borrowing is to provide an incremental return on the GPFG's holdings of securities and cash. These transactions are also used in connection with liquidity management.

ACCOUNTING POLICY

Income and expense from secured lending and borrowing

Income and expense mainly consist of interest and net fees. These are recognised on a straight-line basis over the term of the agreement and presented in the income statement as *Income/expense from secured lending* and *Income/expense from secured borrowing*.

Table 12.1 specifies income and expense from secured lending and borrowing.

Table 12.1 Income/expense from secured lending and borrowing

Amounts in NOK millions	2018	2017
Income/expense from secured lending	4 733	3 532
Income/expense from secured borrowing	-1 466	-345
Net income/expense from secured lending and borrowing	**3 267**	**3 187**

ACCOUNTING POLICY

Transferred financial assets
Securities transferred to counterparties in connection with secured lending and borrowing transactions are not derecognised when the agreement is entered into, as the derecognition criteria are not met. Since the counterparty has the right to sell or pledge the security, the security is considered to be transferred. Transferred securities are therefore presented on separate lines in the balance sheet, *Equities lent* and *Bonds lent*. During the lending period, the underlying securities are accounted for in accordance with accounting policies for the relevant securities.

When an equity is sold in combination with an equity swap, the sold equity is presented in the balance sheet as *Equities lent*, since the GPFG's exposure to the equity is unchanged. The equity swap (derivative) is not recognised in the balance sheet, since this would lead to recognition of the same rights twice. When an equity is purchased in combination with an equity swap, the GPFG has no exposure to the equity or the derivative and neither the equity nor the derivative are recognised in the balance sheet.

Secured lending
Cash collateral posted to counterparties in secured lending transactions is derecognised, and a corresponding receivable reflecting the cash amount that will be returned is recognised as a financial asset, *Secured lending*. This asset is measured at fair value.

Secured borrowing
Cash collateral received in connection with secured borrowing transactions is recognised as *Deposits in banks* together with a corresponding financial liability, *Secured borrowing*. This liability is measured at fair value.

Collateral received in the form of securities
Collateral received through secured lending and borrowing transactions in the form of securities, where the GPFG has the right to sell or pledge the security, is not recognised in the balance sheet unless reinvested.

Table 12.2 shows the amount presented as *Secured lending,* and the associated collateral received in the form of securities.

Table 12.2 Secured lending

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Secured lending	216 768	185 046
Total secured lending	**216 768**	**185 046**
Associated collateral in the form of securities (off balance sheet)		
Equities received as collateral	38 018	52 413
Bonds received as collateral	182 703	134 430
Total security collateral received related to lending	**220 721**	**186 843**

Table 12.3 shows transferred securities with the associated liability presented as *Secured borrowing*, and collateral received in the form of securities or guarantees.

Table 12.3 Transferred financial assets and secured borrowing

Amounts in NOK millions	31 Dec. 2018	31 Dec. 2017
Transferred financial assets		
Equities lent	437 651	411 664
Bonds lent	662 920	591 277
Total transferred financial assets	**1 100 571**	**1 002 941**
Associated cash collateral, recognised as liability		
Secured borrowing	360 105	260 136
Total secured borrowing	**360 105**	**260 136**
Associated collateral in the form of securities or guarantees (off balance sheet)		
Equities received as collateral	486 470	573 127
Bonds received as collateral	309 951	232 465
Guarantees	10 696	12 537
Total collateral received in the form of securities or guarantees related to transferred financial assets	**807 117**	**818 129**

GPFG Note 13 Collateral and offsetting

ACCOUNTING POLICY

Cash collateral OTC derivative transactions
Cash collateral posted in connection with OTC derivative transactions is derecognised and a corresponding receivable reflecting the cash amount that will be returned is recognised in the balance sheet as *Cash collateral posted*. Cash collateral received in connection with OTC derivative transactions is recognised in the balance sheet as *Deposits in banks*, with a corresponding liability *Cash collateral received*. Both *Cash collateral posted* and *Cash collateral received* are measured at fair value.

Offsetting
Financial assets and liabilities are not offset and presented net in the balance sheet because the criteria in IAS 32 *Financial instruments: Presentation* are not met. Table 13.1 does not therefore include a column for amounts offset/netted in the balance sheet.

Collateral
For various counterparties and transaction types, cash collateral will both be posted to and received from the same counterparty. Therefore, received cash collateral can be netted against posted cash collateral and vice-versa as shown in Table 13.1. *Cash collateral posted* and *Cash collateral received* in the balance sheet are related exclusively to OTC derivative transactions. Collateral in the form of cash or securities is also posted and received in connection with secured lending and borrowing transactions, see Note 12 *Secured lending and borrowing* for further information.

Offsetting
Table 13.1 provides an overview of financial assets and liabilities, the effects of legally enforceable netting agreements and related collateral to reduce credit risk. The column *Assets/Liabilities in the balance sheet subject to netting* shows the carrying amounts of financial assets and liabilities that are subject to legally enforceable netting agreements. These amounts are adjusted for the effects of potential netting of recognised financial assets and liabilities with the same counterparty, together with posted or received cash collateral. This results in a net exposure in the column *Assets/Liabilities after netting and collateral*.

Some netting agreements could potentially not be legally enforceable. Transactions under the relevant contracts are shown in the column *Assets/liabilities not subject to enforceable netting agreements*.

In the event of counterparty default, a collective settlement between Norges Bank and the bankruptcy estate could be agreed for certain groups of instruments, irrespective of whether the instruments belong to the GPFG or Norges Bank's foreign exchange reserves. Such a settlement will be allocated proportionately between these portfolios and is therefore not adjusted for in the table.

Table 13.1 Assets and liabilities subject to netting agreements

Amounts in NOK millions, 31 Dec. 2018	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recog-nised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Assets not subject to enforce-able netting agreements[1]	Gross financial assets recog-nised in the balance sheet
Assets							
Secured lending	158 530	-	106 432	52 098	**-**	58 238	216 768
Cash collateral posted	1 806	1 685	-	-	**121**	-	1 806
Financial derivatives	3 526	2 593	908	-	**25**	50	3 576
Total	**163 862**	**4 278**	**107 340**	**52 098**	**146**	**58 288**	**222 150**

Amounts in NOK millions, 31 Dec. 2018	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not derecog-nised)	Liabili-ties after netting and collateral	Liabilities not subject to enforce-able netting agreements[2]	Gross financial liabilities recognised in the balance sheet
Liabilities							
Secured borrowing	308 358	-	106 432	200 752	**1 174**	51 746	360 105
Cash collateral received	5 017	1 488	-	-	**3 529**	-	5 017
Financial derivatives	4 222	2 593	1 176	-	**452**	-	4 222
Total	**317 597**	**4 081**	**107 608**	**200 752**	**5 155**	**51 746**	**369 344**

Amounts in NOK millions, 31 Dec. 2017	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recog-nised as liability)	Security collateral re-ceived (not recognised)	Assets after net-ting and collateral	Assets not subject to enforce-able netting agreements[1]	Gross financial assets recog-nised in the balance sheet
Assets							
Secured lending	120 952	-	91 571	29 382	-	64 094	185 046
Cash collateral posted	1 894	1 878	-	-	**16**	-	1 894
Financial derivatives	2 074	1 875	141	-	**58**	6 951	9 025
Total	**124 920**	**3 753**	**91 712**	**29 382**	**74**	**71 045**	**195 965**

Amounts in NOK millions, 31 Dec. 2017	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not derecog-nised)	Liabili-ties after netting and collateral	Liabilities not subject to enforce-able netting agreements[2]	Gross financial liabilities recognised in the balance sheet
Liabilities							
Secured borrowing	202 291	-	91 571	110 337	**383**	57 845	260 136
Cash collateral received[3]	5 804	740	-	-	**5 064**	-	5 804
Financial derivatives	3 919	1 875	1 342	-	**701**	-	3 919
Total	**212 014**	**2 615**	**92 913**	**110 337**	**6 148**	**57 845**	**269 859**

1 *Secured lending* includes amounts related to shares purchased in combination with an equity swap. In 2018, this was NOK 37bn (NOK 52bn in 2017). See Note 12 *Secured lending and borrowing* for further information.

2 *Secured borrowing* includes amounts related to shares sold in combination with an equity swap. In 2018, this was NOK 37bn (NOK 35bn in 2017). See Note 12 *Secured lending and borrowing* for further information.

3 Certain comparative amounts have been restated to conform to current period presentation.

GPFG Note 14 Related parties

ACCOUNTING POLICY

Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions and outstanding balances, including commitments, with the Norwegian government. This includes transactions with other entities that are related parties because the Norwegian government has control of, joint control of, or significant influence over both Norges Bank and the other entities.

Norges Bank, including the GPFG, is a separate legal entity that is wholly state-owned through the Ministry of Finance. See Note 1 *General information* for information regarding the relationship between the Ministry of Finance, Norges Bank and the GPFG. The GPFG conducts all transactions at market terms.

TRANSACTIONS WITH THE GOVERNMENT

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the *krone account*).

The krone deposit is subsequently placed with Norges Bank Investment Management for investment management. In accordance with the management mandate, transfers are made to and from the krone account. See additional information regarding the inflow/withdrawal for the period in the *Statement of changes in owner's capital*.

TRANSACTIONS WITH NORGES BANK

Norges Bank is not exposed to any economic risk from the management of the GPFG. The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG in the form of a management fee, see Note 11 *Management costs*. In 2018, NOK 4.7bn was deducted from the krone account to pay the accrued management fee for 2017 to Norges Bank, compared to NOK 3.7bn in 2017.

Internal trades in the form of money market lending or borrowing and repurchase agreements between the GPFG and Norges Bank's foreign exchange reserves, are presented as a net balance between the two portfolios in the balance sheet lines *Other assets* and *Other liabilities*. At the end of 2018, the net balance between the portfolios represented a receivable for the GPFG of NOK 154m, compared to a receivable of NOK 292m at the end of 2017. Associated income and expense items are presented net in the income statement as *Interest income/expense*.

TRANSACTIONS WITH SUBSIDIARIES

Subsidiaries of Norges Bank are exclusively established as part of the management of the GPFG's investments in unlisted real estate. For an overview of the companies that own and manage the properties, as well as consolidated subsidiaries, see Note 15 *Interests in other entities*. For further information regarding transactions with subsidiaries, see Note 6 *Unlisted real estate*.

GPFG Note 15 Interests in other entities

Investments in unlisted real estate are made through subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG. These subsidiaries invest, through holding companies, in entities that invest in properties. These entities may be subsidiaries or joint ventures.

The overall objective of the ownership structures used for unlisted real estate investments is to safeguard the financial wealth under management and to ensure the highest possible net return after costs, in accordance with the management mandate issued by the Ministry of Finance. Key criteria when deciding the ownership structure are legal protection, governance and operational efficiency. Taxes may represent a significant cost for the unlisted real estate investments. Expected tax expense for the fund is therefore one of the factors considered when determining the ownership structure.

Table 15.1 shows the companies that own and manage the properties, as well as the consolidated subsidiaries.

Table 15.1 Real estate companies

Company	Business address	Property address	Ownership share and voting right in percent	Effective ownership share of underlying properties in percent	Recognised from
Non-consolidated companies					
United Kingdom					
NBIM George Partners LP[1]	London	London	100.00	25.00	2011
MSC Property Intermediate Holdings Limited	London	Sheffield	50.00	50.00	2012
NBIM Charlotte Partners LP	London	London	100.00	57.75	2014
NBIM Edward Partners LP	London	London	100.00	100.00	2014
NBIM Caroline Partners LP	London	London	100.00	100.00	2015
NBIM James Partners LP	London	London	100.00	100.00	2015
NBIM Henry Partners LP	London	London	100.00	100.00	2016
NBIM Elizabeth Partners LP	London	London	100.00	100.00	2016
NBIM Eleanor Partners LP	London	London	100.00	100.00	2018
Luxembourg					
NBIM S.à r.l.	Luxembourg	N/A	100.00	N/A	2011
France					
NBIM Louis SAS	Paris	Paris	100.00	50.00	2011
SCI 16 Matignon	Paris	Paris	50.00	50.00	2011
Champs Elysées Rond-Point SCI	Paris	Paris	50.00	50.00	2011
SCI PB 12	Paris	Paris	50.00	50.00	2011
SCI Malesherbes	Paris	Paris	50.00	50.00	2012
SCI 15 Scribe	Paris	Paris	50.00	50.00	2012
SAS 100 CE	Paris	Paris	50.00	50.00	2012
SCI Daumesnil	Paris	Paris	50.00	50.00	2012
SCI 9 Messine	Paris	Paris	50.00	50.00	2012
SCI Pasquier	Paris	Paris	50.00	50.00	2013
NBIM Marcel SCI	Paris	Paris	100.00	100.00	2014
NBIM Victor SCI	Paris	Paris	100.00	100.00	2016
NBIM Eugene SCI	Paris	Paris	100.00	100.00	2017
NBIM Beatrice SCI	Paris	Paris	100.00	100.00	2018

Company	Business address	Property address	Ownership share and voting right in percent	Effective ownership share of underlying properties in percent	Recog-nised from
Germany					
Die Welle 1 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	50.00	2012
Die Welle 3 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	50.00	2012
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Cologne	Berlin	50.00	50.00	2012
STEG LBG 2 S.C.S	Luxembourg	Munich	94.90	94.90	2014
STEG LBG 3 S.C.S	Luxembourg	Munich	94.90	94.90	2014
Switzerland					
NBIM Antoine CHF S.à r.l.	Luxembourg	Zürich	100.00	100.00	2012
Europe					
Prologis European Logistics Partners S.à r.l.	Luxembourg	Multiple European cities	50.00	50.00	2013
USA					
T-C 1101 Pennsylvania Venture LLC	Wilmington, DE	Washington	49.90	49.90	2013
T-C Franklin Square Venture LLC	Wilmington, DE	Washington	49.90	49.90	2013
T-C 33 Arch Street Venture LLC	Wilmington, DE	Boston	49.90	49.90	2013
T-C 475 Fifth Avenue Venture LLC	Wilmington, DE	New York	49.90	49.90	2013
No. 1 Times Square Development LLC	Wilmington, DE	New York	45.00	45.00	2013
OFC Boston LLC	Wilmington, DE	Boston	47.50	47.50	2013
425 MKT LLC	Wilmington, DE	San Francisco	47.50	47.50	2013
555 12th LLC	Wilmington, DE	Washington	47.50	47.50	2013
Prologis U.S. Logistics Venture LLC	Wilmington, DE	Multiple American cities	46.30	44.96	2014
OBS Boston LLC	Wilmington, DE	Boston	47.50	47.50	2014
100 Federal JV LLC	Wilmington, DE	Boston	45.00	45.00	2014
Atlantic Wharf JV LLC	Wilmington, DE	Boston	45.00	45.00	2014
BP/CGCenter MM LLC	Wilmington, DE	New York	45.00	45.00	2014
T-C 2 Herald Square Venture LLC	Wilmington, DE	New York	49.90	49.90	2014
T-C 800 17th Street Venture NW LLC	Wilmington, DE	Washington	49.90	49.90	2014
T-C Foundry Sq II Venture LLC	Wilmington, DE	San Francisco	49.90	49.90	2014
T-C Hall of States Venture LLC	Wilmington, DE	Washington	49.90	49.90	2014
SJP TS JV LLC	Wilmington, DE	New York	45.00	45.00	2015
T-C Republic Square Venture LLC	Wilmington, DE	Washington	49.90	49.90	2015
T-C 888 Brannan Venture LLC	Wilmington, DE	San Francisco	49.90	49.90	2015
Hudson Square Properties, LLC	Wilmington, DE	New York	48.00	48.00	2015
ConSquare LLC	Wilmington, DE	Washington	47.50	47.50	2016
100 First Street Member LLC	Wilmington, DE	San Francisco	44.00	44.00	2016
303 Second Street Member LLC	Wilmington, DE	San Francisco	44.00	44.00	2016
900 16th Street Economic Joint Venture (DE) LP	Wilmington, DE	Washington	49.00	49.00	2017
1101 NYA Economic Joint Venture (DE) LP	Wilmington, DE	Washington	49.00	49.00	2017
375 HSP LLC	Wilmington, DE	New York	48.00	48.00	2017
T-C 501 Boylston Venture LLC	Wilmington, DE	Boston	49.90	49.90	2018
SVF Seaport JV LLC	Wilmington, DE	Boston	45.00	45.00	2018
Japan					
TMK Tokyo TN1	Tokyo	Tokyo	70.00	70.00	2017

Company	Business address	Property address	Ownership share and voting right in percent	Effective ownership share of underlying properties in percent	Recog-nised from
Consolidated subsidiaries					
Singapore					
NBRE Management Singapore Pte. Ltd.	Singapore	N/A	100.00	N/A	2015
Japan					
NBRE Management Japan Advisors K.K.	Tokyo	N/A	100.00	N/A	2015
United Kingdom					
NBRE Management Europe Limited	London	N/A	100.00	N/A	2016

1 One property in this company, 20 Air Street, has an ownership share of 50% from 1 September 2017.

Activity in the consolidated subsidiaries consists of providing investment-related services to the GPFG. This activity is presented in the income statement as *Other costs* and included in the balance sheet lines *Other assets* and *Other liabilities*.

In addition to the companies shown in Table 15.1, Norges Bank has wholly-owned holding companies established in connection with investments in unlisted real estate. These holding companies do not engage in any operations and do not own any properties directly. The holding companies have their business address either in the same country as the property, in connection with NBIM S.à r.l. in Luxembourg or in Norway for the holding companies established for property investments in Japan, France and Germany.

Deloitte.

Translation from the original Norwegian version

To the Supervisory Council of Norges Bank

Independent auditor's report

Report on the Audit of the Financial Statements

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

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2018, and 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 the financial statements for Norges Bank to be prepared in accordance with International Financial Reporting Standards as adopted by EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including subsidiaries being part of the investment portfolio.

Basis for Opinion
We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Norges Bank as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MANAGEMENT OF THE EQUITY AND FIXED-INCOME PORTFOLIOS IN THE FOREIGN EXCHANGE RESERVES AND THE GOVERNMENT PENSION FUND GLOBAL, INCLUDING THE PETROLEUM BUFFER PORTFOLIO

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Processes and control activities in the equity and fixed-income management related to amongst others trading, secured lending and borrowing, interest income and dividends, valuation, calculation of gains and losses, foreign currency translation and performance- and risk measurement are largely automated. Deviations in the automated processes are analysed and followed up. Norges Bank's IT systems are based on standard systems with varying degrees of customisation and modifications. The technical operation of the IT systems is largely outsourced to various service providers. IT systems used in portfolio management are essential for accounting and reporting. For a more detailed description of the development, management and operation of IT systems in Norges Bank, see the annual report of the executive board. Effective internal controls in the automated portfolio management processes as well as in handling deviations forms the basis for ensuring accurate, complete and reliable financial reporting and is therefore a key audit matter.	Norges Bank has established overall governance models and control activities for evaluation of the equity and fixed-income management. We assessed those elements of the overall governance models that are relevant to financial reporting. We assessed and tested the design of selected control activities related to IT operations, change management and information security. We tested that a sample of these control activities had operated effectively in the reporting period. We assessed whether selected valuation and calculation methods, including the method for currency conversion, were in accordance with IFRS. We assessed and tested the design of selected automated control activities for the IT systems related to trading, secured lending and borrowing, recognition of interest income and dividends, valuation, calculation of gains and losses, foreign currency translation and performance- and risk measurement. We tested that a sample of these control activities had operated effectively in the reporting period. We assessed and tested the design of selected manual control activities for the areas listed above related to analysis and the monitoring of deviations identified through the automated processes. We tested that a sample of these control activities had operated effectively in the reporting period. We assessed third party confirmations (ISAE 3402 reports) received from some of the service providers that Norges Bank uses in portfolio management, to assess whether these service providers had adequate internal controls in areas that are important for Norges Bank's financial reporting. We used our own IT specialists to understand the overall governance model for IT and in the assessment and testing of the control activities related to IT.

NOTES AND COINS IN CIRCULATION

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Norges Bank is responsible for issuing cash (notes and coins). In 2018, the launch of new denominations in Norway's eighth banknote series continued with the 50-krone and 500-krone banknotes. See note 16 for a description of the accounting policy for notes and coins and a description of the criteria for when notes and coins are recognized and derecognized from Norges Bank's balance sheet. Effective internal controls around notes and coins in depots and in the ordering and destruction process is essential for accurate financial reporting of notes and coins in circulation and is therefore a key audit matter.	Norges Bank has established various control activities related to notes and coins in circulation. We assessed and tested the design of a sample of control activities established to ensure correct balance of notes and coins, including ordering and receiving new notes and coins, accounting for notes and coins placed into and withdrawn from circulation, inventory count of cash depots and the registration of destruction. For a sample of these controls, we have tested if they operated effectively in the reporting period. For a sample of cash depots we obtained reports from the inventory counts of notes conducted by external third parties which manages the depots. For a cash depot we conducted a re-count of parts of the depot. We participated on a count of a cash depot run by Norges Bank and conducted a re-count of parts of the depository. We compared the reports of the external third parties and the result of our re-count with information from Norges Bank on the balances for the cash depots. We also assessed whether the disclosures on notes and coins in circulation in note 16 were adequate.

VALUATION OF INVESTMENTS IN UNLISTED REAL ESTATE, GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
The Government Pension Fund Global has invested in unlisted real estate through subsidiaries of Norges Bank. Investments in subsidiaries presented as unlisted real estate in the balance sheet are measured at fair value. See note 20, GPFG notes 6 and 7 for a description of the investments, accounting policies and valuation methods. The valuation of unlisted real estate investments involves uncertainty and is based on information about each individual property type and location, as well as a number of assumptions and estimates. The assumptions and estimates are essential for the valuation, and the valuation of unlisted real estate is therefore a key audit matter.	Norges Bank has established various control activities for monitoring of the valuations conducted by external valuation specialists. We have assessed and tested the design of selected control activities related to key assumptions and estimates, including future revenue streams, expenses and applicable discount rates. For a sample of properties, we have tested if these control activities have operated effectively in the reporting period. For a sample of properties in USA and Germany, we received the external valuation reports from Norges Bank throughout the year and assessed whether the applied valuation methods were in accordance with generally accepted valuation standards and practices. We assessed the reasonableness of the estimates for future rental income used in the valuation reports for the next 12 month period against budget or reported rental income for the past 12 month period, and assessed a sample of estimates for market rent and discount rates against external sources. We assessed the valuer's independence, qualifications and experience. We used our own experts in the review of the valuation reports. We reconciled the fair value in the financial reporting with the valuation reports. We assessed whether the disclosures in note 20, GPFG note 6 and 7 regarding valuation of unlisted real estate was adequate.

RISK AND RETURN DISCLOSURES, GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Returns are measured in Norwegian kroner and in foreign currency based on a weighted composition of currencies in the benchmark indices for equity and fixed-income investments. In the management mandate for the Government Pension Fund Global, there are several limits and restrictions for the management of the fund. All of the fund's investments, including investments in unlisted real estate are included in the calculations for relative volatility and are measured against the fund's reference index consisting of global equity and bond indices. Absolute and relative return information for the Government Pension Fund Global's equity and fixed-income investments is presented in note 20, GPFG note 3. Information regarding risk is presented in note 20, GPFG note 8 Investment Risk. Measurement of absolute and relative returns and information regarding market risk, presented in note 20, GPFG note 8, tables 8.6 and 8.7 and in the section on volatility and correlation risk, is a complex matter in the financial reporting and is therefore a key audit matter.	Norges Bank has established various control activities related to the calculation of returns and market risk. We assessed and tested selected control activities related to the application of calculation methods used to calculate returns, the consistency between accounting and performance measurement, and that external sources of information were accurately applied in the calculations. In addition, we recalculated if the absolute returns for the year, and relative returns for selected days, were calculated in accordance with the methods described in note 20, GPFG note 3. For information regarding market risk in note 20, GPFG note 8, tables 8.6 and 8.7, and in the section on volatility and correlation risk, we assessed whether the calculations were conducted in accordance with the calculation methods and assumptions as described in note 20, GPFG note 8. In addition, we assessed and tested the design of selected controls established by Norges Bank to monitor the service provider. We tested that a sample of these control activities had operated effectively in the reporting period. We collected and compared the reports from the service providers regarding market risk with the disclosures in note 20, GPFG note 8, tables 8.6 and 8.7, and the disclosures regarding expected shortfall in the section on volatility and correlation risk. We assessed whether the disclosures on returns in note 20, GPFG note 3 and the disclosures on market risk in note 20, GPFG note 8, tables 8.6 and 8.7, and in the section on volatility and correlation risk were adequate.

Other information
Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Board and the Governor for the Financial Statements
The Executive Board and the Governor are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Regulation concerning annual financial reporting for Norges Bank. The Regulation requires the financial statements for Norges Bank to be prepared in accordance with International Financial Reporting Standards as adopted by EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including subsidiaries being part of the investment portfolio. The Executive Board and the Governor are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Norges Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board and the Governor.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We report to the Executive Board about our compliance with relevant ethical requirements, and about our communication to them about all relationships that reasonably could be considered to influence our independence, and, where relevant, about measures taken.

From the matters communicated with the Executive Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Executive Board's report
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 and in the statements on Corporate Social Responsibility concerning the financial statements, and the allocation of the comprehensive income is consistent with the financial statements and complies with the regulations for Norges Bank.

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 the Executive Board and the Governor has fulfilled its duty to produce a proper and clearly set out registration and documentation of Norges Bank`s accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 6 February 2019
Deloitte AS

Henrik Woxholt
State Authorised Public Accountant

Note: Translation has been made for information purposes only.

RESOLUTION OF THE SUPERVISORY COUNCIL ON THE FINANCIAL STATEMENTS FOR 2018

The Supervisory Council adopted the following decision at its meeting on 26 February 2019:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2018.
- The Supervisory Council takes note of the auditor's report and adopts Norges Bank's financial statements for 2018.
- In accordance with the guidelines, the net profit of NOK 15.9bn is to be transferred as follows: NOK 0.2bn to the Adjustment Fund and NOK 15.7bn to the Transfer Fund. From the Transfer Fund, one-third, or NOK 14.8bn, will be transferred to the Treasury.

THE SUPERVISORY COUNCIL'S STATEMENT ON THE MINUTES OF THE MEETINGS OF THE EXECUTIVE BOARD AND ITS SUPERVISION OF THE BANK

Under the Norges Bank Act, the Supervisory Council submits a separate report to the Storting concerning its supervision of the Bank.

The report for 2018 will be adopted by the Supervisory Council on 21 March 2019 and published upon submission to the Storting.

Norges Bank Oslo 2019
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