NORGES BANK
ANNUAL REPORT

/2019

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Øystein Olsen

Governor

Continuity and innovation

The Storting's adoption of the new Central Bank Act made 2019 a memorable year in the history of Norges Bank. The new Central Bank Act means continuity and innovation for the Bank's operations. Norges Bank's mission and core responsibilities remain unchanged and the Bank's independence has been made clear. The Bank's responsibility as manager of the Government Pension Fund Global (GPFG) is now laid down in law. The Bank's governance structure has also changed with the establishment of a monetary policy and financial stability committee. The Executive Board will continue to be responsible for the Bank's overall governance, payment system tasks, and the management of the GPFG and foreign exchange reserves.

While the GPFG's position as part of Norges Bank was clearly set out in the Act, the authorities also expressed an expectation that the Bank would take advantage of economies of scale and cost-effective solutions for its administrative functions. A new common unit for the Bank's support functions, Norges Bank Administration (NBA), has now been established. The aim is to pool expertise, promote cost-effective solutions and provide support for the Bank as a single institution, while ensuring that the two operational areas retain their distinctive professional characteristics and responsibilities for performance.

The Bank's mission includes maintaining low and stable inflation. In 2019, the Executive Board decided to raise the policy rate three times, from 0.75% to 1.5%. After several years of inflationary pressures in the Norwegian economy, there are signs that growth is slowing and that inflation remains close to target. House price inflation is moderate and household debt is rising at about the same pace as household income. Domestic interest rates have approached a normal level, while global interest rates remain low.

It caused quite a stir when the GPFG's market value topped NOK 10 000bn on 25 October 2019, 50 years to the day since the first commercial oil discovery in the North Sea. Norges Bank's objective is to achieve the highest possible return after costs within the framework of the investment mandate and develop an efficient and sound portfolio management strategy. A return of 19.9% in 2019 is the second highest return in the history of the GPFG, and our management of the GPFG has generated added value compared with the benchmark index against which the GPFG's performance is measured. The Bank's management of the GPFG was developed further in 2019, including integrating Norges Bank Real Estate Management (NBREM) into Norges Bank Investment Management (NBIM).

Also in 2019, the launch of the 1000-krone banknote marked the last chapter of the work on the new banknote series, which began in 2013.

In its deliberation on the new Central Bank Act, the Government pointed out that Norges Bank has built up legitimacy over time as both central bank and investment manager. Corporate reputation surveys show that the general public has confidence in Norges Bank. However, this cannot be taken for granted. It is the Bank's responsibility to show that the Bank is worthy of this confidence as we pursue continuity and innovation in the coming years.

The Bank's employees show a willingness to change, collaborate and engage in professional development. This is the key to Norges Bank's ability to progress in pace with the outside world and perform its mission and core responsibilities in the best way possible.

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, as previously, the sole right to issue Norwegian banknotes and coins.

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 was 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.

Norges 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.

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 financial system stability 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.

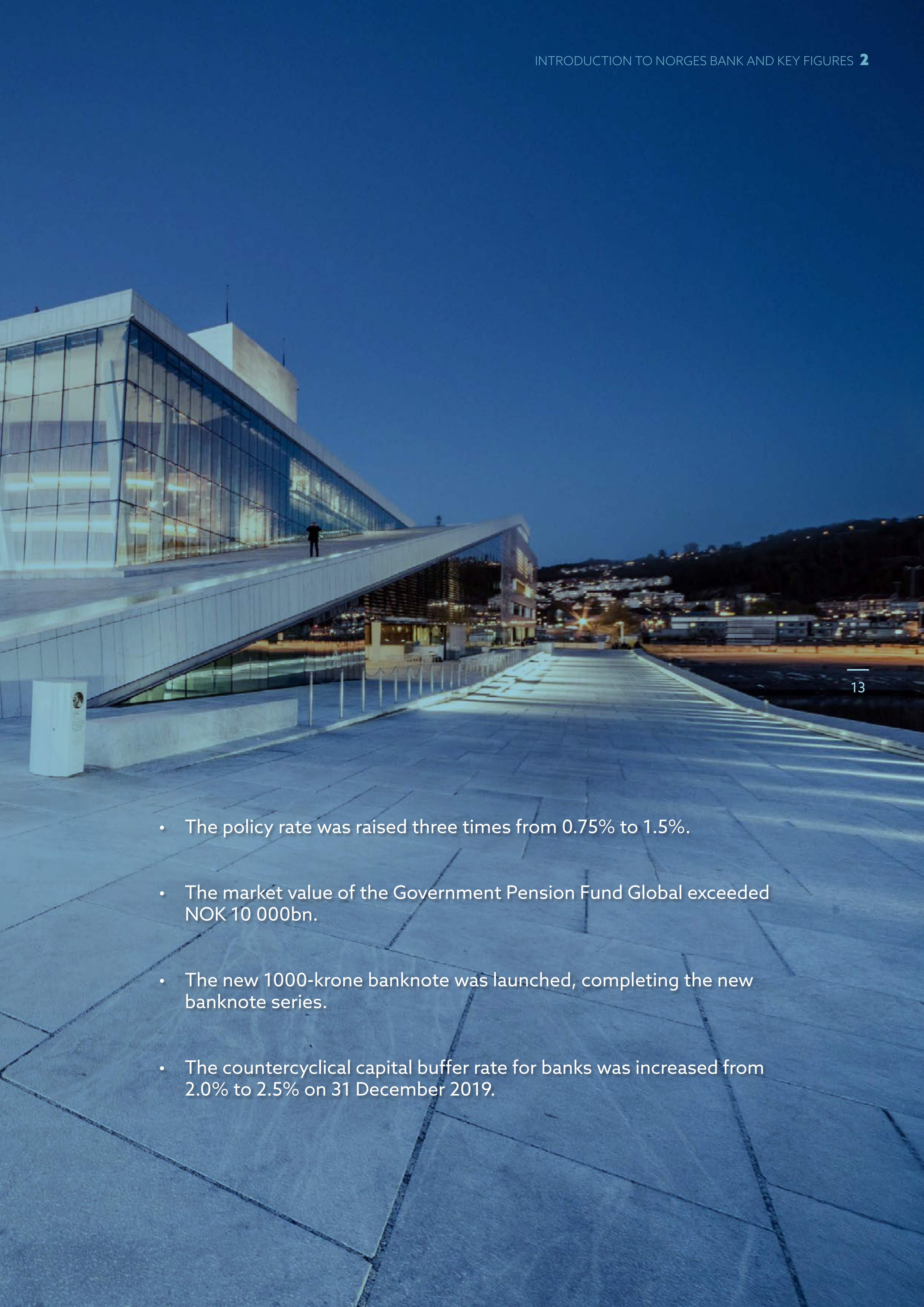
Our vision and our values

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.

Important events in 2019

- The new Central Bank Act entered into force on 1 January 2020. Under the new Act, Norges Bank will continue to fulfil two core responsibilities: as Norway's central bank and as manager of the GPFG.
- A new governance structure is prescribed by the new Act, introducing a monetary policy and financial stability committee with responsibility for interest rate decisions and advice on the countercyclical capital buffer.
- In order to achieve greater economies of scale and synergies, the Executive Board decided to establish a new common unit for the administrative functions of Norges Bank Central Banking Operations and Norges Bank Investment Management, Norges Bank Administration (NBA).



- The policy rate was raised three times from 0.75% to 1.5%.
- The market value of the Government Pension Fund Global exceeded NOK 10 000bn.
- The new 1000-krone banknote was launched, completing the new banknote series.
- The countercyclical capital buffer rate for banks was increased from 2.0% to 2.5% on 31 December 2019.

Key figures

Norges Bank's policy rate was raised to

1.5%

in 2019

The year-on-year rise in the consumer price index (CPI) was

2.2%

in 2019

The countercyclical capital buffer rate was set to rise to

2.5%

at the end of 2019

The market value of the foreign exchange reserves was

NOK 546bn

at year-end 2019

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

NOK 259bn

were settled daily in 2019

Norges Bank has

940

permanent employees from 38 countries

The market value of the Government Pension Fund Global was

NOK 10 088bn

at year-end 2019

The value of the Government Pension Fund Global increased by

NOK 1 832bn

in 2019

Norges Bank's total comprehensive income was

NOK 44bn

for 2019

Transfers to the Treasury totalled

NOK 20bn

in 2019

Governance of Norges Bank

Norges Bank's activities are regulated by the Act of 21 June 2019 No 31 relating to Norges Bank and the Monetary System etc. (the Central Bank Act). Under the Act, Norges Bank is the executive and advisory body for monetary policy and has executive and advisory authority in the work to promote financial stability. Norges Bank is responsible for issuing banknotes and coins, facilitating the central settlement system and overseeing the payment system. Norges Bank owns and manages Norway's official foreign exchange reserves. Norges Bank's management of the Government Pension Fund Global (GPFG) is regulated by the Central Bank Act, the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance.

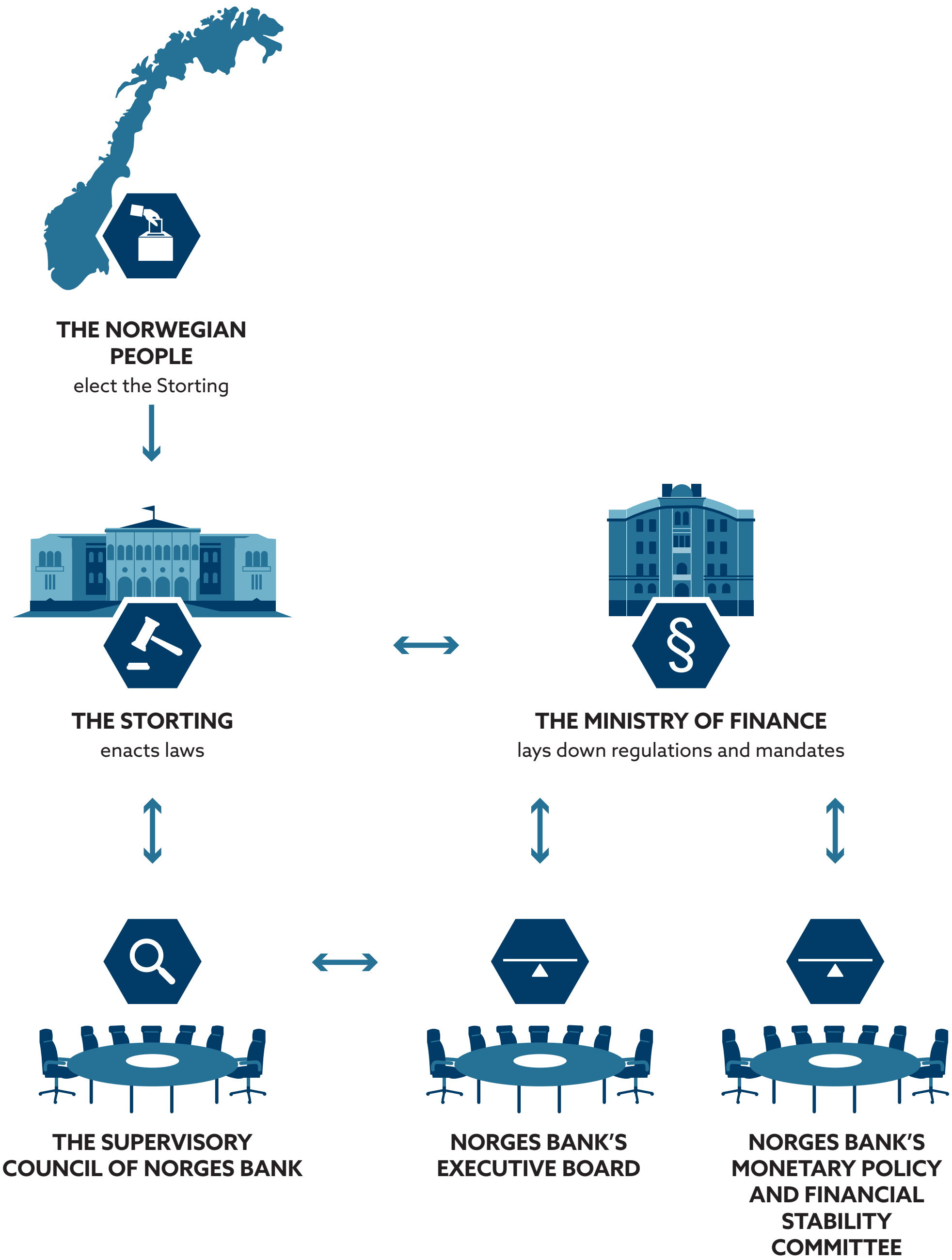
Norges Bank's highest decision-making bodies are the Executive Board, the Monetary Policy and Financial Stability Committee, and the Supervisory Council. Under the Act, the governor is the general manager of Norges Bank, but requires the Executive Board to appoint a separate general manager of Norges Bank's management of the GPFG.

The Executive Board comprises the governor, the deputy governors and six external board members, all appointed by the King in Council. In addition, two board members are selected by and among employees to participate when administrative matters are on the agenda. The Executive Board is chaired by the governor.

The management and operation of Norges Bank are the responsibility of the Executive Board, with the exception of matters that under or pursuant to the Act are assigned to the Monetary Policy and Financial Stability Committee. The Executive Board is responsible for ensuring the sound and efficient organisation of the Bank's operations. The Board 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, financial reporting and asset management are subject to sound management and control, including appropriate risk management and internal control systems. Internal Audit provides the Executive Board with independent assessments of risk management and internal control. The Executive Board has ultimate responsibility for the management of the GPFG and for central banking matters that are not assigned to the Monetary Policy and Financial Stability Committee.

The Monetary Policy and Financial Stability Committee comprises the governor, the deputy governors and two external members. The external committee members are appointed by the King in Council. The governor chairs the Committee. The Committee is Norges Bank's executive and advisory authority in monetary policy, including the use of instruments to reach monetary policy objectives. The aim of the Committee is to promote financial stability by providing advice and using the instruments at its disposal.

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


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
NORGES BANK'S EXECUTIVE BOARD
NORGES BANK'S MONETARY POLICY AND FINANCIAL STABILITY COMMITTEE

Organisation

In line with a new mandate, Norges Bank has undergone organisational changes. In order to provide support functions for Norges Bank Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM), the Executive Board decided on 8 May to establish a common unit, Norges Bank Administration (NBA). NBA pools support functions such as HR, communications, finance and procurement, property management, legal expertise, archiving and security, in order to share expertise, contribute to cost-effective solutions and underpin the Bank's organisation as a single institution. NBA became operational on 10 December 2019, when 37 employees from NBIM and 112 from NBCBO were transferred to NBA. The executive director of NBA reports to the governor.

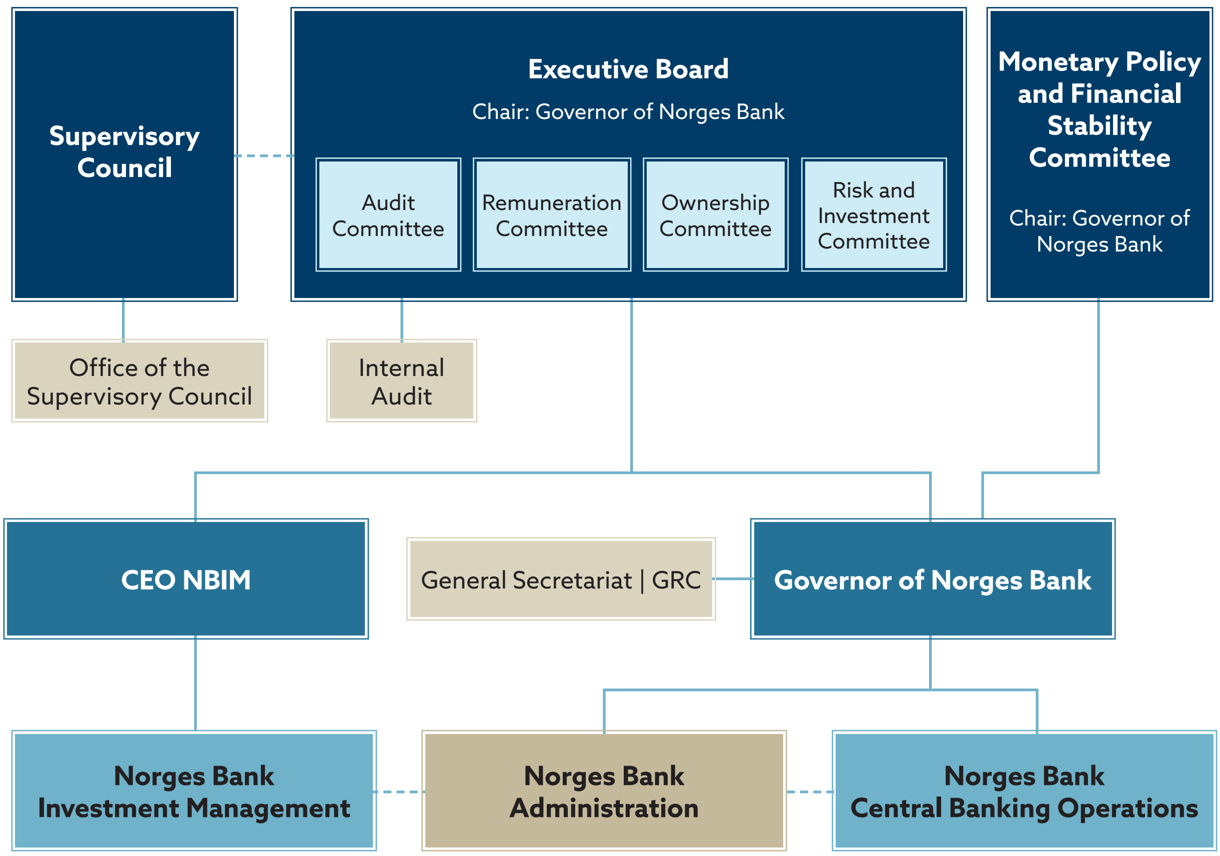
NBIM is responsible for managing the Government Pension Fund Global (GPFG). The CEO of NBIM is appointed by the Executive Board. As from 2020, the post of CEO is limited to two five-year terms. NBIM units comprise Allocation Strategies, Ownership, Asset Strategies, IT, Equity Strategies, People and Operations, Real Estate, Finance, Risk Management and Compliance and Control.

The GPFG is invested worldwide and NBIM is an international organisation with employees from 38 countries. NBIM has offices in London, New York, Shanghai, Singapore and subsidiaries in Tokyo and Luxembourg.

NBCBO is responsible for the conduct of monetary policy, financial stability, market operations and management of the foreign exchange reserves. NBCBO is headed by the governor, who is appointed by the King in Council. NBCBO comprises three departments: Monetary Policy, Financial Stability and Markets and ICT. The Monetary Policy department includes a research unit that carries out research on topics related to all of NBCBO's operations and an international unit. The directors of NBCBO's departments are appointed by the Executive Board and are not on fixed-term contracts.

Compliance and control (GRC) is the governor's control body, Internal Audit is the Executive Board's control body, and the Office of the Supervisory Council is the Supervisory Council's secretariat.

The governor and deputy governors are also served by a General Secretariat that assists the Executive Board and Monetary Policy and Financial Stability Committee and provides professional support, speech writing services and other support functions for the executive management of Norges Bank.


Supervisory Council
Executive Board
Chair: Governor of Norges Bank
Audit Committee
Remuneration Committee
Ownership Committee
Risk and Investment Committee
Monetary Policy and Financial Stability Committee
Chair: Governor of Norges Bank
Office of the Supervisory Council
Internal Audit
CEO NBIM
General Secretariat | GRC
Governor of Norges Bank
Norges Bank Investment Management
Norges Bank Administration
Norges Bank Central Banking Operations

Norges Bank's staff

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.

At the end of 2019, there were 940 permanent employees at Norges Bank, of which 540 in Norges Bank Investment Management (NBIM), 244 in Norges Bank Central Banking Operations (NBCBO), 149 in Norges Bank Administration (NBA) and seven at the Office of the Supervisory Council. Of the total, 120 Norges Bank employees are based at the office in London, 67 in New York, 10 in Shanghai and 44 in Singapore.

In 2019, 68% of staff at Norges Bank were men and 32% were women. The share of women[1] on the staff of Norges Bank was 31% for executive-level employees in NBCBO and 22% for executive-level employees in NBIM. The Bank's long-term goal is that women should make up at least 40% of the total workforce. The Bank focuses particular attention on attracting and retaining female staff. Women and men at Norges Bank must be given the same opportunities with regard to salary, promotion and professional and personal development.

Norges Bank has employees from 38 countries.

Sickness absence at Norges Bank remained stable at a low level of 2.0% in 2019. 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 also accommodates employees needing special adaptations.

1 Based on the organisational structure before the establishment of Norges Bank Administration.

EMPLOYEES FROM 38 COUNTRIES

Argentina, Armenia, Australia, Belgium, Bulgaria, Canada, China, Denmark, Finland, France, Germany, Greece, India, Indonesia, Ireland, Israel, Italy, Japan, Latvia, Lebanon, Lithuania, Malaysia, Myanmar, the Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovakia, Spain, Sweden, Turkey, the UK and the US

NUMBER OF EMPLOYEES

	2015	2016	2017	2018	2019
NUMBER OF EMPLOYEES	**856**	**923**	**922**	**953**	**940**
NBIM	**518**	**568**	**573**	**601**	**540**
NBCBO	**330**	**347**	**342**	**345**	**244**
NBA					**149**
Office of the Supervisory Council	**8**	**8**	**7**	**7**	**7**

SHARE OF WOMEN

	2015	2016	2017	2018	2019
NBIM	**27%**	**27%**	**29%**	**29%**	**28%**
NBCBO	**41%**	**41%**	**40%**	**40%**	**33%**
NBA					**58%**
Total	**33%**	**33%**	**33%**	**33%**	**32%**

SICKNESS ABSENCE

	2015	2016	2017	2018	2019
SICKNESS ABSENCE	**2.2%**	**2.2%**	**2.2%**	**2.0%**	**2.0%**

Remuneration

Norges Bank's Executive Board sets the limits for the Bank's salary and remuneration schemes and monitors how they function in practice.

Salary levels at Norges Bank are designed to be competitive, but not wage-leading. Norges Bank employs external consultants to perform annual comparisons of salary levels with other employers. The Executive Board's Remuneration Committee comprises three of the Board's external members and one of the employee-elected members. The Committee contributes to thorough and independent discussions of matters pertaining to the Bank's salary and remuneration schemes.

The Executive Board sets a salary ceiling for the executive management of Norges Bank Central Banking Operations (NBCBO) and salary bands for the NBIM executive management team. The governor determines annual salaries for executive managers and others in NBCBO who report to the governor, and for the CEO of NBIM within the band set by the Executive Board. Salaries for other senior executives at NBIM are determined by the CEO of NBIM in accordance with the salary bands set by the Executive Board.

Salaries for employees whose work directly involves investment decisions, and certain other employees, may be performance-based. Principles for performance-based pay, including pay ceilings, are laid down in the Executive Board's remuneration principles. Performance-based pay is designed to promote and provide incentives for sound investment management and risk control, counteract excessive risk-taking and avoid conflicts of interest.

Performance-based pay is calculated on the basis of performance measured against set targets for investment management, group performance and individual performance. Accrued performance-based pay is paid over several years. Performance-based pay is capped at 100% of an employee's fixed salary, but for a limited number of employees at offices outside of Norway, the cap may be up to 200% of fixed salary.

At year-end 2019, 249 employees received performance-based pay, 12 of whom were employed by subsidiaries.

Salaries for the members of the executive management teams, the governor and the deputy governors are not performance-based.

Percentage of employees with performance-based pay

Average amount accrued of upper limit for performance-based pay

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.

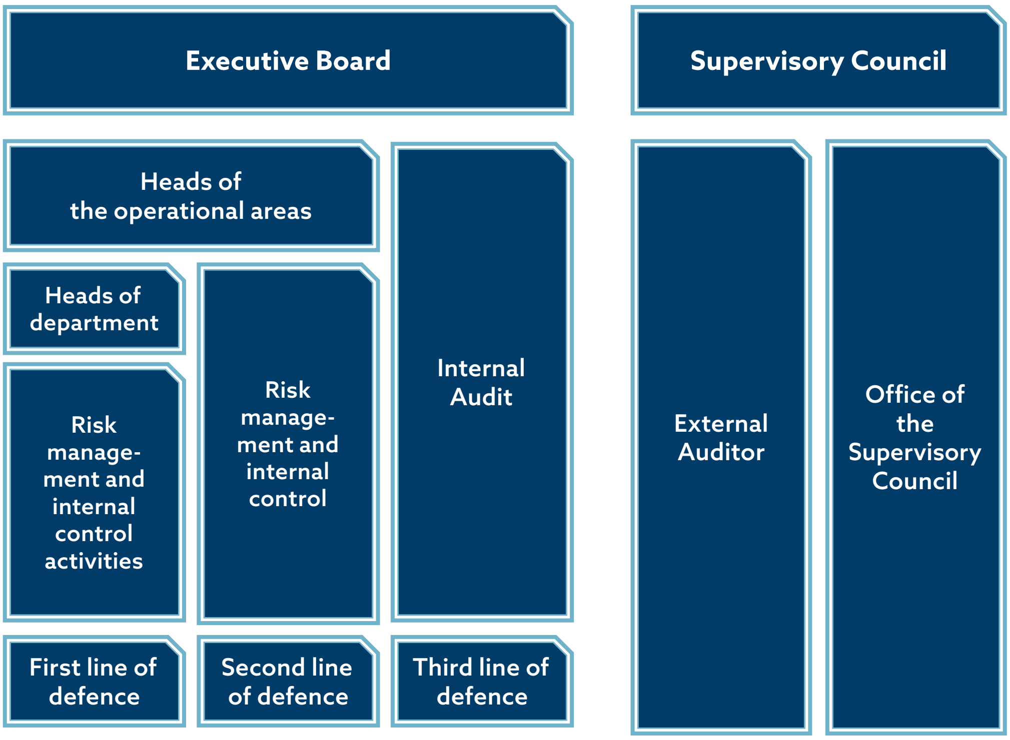
The Executive Board has the primary responsibility for risk management and for the sound organisation of Norges Bank. Internal Audit supports the Executive Board in its exercise of this responsibility and submits an annual independent assessment of risk management and internal control to the Executive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

The system with three lines of defence 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 management and internal control activities
Risk management 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 work on climate risk

Norges Bank's operations
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 Corporate Social Responsibility on page 56.

In 2019, the Bank's head office received Norwegian Eco-lighthouse certification. This provides access to tools to measure and improve environmental performance within working environment, waste management, energy use, procurement and transport, including numerical targets and measures to reduce the environmental impact.

The Bank strives continuously to find more environmentally friendly ways of operating and is involved in a programme to implement energy-reducing measures in collaboration with Enova SF.

Management of the GPFG
Norges Bank manages climate risk within the bounds of its mandate, with active ownership as a key element. Climate risk is one of a number of risk factors for the GPFG. Climate risk is complex, and understanding the financial implications for the fund will evolve over time. The Bank analyses transition risks partly by measuring portfolio companies' carbon emissions and by performing scenario analyses. The analyses are used to illustrate future outcomes related to climate risk and better understand climate risk over a long period.

The Bank has been developing ESG databases on the companies in the Bank's portfolio since 2015. These databases include climate information, such as emissions data reported by the companies and third-party estimates where adequate disclosure is not provided.

Within the bounds of its management mandate, the Bank seeks to identify investment opportunities and reduce the GPFG's exposure to unacceptable risks by, for example, integrating sustainability and climate risk into investment decisions. The mandate requires the Bank to invest between NOK 30bn and NOK 120bn in dedicated environment-related mandates. Sustainability considerations may lead the Bank to divest from companies that the Bank believes pose a particularly high long-term risk.

The Bank's annual reports on responsible investment provide a broad account of the work on climate risk as part of the wider work on responsible investment.

Climate risk and economic and financial stability
Climate change and society's adaptation to it affect the whole economy. Changes in climate regulation, new technology and changing investor and consumer preferences may entail a transition risk for the Norwegian economy in the years ahead.

The Bank can promote the inclusion of climate risk in the financial sector's risk assessments.

The Bank is a member of the Network for Greening the Financial System (NGFS) where central banks and supervisory authorities share experience and best practices and perform analyses and methods to manage environmental and climate risks relevant to the financial authorities and the financial sector.

Norges Bank's environmental strategy

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

    A. The Bank will ensure that environmental considerations are integrated throughout.
    B. The Bank will examine its interface with the external physical environment.
    C. The Bank will use targeted measures to limit its negative effect on the environment.
    D. The Bank 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. The Bank will conduct operations in line with recognised standards for environmentally responsible operation.
    B. The Bank will be environmentally responsible and promote health in the workplace.
    C. The Bank will choose cost-effective environmental measures that meet the Bank's needs.

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

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

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

    A. The Bank will inform the public through transparent and active communication.
    B. The Bank's 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.

Norges Bank's Executive Board

As from 2020, the Executive Board comprises nine 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 six members are not on the staff of Norges Bank. 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 eleven members.

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

Front row from left: Kristine Ryssdal, Egil Matsen, Øystein Olsen, Jon Nicolaisen and Nina Udnes Tronstad

Back row from left: Kjersti-Gro Lindquist, Karen Helene Ulltveit-Moe, Arne Hyttnes, Hans Aasnæs and Mona Helen Sørensen

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 has three members elected by and from among the external members of Norges Bank's Executive Board 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 elected from among the external members of Norges Bank's Executive Board and one member elected from among the employee-elected board members. 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 with special responsibility for the GPFG. NBIM functions as the Committee's secretariat.

Risk and Investment Committee
The Risk and Investment Committee was established in 2015 to strengthen and streamline 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 with special responsibility for the GPFG. The General Secretariat 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.

Karen Helene Ulltveit-Moe

Appointed board member for the period 1 January 2014 – 15 May 2024. Chair of the Audit Committee and member of the Risk and Investment 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 Aquaculture Tax Commission. 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.

Kristine Ryssdal

Appointed board member for the period 1 January 2018 – 15 May 2022. 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. She is qualified to appear before the Supreme Court and is a member of the Stock Exchange Appeals Committee. 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.

Arne Hyttnes

Appointed for the period 4 March 2016 – 15 May 2022. Chair of the Remuneration Committee and member of the Audit 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.

Hans Aasnæs

Appointed for the period 1 January 2020 – 15 May 2024. Member of the Risk and Investment Committee of the Executive Board.

Hans Aasnes is CEO of the shipping company Western Bulk ASA. He is chair of the board at Strand Havfiske and Nordic Trustee and board member at Investinor and AS Værdalsbruket. Hans Aasnes has extensive experience in investment management, real estate management and direct investment at Storebrand and the UMOE Group, among others. He also has extensive board experience from a number of companies, including the Government Pension Fund Norway, Statskog, Gjensidige pensjonsforsikring, Bergvik Skog, Foran Realestate and Fornebu Lumber Company. Hans Aasnes is an agricultural economist from the Norwegian College of Agriculture (now the Norwegian University of Life Sciences), holds a higher degree from the NHH Norwegian School of Economics and is a certified financial analyst.

Nina Udnes Tronstad

Appointed board member for the period 1 January 2020 – 15 May 2022. Member of the Ownership Committee and the Remuneration Committee of the Executive Board.

Nina Udnes Tronstad is a professional board member. She is a member of the board at the Norwegian Export Credit Guarantee Agency (GIEK), the Ramboll Group, Prosafe, Fishency Innovation and Technoport and is chair of the board at Source Energy. She was executive vice president at Statoil and Kværner. Her most recent position was as general manager of a private investment company until she was appointed board member in Norges Bank. She has been a board member at Peab AB, the Norwegian University of Science and Technology (NTNU) and Trelleborg AB, among others. Nina Udnes Tronstad holds an MSc in chemical engineering from the Norwegian University of Science and Technology.

Benedicte Schilbred Fasmer

Appointed board member for the period 1 April 2020 – 15 May 2024.

EMPLOYEE-ELECTED BOARD MEMBERS

Mona Sørensen

Appointed employee-elected board member for the period 1 January 2017 – 31 December 2020. Member of the Remuneration Committee of the Executive Board.

Norges Bank employee from 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.

Marianne Depraetere is alternate for Mona Sørensen.

Kjersti-Gro Lindquist

Appointed employee-elected board member 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.

Mari Aasgaard Walle is alternate for Kjersti-Gro Lindquist.

Work of the Executive Board in 2019

The Executive Board was responsible for both operational areas of the Bank in 2019. 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 seminars 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).

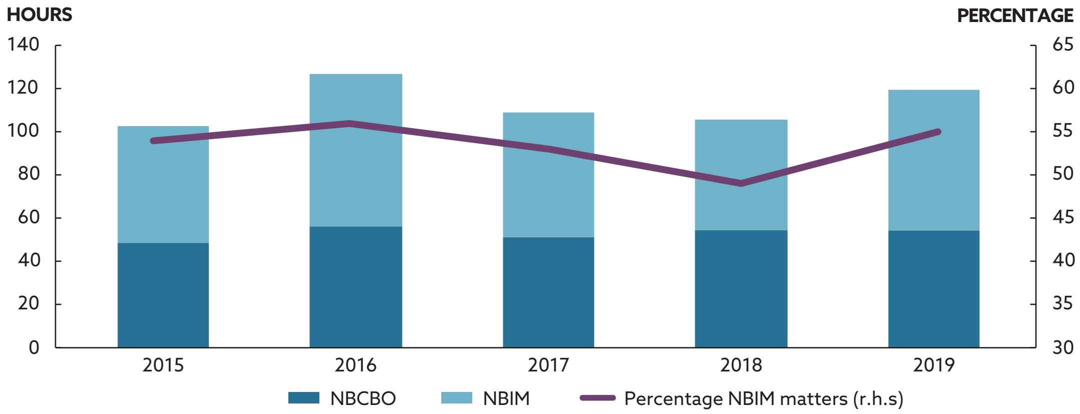
The chart below shows a selection of key matters considered by the Executive Board in 2019.

DISTRIBUTION OF TIME, EXECUTIVE BOARD 2015–2019

	2015	2016	2017	2018	2019
Number of Executive Board meetings	16	17	17	18	18
Number of Executive Board seminars	9	11*	9	10	11
Number of matters considered by the Executive Board	218	248	248	232	242
Total time spent in meetings and seminars	**103 hours**	**127 hours***	**108 hours**	**107 hours**	**120 hours***
Preparatory committee meetings:					
- Audit Committee	7	7	7	7	5
- Remuneration Committee	2	3	4	6	4
- Ownership Committee	7	7	5	5	5
- Risk and Investment Committee	7	10	9	6	7
Total time spent in committee meetings	**44 hours**	**72 hours**	**56 hours**	**45 hours**	**42 hours**

* The high number of hours worked in 2016 and 2019 is due in part to the considerable amount of time spent by the Executive Board on discussing the strategy for Norges Bank for the coming period, including designated seminars.

TIME SPENT ON MATTERS RELATING TO NBCBO AND NBIM



The bars show the total time spent by the Executive Board in meetings and seminars (l.h.s).
The line shows the percentage of time spent on matters relating to Norges Bank Investment Management (NBIM) (r.h.s).

KEY MATTERS CONSIDERED BY THE EXECUTIVE BOARD IN 2019

	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 countercyclical buffer			Advice on the countercyclical buffer			Advice on the countercyclical buffer			Advice on the countercyclical 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			Strategy work			Strategy work				
						Budget		Budget				
		Organisation			Organisation					Organisation		
						Strategy and advice on investment management		Strategy and advice on investment management				
			Statements and consultations					Statements and consultations				Statements and consultations
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				
	Day-to-day operation and follow-up of NBCBO and NBIM						Day-to-day operation and follow-up of NBCBO and NBIM					

Norges Bank's Monetary Policy and Financial Stability Committee

The Monetary Policy and Financial Stability Committee consists of the governor, the two deputy governors and two external members. The external members are appointed by the King in Council for terms of four years. The governor chairs the Committee and the two deputy governors are first and second deputy chairs.

The Committee will be operative from 1 January 2020.

Ingvild Almås

Appointed Committee member for the period 1 January 2020 – 31 December 2021.

Ingvild Almås holds a professorship at the Institute for International Economic Studies (IIES), Stockholm University, Principal Investigator at the Norwegian School of Economics' FAIR centre and International Research Fellow at the Institute for Fiscal Studies (London), Centre for Economic Policy Research (CEPR), and CESifo. She previously held a professorship at NHH. She sits on the Scientific Advisory Board for the Max Planck Institute for Research on Collective Goods in Bonn, Germany, and chairs the Portfolio Board for Welfare, Culture and Society at the Research Council of Norway. Ingvild Almås is also on the Nobel Symposium Committee. She has been one of the chief editors of the Scandinavian Journal of Economics and an associate editor of a number of journals. Ingvild Almås holds a BA in economics from the University of Oslo and a PhD in economics from NHH.

Jeanette Strøm Fjære

Appointed Committee member for the period 1 January 2020 – 31 December 2023.

Jeanette Strøm Fjære is a fellow at Housing LAB, the national centre for housing research at Oslo Metropolitan University. She has previously worked for DNB Markets as a macroeconomist and for Norges Bank as an analyst. Jeanette Strøm Fjære holds a degree in economics from the University of Oslo.

From left: Øystein Olsen, Jeanette Strøm Fjære, Egil Matsen, Ingvild Almås and Jon Nicolaisen.

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 the stability of the financial system 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.

Introduction

The Storting passed the Act relating to Norges Bank and the Monetary System etc. (Central Bank Act) on 28 May 2019. This was 34 years since the previous central bank act was passed. The Executive Board prepared for adjustments to the new Central Bank Act during 2019. With the Storting's adoption of the new Central Bank Act, it was decided that Norges Bank would continue to fulfil two core responsibilities in the coming years: as Norway's central bank and as manager of the GPFG.

The new Central Bank Act provides for a new governance structure for Norges Bank from 1 January 2020. Norges Bank's Executive Board was expanded and its responsibilities were changed. It was also decided to establish a new monetary policy and financial stability committee.

The Executive Board is responsible for Norges Bank's overall operations as before, including all administrative matters and central banking matters that are not the responsibility of the Monetary Policy and Financial Stability Committee. This entails responsibility for, among other things, the management of the GPFG, the foreign exchange reserves, the payment system, the settlement system and secured lending. The Committee is responsible for Norges Bank's role as the executive and advisory monetary policy authority, including the use of policy instruments, and contributes to the work on financial stability.

The Executive Board was expanded from five to six external members. The governor and the two deputy governors are the internal members of the Board, bringing the total to nine. Two board members elected by and from among Norges Bank's employees also participate when administrative matters are discussed. The governor chairs the Executive Board. The arrangement with alternates will be discontinued.

In order to perform administrative tasks in a manner that achieves even greater economies of scale and synergies, the Bank's Executive Board has decided to establish a new common unit, Norges Bank Administration (NBA), for administrative functions in Norges Bank's Central Banking Operations (NBCBO) and Norges Bank Investment Management (NBIM).

Based on the framework provided by the new Central Bank Act for the Bank's work, the Executive Board has adopted a new strategy entitled *One Bank*, which sets out the direction for the Bank's operations over the next three years. The Executive Board has also adopted the Bank's strategy for the management of the GPFG in accordance with the mandate issued by the Ministry of Finance.

The capacity of Norges Bank and its employees to adapt to change, to collaborate and to develop expertise is essential for attaining the Bank's strategic objectives. The Bank will build on its common values: team spirit, integrity, innovation and excellence. This is the key that enables the Bank to develop in pace with the outside world and perform its mission in the best way possible.

The Executive Board adopted a new real estate investment strategy for the GPFG in early 2019. The aim is a real estate allocation of between 3% and 5%. The portfolio is to consist of both listed and unlisted real estate investments. With a limited portfolio of

Governor Øystein Olsen launching the new 1000-krone banknote in Bergen, with Sissel Rogne, CEO of the Institute of Marine Research unlisted real estate and a strategy to integrate listed and unlisted real estate investments, it was decided to discontinue Norges Bank Real Estate Management (NBREM) as a separate organisational unit and integrate NBREM into NBIM.

Norges Bank reached important milestones in 2019. The market value of the GPFG topped NOK 10 000bn, 50 years since the discovery of oil on the Norwegian shelf. The new 1000-krone banknote was put into circulation, which means that Series VIII is now complete. In the light of an improving Norwegian economy, Norges Bank raised the policy rate three times, in steps of 0.25 percentage point. The policy rate at end-2019 was 1.50%.

Monetary policy

The operational target of monetary policy is 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.

Economic growth slowed among Norway's trading partners in 2019 after several years of solid growth. Uncertainty surrounding trade tensions and the UK's exit from the EU had an impact on economic developments. Manufacturing growth slowed in particular. Unemployment among Norway's trading partners was low. Employment growth was solid, but slackened somewhat through the second half of the year.

In 2019, average wage growth in the US and Europe was slightly higher than in 2018. Inflation among several of Norway's main trading partners edged down, partly owing to lower food prices. Core inflation remained fairly stable and was below target in many countries.

Oil prices fluctuated through 2019. Oil spot prices rose from just over USD 50 per barrel in January to just below USD 70 in December. Futures prices at year-end 2022 showed little change in the same period. Weaker growth prospects for the global economy dampened demand for oil, which in isolation pulled down oil prices. OPEC production cuts and lower oil exports from Iran and Venezuela, partly owing to sanctions, pushed up oil prices.

The international interest rate level was low. The US Federal Reserve lowered its policy rate three times during the year. The European Central Bank lowered its policy rate once and at the same time restarted its asset purchase programme. Sveriges Riksbank raised its policy rate by 0.25 percentage point to 0% in December. Forward rates among Norway's main trading partners fell somewhat overall in 2019, and market-implied rates at year-end indicated that rates would remain low in the years ahead.

The policy rate in Norway was raised by 0.25 percentage point to 1% in March, followed by an increase to 1.25% in June and to 1.5% in September. As a result, money market rates in Norway rose through the year, but the rise was restrained somewhat by the decline in the money market premium. Lending and deposit rates increased less than the policy rate. Lending rates rose more than deposit rates, increasing banks' lending margins.

The level of the krone exchange rate, as measured by the import-weighted index I-44, was weaker than implied by its historical

Governor Øystein Olsen sets the policy rate

relationship with oil prices and the interest rate differential against other countries. Persistent uncertainty about global developments likely pushed up the risk premium on the Norwegian krone and other low liquidity currencies. Prospects for lower activity in the petroleum industry and uncertainty about the need for restructuring in the Norwegian economy may also have contributed to keeping the krone weak.

The upturn in the Norwegian economy, which started in 2016, continued in 2019. Solid global growth, low interest rates and improved cost-competitiveness helped lift activity in Norway. After falling for several years, strong growth in petroleum investment contributed to sustaining growth in the mainland economy in 2019. Growth in business investment was also solid, particularly in manufacturing. Growth in housing investment rose in the first half of 2019 and then remained at a moderate level through autumn. A weak krone exchange rate and strong demand from the global petroleum industry contributed to strong export growth. GDP growth slowed somewhat towards the end of the year. According to the Bank's Regional Network contacts, the decline was particularly pronounced in retail trade and construction. Oil service contacts also reported lower growth.

In recent years, spare capacity has steadily diminished in the Norwegian economy. Capacity utilisation was close to a normal level at the end of 2018 and picked up further through 2019. Employment growth was solid, but edged down in the second half of the year.

Registered unemployment fell at the start of 2019 and then remained at a stable level. An increasing number of companies reported labour shortages. Wage growth accelerated in 2019, owing to a tighter labour market and solid growth in industries with a relatively high wage level.

After rising markedly through 2018, consumer price inflation moderated in 2019. Lower electricity price inflation in particular restrained the general rise in prices. The year-on-year rise in the consumer price index (CPI) was 2.2% in 2019. Adjusted for tax changes and excluding energy products (CPI-ATE), inflation was 2.2%.

Since September 2018, the policy rate has been raised gradually and the monetary stance has become gradually less expansionary.

In its monetary policy assessments through 2019, the Executive Board gave weight to the fact that there was solid growth in the Norwegian economy and capacity utilisation appeared to be above a normal level. Towards the end of the year, the Norwegian economy was assessed to be near a cyclical peak. Underlying inflation was slightly above the inflation target at the start of the year, but came down and was fairly close to 2% in the second half of the year.

The Executive Board's assessment was that a policy rate that is low over time could increase pressures in the economy, triggering an acceleration in price and wage inflation and a build-up of financial imbalances. This could increase the risk of a sharp economic downturn further out. A higher policy rate could mitigate the risk of a renewed acceleration in debt growth and house price inflation. The Executive Board also gave weight to the considerable uncertainty surrounding the global growth outlook.

The policy rate forecast was little changed through the year. The forecasts in the December 2019 *Monetary Policy Report* implied that there would be small changes in the policy rate ahead and that the rate would be close to 1.5% at the end of 2022. With a policy rate in line with the forecasts, underlying inflation was expected to remain close to the inflation target and capacity utilisation was projected to decline towards a normal level.

Financial stability

It is important that the financial system is stable and well-functioning so that it can execute payments, channel funding and distribute risk efficiently. Norges Bank has a particular responsibility for promoting robust and efficient financial markets and payment systems.

In *Financial Stability Report* 2019, financial system vulnerabilities in Norway were assessed as not having changed substantially since the 2018 *Report*. Household debt ratios are high, and residential and commercial property prices are at high levels after rising sharply over a long period. However, over the past two years, household debt growth and house price inflation have been more moderate than previously, and house prices have risen more slowly than disposable income. Over the past year, the rise in commercial property prices has also slowed, and household debt is now rising at close to the same rate as disposable income. Norwegian banks have maintained profitability

Deputy Governor Jon Nicolaisen and Executive Director Torbjørn Hægeland presenting *Financial Stability Report* 2019

and solvency and continue to have ample access to funding.

The Norwegian authorities have implemented a number of measures to mitigate financial system vulnerabilities. Requirements for banks' credit standards limit excessive borrowing by the most vulnerable households. The regulation on new residential mortgage loans, first introduced in 2015, was tightened in 2017 and has functioned as intended. In November 2019, the Ministry of Finance decided to retain the regulation. There are also signs that measures targeting the consumer credit market have dampened consumer debt growth. In addition, the registers of unsecured debt, which were introduced in July 2019, have given banks more complete data on which to base credit assessments. Such registers should also include information on collateralised loans to enable banks and loan applicants to easily obtain the full picture of a loan applicant's debt situation.

Norges Bank prepares the decision basis and advises the Ministry of Finance on the level of the countercyclical capital buffer for banks on a quarterly basis. Banks should build and hold a countercyclical capital buffer when financial imbalances are building up or have built up. The buffer rate was increased from 2.0% to 2.5% from 31 December 2019. In December 2019, Norges Bank published a revised framework for the elements that should be included in the decision basis for Norges Bank's advice.

Banks' capacity to absorb losses in an economic downturn is important for financial stability. Banks' capital and liquidity requirements have become considerably stricter following the financial crisis. The stress test in *Financial Stability Report* 2019 shows that banks have the capital to absorb large loan losses and that the increase in the countercyclical capital buffer will make it easier for the banking sector to maintain credit supply in the event of a downturn.

In connection with the implementation of the remainder of the EU capital framework, many banks' reported capital ratios will rise without this reflecting an improvement in solvency. Norges Bank is of the view that in the current situation, Norwegian banks' capital levels should not be reduced. Structural systemic risk is high, particularly owing to high household leverage. Since the systemic risk buffer was introduced in 2013, banks have increased their property market exposures, and their cross-holdings of covered bonds have also risen. In its consultation response of September 2019, Norges Bank supported as a countermeasure the proposal to increase the systemic risk buffer, an action that will help banks to maintain loss absorbency.

Climate change and society's adaptation to it affect all segments of the economy and entail risks to financial stability. Changes in climate regulation, new technology and changing investor and consumer preferences may entail a transition risk for the Norwegian economy in the coming years. Climate change is a global challenge that must primarily be addressed by the political authorities, using instruments other than those available to central banks. Central banks and supervisory authorities can, within their mandates, promote financial stability by helping to pave the way for the financial sector to include climate risks in overall risk assessments and communicate relevant information and by ensuring adequate capital to support all risks.

Payment system

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. The Bank supervises and oversees key systems in the financial infrastructure and promotes change that could make the payment system more efficient.

An efficient payment system carries out payment transactions swiftly, safely, at low cost and tailored to users' needs. In 2019, there were few disruptions in the systems, and the systems generally comply with international principles.

With the exception of two brief disruptions, the operation of Norges Bank's settlement system was stable through 2019. The settlement system handled a daily average of approximately NOK 259bn in payment transactions. At the end of 2019, banks' sight deposits and reserves on deposit with Norges Bank totalled NOK 40.1bn.

Payment options where the funds are available in the payee's account seconds after the payments are initiated is an important feature of an efficient payment system. In 2017, Finance Norway and Norges Bank launched a project to introduce an improved infrastructure for real-time payments at the customer level with manageable risk for banks. In December 2019, Norges Bank carried out necessary adjustments to its settlement system and banks are scheduled to begin using the new system in the first half of 2020.

Work on the new Norwegian banknote series, Series VIII, was completed as planned. The new 1000-krone banknote was put into circulation on 14 November 2019. The launch marked the completion of the new banknote series. The 50-krone and 500-krone notes were put into circulation in October 2018, while the first two denominations in the series, the 100-krone and 200-krone notes, were put into circulation in May 2017.

In Norges Bank's opinion, there is a need for measures to ensure that cash is available and easy to use. Cash has important attributes and contributes to underpinning confidence in the monetary system. Cash is a safe alternative if other payment solutions are not functioning or do not meet the expectations of the public in terms of security and efficiency.

All banks have an obligation to provide customers with deposit and withdrawal facilities. In a letter of 13 February 2019 to Finanstilsynet (Financial Supervisory Authority of Norway), Norges Bank wrote that banks' cash services in a normal situation should be clarified in a regulation.

Under the Central Bank Act, cash is legal tender. Many physical points of sale do not accept payment in cash. In a letter of 31 January 2019 to the Ministry of Finance, Norges Bank requested a clarification of the provision of the Financial Contracts Act regarding the right of consumers in all cases to effect settlement with the payee in legal tender.

The payment system in Norway is undergoing changes. To keep the payment system operating efficiently, improvements are needed. Global tech giants have entered the Norwegian payments market. The revised Payment Services Directive (PSD2) was introduced in Norway on 1 April 2019 and makes new providers less dependent on existing platforms and agreements. At the same time, new technologies may make it easier to provide payment services outside the traditional infrastructure. Norges Bank monitors developments closely and will consider measures to maintain payment system security and efficiency if necessary.

A Norges Bank working group is assessing the feasibility of introducing a central bank digital currency (CBDC). A CBDC is a digital form of central bank money denominated in the official unit of account for general purpose users. In June 2019, the working group published its second report, which included an assessment of whether there could be a need for a CBDC as a supplement to cash.

Increasing risks associated with cybercrime and attacks against key ICT systems are a challenge to payment system efficiency and security. In 2018, the European Central Bank (ECB) published TIBER-EU, a framework for testing financial sector cyber security, with the aim of enhancing cyber security and promoting financial stability. TIBER-EU facilitates standardised and harmonised assessments of security across systems. An important aim is sharing comparable information among authorities at a national and European level. The framework is also suited for comparing the maturity of security work in different parts of the payment system. Several of Norway's neighbours, including Denmark and Sweden, have conducted or will conduct testing in accordance with TIBER-EU. Norges Bank and Finanstilsynet (Financial Supervisory Authority of Norway) have invited


Analyses of the economic situation

the industry and relevant authorities to a dialogue that will also serve as the basis for an assessment on the suitability of TIBER-EU for testing cyber security in the payment system in Norway.

The ICT Security Commission has proposed measures to enhance the organisation and regulation of national ICT security. The Commission, which presented its report in December 2018, notes that the supervision of key ICT providers may be inadequate. Concentration and systemic risks associated with ICT providers are difficult for individual system owners to manage on their own. In its consultation response to the Ministry of Justice and Public Security, Norges Bank recommends further study of how ICT providers and data centres can best be supervised.

Management of the Government Pension Fund Global

Norges Bank is responsible for the management of the Government Pension Fund Global (GPFG). Norges Bank manages the GPFG with a view to achieving the highest possible return over time within the mandate issued by the Ministry of Finance.

At end-2019, the market value of the GPFG was NOK 10 088bn, an increase of NOK 1 832bn since the beginning of the year. The return on the GPFG was equivalent to NOK 1 692bn, while transfers from the Norwegian government came to NOK 13bn after payment of management costs. Movements in the krone exchange rate increased the fund's value by NOK 127bn, although this has no bearing 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 56.

In 2019, the return on the GPFG before management costs was 19.9% measured in the fund's currency basket. Equities returned 26.0% and bonds 7.6%. Listed and unlisted real estate returned 10.4%. Management costs amounted to 0.05% of assets under management.

The GPFG's overall return in 2019 was the second highest since 1998 in percentage terms and the highest in NOK terms.

The Executive Board emphasises that performance must be assessed over time. Measured over the period 1998–2019 as a whole, the annual return on the GPFG was 6.1%. The annual net real return, after deductions for inflation and management costs, was 4.2% in this period. The annual return before management costs was 0.25 percentage point higher than that on the benchmark index from the Ministry of Finance.

The Bank pursues a variety of investment strategies. For the period 2013–2019, these strategies can be grouped into three main categories: fund allocation, security selection and asset management. The different strategies are complementary and build on the GPFG's special characteristics as a large, long-term investor with limited short-term liquidity needs.

In 2019, the return on the GPFG before management costs was 0.23 percentage point higher than that on the benchmark index. The contributions from the various investment strategies show that fund allocation contributed negatively to the relative return, while security selection and asset management both contributed positively.

The contributions to the relative return from equity, fixed income and real estate management show a negative contribution from real estate management and positive contributions from both equity and fixed-income management in 2019.

The Executive Board emphasises the importance of assessing the performance of the fund as a whole and over time. Viewed over the seven-year period 2013–2019, the different strategies achieved an annual excess return before management costs of 0.19 percentage point. Fund allocation made a negative contribution to relative return during the period, while security selection and asset management both made positive contributions.

The Executive Board has approved a new strategic plan for the period 2020–2022, which builds on those for previous years. The main strategies will be continued. By investing in real estate and renewable energy infrastructure, the Bank will seek to contribute to further diversification by broadening the GPFG's investments.

The objective of the highest possible return is to be achieved with acceptable risk. Risk is measured, analysed and followed up using a broad set of measures and analyses. One key provision in the mandate from the Ministry of Finance requires the Bank to manage the GPFG with the aim that expected relative volatility (tracking error) does not exceed 1.25 percentage points. It was 0.33 percentage point at the end of 2019. Measured over the period 1998–2019 as a whole, actual relative volatility was 0.67 percentage point.

The Executive Board attaches importance to cost-effective management, which also supports the objective of the highest possible net return. In the period 2013–2019, annual management costs averaged 0.06% of assets under management. In 2019, management costs amounted to NOK 4.3bn, or 0.05% of assets under management.

An important part of Norges Bank's work on the GPFG is to advise on the further development of the fund's management. In 2019, this included advice on the benchmark index for emerging equity markets and on the geographical distribution of the fund's equity benchmark.

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

The Executive Board is satisfied that return has been good in 2019 and 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, with a view to promoting financial stability and meeting Norges Bank's international commitments. The importance of investing the reserves in liquid assets is given considerable weight.

Within these limits, the aim of foreign exchange reserve management is to be cost-effective and provide a positive excess return.

Norges Bank has a consistent approach to responsible investment, which includes climate risk assessment. This means that the foreign exchange reserves cannot be invested in securities that are excluded from the GPFG's investment universe. The companies owned by the foreign exchange reserves are subject to the same expectations as the companies in the GPFG's portfolio.

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, which is intended to provide for an appropriate management of the government's need for converting between foreign currency and NOK and to conduct transfers to and from the GPFG.

The Executive Board annually assesses the strategy and framework for the management of the foreign exchange reserves. Over the past 10 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. The changes include limiting the fixed income portfolio's benchmark index to government bonds with maturities of up to 10 years, and limiting the equity portfolio's benchmark index to medium and large-sized companies. The most recent change was the reduction of the strategic equity allocation from 35% to 20% in the course of autumn 2018.

In accordance with the Executive Board's principles, expected relative volatility (tracking error) should not exceed 0.5 percentage point in either the fixed income or the equity portfolio. In addition, a rebalancing shall take place if the equity allocation deviates from the strategic equity allocation by more than 4 percentage points. No rebalancing took place in 2019.

At the end of 2019, the market value of the foreign exchange reserves was NOK 546.3bn, with NOK 127.3bn in the equity portfolio, NOK 423.3bn in the fixed income portfolio and NOK -4.3bn in the petroleum buffer portfolio. The value of the foreign exchange reserves increased by NOK 34.5bn since the end of 2018.

In international currency terms, the return on the total foreign exchange reserves, excluding the petroleum buffer portfolio, was 7.8% in 2019. Equity investments returned 28.3%. Fixed income investments returned 2.9% in 2019.

Over the past 10 years, the foreign exchange reserves have earned an annual return of 5.5%. In the Board's assessment, reserve management performance in 2019 and over the past 10 years has been positive.

Personnel

At the end of 2019, there were 940 permanent employees at Norges Bank, compared with 953 at the end of 2018, of which 540 in Norges Bank Investment Management (NBIM), compared with 601 the previous year. In Norges Bank Central Banking Operations (NBCBO), there were 244 employees, compared with 345 the previous year. In addition, there were seven employees at the Office of the Supervisory Council. At the end of 2019, 37 employees from NBIM and 112 employees from NBCBO were transferred to the newly established area Norges Bank Administration. The Bank has employees from a total of 38 countries.

Norges Bank aims to recruit highly qualified professionals 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 other staff. Through internal training initiatives and by facilitating internal mobility, internships abroad, secondments and other in-house development activities, 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% 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 permanent staff of Norges Bank at the end of 2019 was 32%. It is challenging to increase the share of female employees in certain job categories. Norges Bank has prioritised initiatives in the areas of recruitment and reputation management, career development, and an inclusive working environment. The initiatives are integrated into relevant processes as a natural part of the Bank's work processes and culture. Norges Bank will continue this important work and further measures will be developed.

Norges Bank's management has close and regular contact with the trade unions at the Bank. The collaboration helps the Bank to develop and adapt in pace with requirements for companies in general and for the Bank in particular. The Bank engages in negotiations and discussions to create the basis for a well-functioning workplace.

Norges Bank's priority is protecting the health and safety of all those who work in the Bank. In 2019, five incidents/injuries directly relating to work conducted at Norges Bank's premises were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2019. Sickness absence remained stable in 2019 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 2019, several cost comparisons were completed: for expenses related to the management of the GPFG and the use of resources in NBCBO. The Executive Board is satisfied with the Bank's favourable results in these comparisons. In 2019, the Executive Board focused in particular on cost-efficiency. The Executive Board followed up the budgeting process closely, and planning and the budget for 2020 were discussed at several Executive Board meetings in the second half of 2019.

The calculation of the GPFG's performance results is verified by an independent third party in compliance with the Global Investment Performance Standards (GIPS). The GIPS verification report is in compliance with the GIPS standards. The Bank's auditor, Deloitte AS, has performed an independent review of the information presented in the section "Responsible investment management of the GPFG" on page 57 down to "Responsible real estate investment" on page 61.

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 2019.

The reporting and follow-up of incidents constitute an important part of the measures to improve operation and internal control. Significant risks are followed up through regular reporting and the follow up of the

Visit to Nomek AS, a mechanical engineering company in Stryn

Executive Board's measures. For NBIM, the Executive Board has decided that over a 12-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 2019, operational risk exposure was within the Board's risk tolerance.

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, including through the use of cloud services. 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. Investment management completed its modernisation project in 2019 with a new model for the delivery of IT services. A similar project will be carried out in central banking operations in the coming years.

The Executive Board maintains a high level of IT and information security awareness, including monitoring outsourced IT functions. 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. No material deficiencies in the risk management and control regime were identified in 2019, and the Executive Board assesses the control environment and control systems at Norges Bank as satisfactory.

Balance sheet composition and financial risk

The balance sheet comprises a number of items directly related to the Bank's tasks. The balance sheet is dominated by the GPFG and the foreign exchange reserves, while deposits from the government and banks, cash in circulation and the IMF are other large items.

Norges Bank's balance sheet total at year-end 2019 was NOK 10 727bn, of which the investment portfolio of the GPFG accounted for NOK 10 088bn. Accrued management costs were NOK 4.3bn.

The Ministry of Finance has placed a portion of the government's assets in a separate account in Norges Bank (the GPFG's krone account). The Bank reinvests these funds, in its own name, in accordance with a management mandate from the Ministry of Finance. The investment portfolio is composed of equities, fixed income investments and real estate investments. The mandate also permits investments in unlisted renewable energy infrastructure. 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 less accrued management fee. 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 546.3bn at year-end 2019 compared with NOK 511.8bn at year-end 2018. See the relevant sections in this *Report* for more details on the management of the GPFG and the foreign exchange reserves.

Through the government's consolidated account system, all government liquidity is collected in government accounts at Norges Bank. At year-end 2019, deposits amounted to NOK 187.7bn. This is thus the largest liability item in the balance sheet, except for the GPFG krone account. This item fluctuates considerably through the year owing to substantial incoming and outgoing payments over the government's accounts. The average amount on deposit was around NOK 190bn in 2019. Banknotes and coins in circulation are a liability item for Norges Bank. This amount is driven by the public's demand for cash. Over the past few years, the lower demand for cash has reduced this liability item. At year-end 2019, banknotes and coins in circulation amounted to NOK 41.6bn, compared with NOK 44.8bn at year-end 2018. 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 2019, these deposits amounted to NOK 58.9bn, compared with NOK 40.4bn at year-end 2018.

Norges Bank administers Norway's financial obligations and rights ensuing from participation in the International Monetary Fund (IMF). Norges Bank therefore 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 2019, net positions with the IMF amounted to a claim of NOK 11.8bn, compared with NOK 9.3bn at year-end 2018.

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/from 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 2019 shows a profit of NOK 43.8bn, compared with a profit of NOK 15.9bn in 2018. Net income from financial instruments was NOK 44.6bn in 2019, compared with NOK 16.8bn in 2018. Equity investments posted a gain of NOK 28.7bn, while fixed income investments posted a gain of NOK 12.3bn. Net income from financial instruments also includes a gain of NOK 7bn as a result of foreign currency effects. Foreign currency effects in 2018 resulted in a gain of NOK 19.2bn.

The GPFG's total comprehensive income amounted to NOK 1 814.5bn, consisting of a gain on the portfolio of NOK 1 818.8bn net of management costs of NOK 4.3bn. Total comprehensive income was recognised against the GPFG's krone account at 31 December 2019. The return on the portfolio, after management costs reimbursed to

Discussions and collaboration

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 4.3bn in 2019, compared with NOK 4.5bn in 2018. 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 139m in 2019, compared with NOK 125m in 2018.

Operating expenses amounted to NOK 5.4bn in 2019, compared with NOK 5.7bn in 2018. The decrease in expenses is primarily the result of a NOK 495m reduction in fees for external managers owing to a lower excess return on the GPFG and a lower share of capital allocated to external managers. Personnel expenses rose by NOK 202m, primarily owing to foreign currency effects, strong returns in 2019 that resulted in higher performance-based pay and ordinary wage growth. In addition, expenses associated with the procurement of banknotes were reduced by NOK 36m. Furthermore, 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 and higher office costs, has increased. NOK 4.3bn of the expenses in 2019 is related to management of the GPFG, including personnel 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. Changes in the threat landscape with rising cyber risk may lead to higher operating expenses in the period ahead.

Equity

Norges Bank's equity at 31 December 2019 was NOK 263.2bn, compared with NOK 239.1bn at 31 December 2018. The Adjustment Fund and the Transfer Fund comprise the Bank's equity. At year-end 2019, the Adjustment Fund stood at NOK 223.8bn and the Transfer Fund at NOK 39.4bn. Norges Bank's equity was 40.9% of the balance sheet total, excluding the GPFG, compared with 39.9% in 2018.

Distribution of total comprehensive income

The distribution of Norges Bank's total comprehensive income follows guidelines laid down by the Council of State on 7 February 1986, most recently amended 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 43.8bn is to be transferred as follows: NOK 14.3m to the Adjustment Fund and NOK 29.5bn to the Transfer Fund. NOK 19.7bn will be transferred from the Transfer Fund to the Treasury.

Corporate social responsibility

Norges Bank performs its mission by promoting economic stability in Norway and ensuring efficiency and reliability in investment management.

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 and rules. Norges Bank does not accept any form of discrimination or corruption. Norges Bank's corporate social responsibility entails responsible investment activities, transparent and clear communication, research and knowledge-sharing, ethical business conduct and the promotion of gender equality, diversity and a sound working environment.

A transparent central bank
Norges Bank is required to be a transparent central bank. The Bank's use of instruments is to be communicated transparently, be understood and be predictable for stakeholders and defined target groups. The Bank communicates in the form of publications, reports, speeches and lectures, seminars and press conferences.

Norges Bank has extensive contact with academia, the public authorities, employer and employee organisations, and businesses. Every year, the Governor and Deputy Governors visit all the regions of Norway.

Norges Bank publishes the Executive Board's assessments and analyses in the Bank's Monetary Policy Report, Financial Stability Report and Financial Infrastructure Report, as well as in the quarterly reports of the Government Pension Fund Global (GPFG). As regards the GPFG, more detailed information is also published on the GPFG's return and risk, real estate investments and responsible investment activities. 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.

The minutes of Executive Board meetings are published after the meetings within the limits set by the Freedom of Information Act.

In 2019, the Governor and Deputy Governors held seven press conferences and gave 37 speeches in Norway and abroad. Norges Bank published 32 reports, 39 papers and 34 posts on the Bank's *Bankplassen* blog.

Responsible investment management of the GPFG
The GPFG is required to be managed responsibly. 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. Norges Bank seeks to improve the long-term financial performance of the GPFG's investments and mitigate the financial risks associated with the environmental and social behaviour of the companies in the portfolio.

The Ministry of Finance has laid down guidelines for the observation and exclusion of companies. The Ministry of Finance has also established the Council on Ethics as an independent body providing advice on the observation and exclusion of companies from the GPFG portfolio. 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 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 GPFG's responsible investment activities. The *Report* contains a more detailed account of the principles and methods used in

ACCOUNTING ACT, CORPORATE SOCIAL RESPONSIBILITY REPORTING 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, gender equality and non-discrimination, 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 report 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, gender equality and non-discrimination, 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 business conduct and facilitating gender equality and a sound working environment.


Deputy Governor Egil Matsen opening Norges Bank's Financial Workshop

the preparation of the information presented. Below are some of the GPFG's main responsible investment activities in 2019.

Setting standards

Norges Bank seeks to promote well-functioning markets and good corporate governance. Standards and common principles provide consistency across markets and raise the bar for all companies. The Bank recognises a set of international principles and standards issued by the UN and the OECD, which provides the framework for the Bank's work with companies and other market participants.

The Bank contributes to the further development of standards. In 2019, the Bank participated in 16 public consultations related to responsible investment management and engaged regularly with international organisations, regulators and other standard setters. The consultations addressed important issues such as common standards for extended risk reporting, appropriate management incentives, and tax and transparency. Meetings were held with the OECD, the UN Global Compact, the European Commission and the International Accounting Standards Board, as well as with standard setters in France, Germany, Japan, Singapore, South Korea, Sweden, Switzerland and the UK. At the meetings, Norges Bank raised the priorities of the GPFG, comprising board composition, satisfactory voting processes, executive remuneration, expanded risk reporting and tax transparency.

Since 2008, the Bank has expressed clear expectations of the companies in the GPFG's investment portfolio. These expectations are based on international standards and principles. The Bank's aim is for the companies to be well-positioned to address global challenges that may lead to considerable changes in the market and affect their profitability over time. During the year, the Bank revised the expectation documents on children's rights, climate change, water management, human rights, and tax and transparency. The structure of the documents was simplified and minor changes were made to reflect developments in principles and practices.

Exercising ownership

Norges Bank is to promote good governance at the companies in which the GPFG invests. This is done through active ownership. The GPFG owned a stake in 9 202 companies across the globe at year-end 2019. The GPFG voted on 116 777 motions at 11 518 general meetings in 2019. The GPFG voted in line with the board's recommendation in 94.8% of the motions, which was in line with the GPFG's voting in 2018. To underpin its ownership work, the GPFG publishes views on selected corporate governance issues. The position papers are a basis for voting and dialogue with company boards.

The Bank held 3 412 meetings with 1 474 companies. The size of the GPFG's investments provides access to board members, senior management and specialists at companies in the portfolio. The GPFG is interested in understanding how the companies are governed and how they manage significant sustainability issues.

The Bank followed up seven expectation documents through dialogue with selected companies, analyses of the companies' sustainability reports and support for industry initiatives. In 2019, the Bank initiated new dialogue on greenhouse gas emissions in concrete and cement production, climate risk in shipping, responsible business practices in the apparel industry, plastic packaging waste, child labour and deforestation in cocoa production, forced labour in the supply chains of hardware producers, the risk of money laundering at financial institutions and agency contracts in the energy sector.

Norges Bank carried out 3 941 assessments in total, in the light of the Bank's published expectations of companies.

Norges Bank carried out 1 500 assessments of companies' reporting on climate change, 500 on children's rights and human rights, respectively, 493 on water management, 250 on anti-corruption, 249 on deforestation and ocean sustainability, respectively, and 200 on tax. The companies assessed accounted for 76.2% of the equity portfolio's market value at year-end 2019.

The Bank contacts companies with poor or limited disclosure and encourages them to improve their reporting, for example, by participating in established disclosure initiatives. In 2019, the Bank sent letters to 134 companies about their reporting across the expectation areas. Among the companies that were contacted about poor disclosure of climate and deforestation risk in 2018, the Bank noted only a small improvement in 2019. As regards the reporting of water management and children's rights, an improvement was noted among 52% and 31%, respectively, of the companies contacted.

The Bank supports initiatives that bring companies together to find common standards for sustainable practices. Such initiatives work best when several companies in one sector or value chain face the same challenge. The Bank's expectations of companies are based on the premise that boards should establish appropriate strategies, control functions and reporting procedures. At the same time, many companies face practical challenges in doing so. The need for standardisation and more universal approaches is considerable. The Bank's initiatives look at challenges such as supply chain management and reporting.

Investing responsibly

Norges Bank is required to invest responsibly. Responsible investment is an integral part of the GPFG's investment strategy. Getting the companies to move from words to numbers is essential for assessing the companies. The Bank can then gain a better understanding of its investment risks and opportunities.

The Bank supports the recommendations of the Task Force on Climate-related Financial Disclosures established by the G20's Financial Stability Board and is working with companies to ensure that they are well-positioned for the transition to a society with lower emissions. The Bank 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 GPFG's portfolio and different climate scenarios are analysed. In 2019, carbon emissions from companies in the GPFG's equity portfolio totalled 108m tonnes of CO_2 equivalents.

The GPFG's environment-related equity mandates returned 35.8% in 2019. The environmental-related mandates are exclusively managed internally. The return on the benchmark equity index in the same period was 25.7%. At year-end 2019, the Bank had invested NOK 62.3bn in environment-related equity mandates and NOK 17.1bn in green bonds. The green bonds returned 3.0%.

Norges Bank invests in three main areas of environmental activity. Companies must have at least 20% of their business in one of these defined environmental categories to be included in the Bank's environmental investment universe. The environmental categories the Bank includes in the environmental investment universe are: i) low-emission energy and alternative fuels, ii) clean energy and energy efficiency and iii) natural resource management.

The Ministry of Finance has established ethically motivated guidelines for the observation and exclusion of companies from the GPFG. The guidelines contain criteria for exclusion based either on the companies' products or on their conduct. The GPFG must not be invested in companies that produce certain types of weapons, base their operations on coal, or produce tobacco. The GPFG must also not be invested in companies whose activities contribute to violations of fundamental ethical norms. In 2019, Norges Bank excluded five companies and revoked the exclusion of seven companies. The Executive Board's decisions were based on recommendations from the Council on Ethics.

The Bank's integration of analyses of corporate governance, the environment and social conditions into risk management may result in divestment from companies seen as

Markets are closely monitored

having particularly high long-term risk. The Bank wishes to reduce its exposure to such companies over time and would rather invest in companies with more sustainable business models.

Responsible real estate investment

Norges Bank integrates green measures into business plans for the GPFG's properties and collaborates with other investors to develop tools for measuring climate risk in real estate markets.

The environmental performance of the Bank's real estate portfolio is measured against the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis. The GPFG's real estate portfolio scored 80 out of a possible 100 points in 2019, an increase from 76 points in 2018. In 2019, 79% of the GPFG's portfolio of office and retail buildings were green-certified, up from 66% the previous year. In addition, 34 logistics properties were green-certified for sustainable design and construction.

The GPFG's real estate investments are exposed to climate risk. The Bank estimates that 4% of the portfolio in value terms is located in areas where flooding has occurred along the coast or in rivers at least once in the past 100 years. In 2019, the Bank commissioned an external analysis of the vulnerabilities of the Bank's most exposed real estate investments in the US under different climate scenarios.

Interdisciplinary meeting in Norges Bank

A common feature of the Bank's investee markets is that local authorities have developed long-term plans for reducing greenhouse gas emissions that will impact the real estate sector. In 2019, the Bank entered into a collaboration with other investors to support Carbon Risk Real Estate Monitor (CRREM), a research project to provide the real estate industry with risk management tools based on scenarios for environmentally friendly property management.

Ethical conduct for Norges Bank's Executive Board and employees
The Executive Board and the Bank's employees are to conduct themselves with ethical awareness and loyalty 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' own-account trading, activities outside the Bank, gifts and loyalty to the Bank in general. 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. The ethical rules for employees are regularly reviewed.

More detailed rules and procedures have been issued to ensure compliance with the ethical rules, including the provisions on own-account trading.

The Ministry of Finance has laid down a regulation on impartiality and conflicts of interest for members of Norges Bank's Executive Board, which was most recently revised on 20 December 2019 and from 1 January 2020 will also apply to members of the Monetary Policy and Financial Stability Committee. In the light of this, Norges Bank will revise its own rules for external members of these two bodies on issues including impartiality and conflicts of interest, and own-account trading limits.

The Executive Board has laid down principles for internal disclosure of wrongdoing (whistleblowing) at Norges Bank. Norges Bank still has internal whistleblowing procedures whereby an employee can report unethical or unlawful conduct. There is a whistleblowing channel in operation, with Internal Audit and the Compliance Function as report recipients. 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.

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 test is conducted using an e-learning tool. By completing an annual 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.

Norges Bank's direct environmental impact

Norges Bank is a member of the Network for Greening the Financial System (NGFS). NGFS is a network for central banks and supervisory authorities that aims to increase our level of knowledge by exchanging experiences and best practice, and produces analyses and methods for handling environmental and climate risks for financial authorities and the financial sector. In 2019, the Bank worked on two reports, one with general recommendations on integrating climate risk into analyses and on increasing transparency in this field, and one communicating central banks' practices of integrating sustainability criteria in financial investments. Looking ahead, work will be conducted on themes of relevance for financial stability and monetary policy. The NBIM Talk seminars are arranged to promote dialogue and knowledge-sharing with academics and other stakeholders on topics of importance to the Bank as financial investor.

Norges 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".

The Bank's environmental 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 environmental impact. As part of this, an action plan was introduced for following up the strategy.

In 2019, Norges Bank's head office received Norwegian Eco-lighthouse certification, which provides access to tools that help the Bank measure and improve environmental performance. The certification pertains to the Bank's work in the areas of working environment, waste management, energy use, procurement and transport, and includes numerical targets and measures for reducing the environmental impact of the head office.

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 energy production and consumption). Office waste is recycled and in 2019 several new recycling stations were deployed. All disposable packaging in connection with the serving of food and drink at the Bank is biodegradable. There is extensive re-use of the Bank's interior structural elements and office furniture.

The Bank actively takes steps to promote cycling to and from the workplace and there is ample indoor bicycle parking capacity.

The number of meeting rooms equipped for video conferencing was almost doubled in 2019. Video conferencing is a viable alternative to official travel where this is appropriate.

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. Security features have been integrated with considerable emphasis on aesthetics.

Responsible procurement and contracting

By adhering to public procurement regulations and using economies of scale, Norges Bank's procures goods and services in a cost-efficient and transparent manner. 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 2019, seven 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 relevant.

Norges Bank Central Banking Operations (NBCBO) has specific ethical rules for contractors with access to the Bank's premises or 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.

Research and knowledge-sharing

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

Executive Director Ida Wolden Bache speaking at a meeting for doctoral students

communities and informs the Bank's policy decisions. In 2019, 10 articles written by Norges Bank's researchers were accepted for publication in peer-reviewed journals. The Research Council of Norway divides peer-reviewed journals into two levels, Level 1 and Level 2, with Level 2 as the highest. Of the articles by Bank economists accepted in 2019, 80% were published in Level 2 journals. Current research activity from all units in Norges Bank is documented in the Norges Bank Working Papers series. Twenty-two papers were published in this series in 2019. An overview of published articles can be found on Norges Bank's website.

Norges Bank's researchers act as a link between the Bank and academia. In 2019, the Bank's researchers had extensive contact with colleagues from universities and other central banks, by participating in joint research projects and presenting work in progress at Norwegian and international conferences and seminars. In addition to presentations at Norges Bank by the Bank's researchers, research work is presented at weekly seminars, and conferences and courses are held at Norges Bank. In 2019, 32 research seminars were organised where external researchers presented their work and participated in meetings with the Bank's employees. To strengthen ties with academia, Norges Bank has established the Teaching Initiative, a regular series of lectures on macroeconomics and finance for universities.

The Bank supports research on the effects of climate change on investment management through the Norwegian Finance Initiative (NFI). Norges Bank supports and initiates research projects to understand and contribute to improving market standards. In 2019, the Bank provided support for two research projects, one at New York University Stern School of Business and the other at Columbia University, both of which examined the financial impacts of climate change.

Norges Bank participates in the network, "Ut av klasserommet" [Out of the classroom]. The purpose of the network is to strengthen and provide a platform for the educational activities offered beyond the classroom and to share experience in this area. In 2019, the network had a joint stand at Scandinavian Educational Technology Transformation (SETT), which is Scandinavia's largest exhibition and conference within innovative and modern learning. Norges Bank also cooperates closely with the academic community and organisations such as Finance Norway, Aksje Norge, Ungt Entreprenørskap and the Norwegian Association of Economists.

The Norges Bank Education Centre uses interactive learning to teach visitors about the Bank's tasks and economic issues. The target group is upper secondary school pupils and teachers and college students. Other visiting groups include Norges Bank employees, companies and institutions. The annual number of visitors to the Education Centre has stabilised at around 170 groups, which is equivalent to about 3 000 individuals. Sixty upper secondary schools and colleges make regular annual visits.

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 its reputation as a preferred employer, as this reputation is crucial to the successful achievement of the Bank's other goals.

For the fourth consecutive year, Norges Bank organised a national championship for economics students, which drew large numbers. A total of 18 teams competed for a place in the finals. This year, semi-finals were held online with participants from universities outside Norway. The winning team was made up of students from Copenhagen Business School and the University of St. Gallen.

In 2019, NBCBO revitalised its employer branding strategy, which included even more targeted initiatives to promote Norges Bank as an attractive workplace.

Part of the Bank's strategy is to work actively to promote professional development. Following an extensive management programme, a set structure for collective management development was established to continue the Bank's development of management expertise. A large proportion of the Bank's staff participated in courses and were offered a course in self-management. Through structured work, a culture of continuous development has been cultivated and the necessary training was provided.
A project was also launched to develop the NBIM Academy, which is NBIM's learning

Sorting banknotes stored in the vault at Norges Bank

platform. Furthermore, the Bank promoted individual professional development through the assignment of new tasks, internal mobility and international internships and secondments.

Gender equality and diversity

Norges Bank respects 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 2019, the gender breakdown of employees at Norges Bank was 68% men and 32% women, virtually unchanged from 2018.

The Executive Board has set a minimum target of 40% female employees as an overall 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[1] on the staff of Norges Bank was 31% for executive-level employees in NBCBO and 22% for executive-level employees in NBIM. For non-executive employees, the share of women was 42% in NBCBO and 30% in NBIM, virtually unchanged compared with 2018.

Prioritised gender equality initiatives were in place for the period 2017–2019. The four main priority areas in the strategy period were

1 Based on the organisational structure before the establishment of Norges Bank Administration.

recruitment and reputation management, career development and an inclusive working environment. Norges Bank focuses particular attention on attracting and retaining female staff. Internal and external female candidates are encouraged to apply for vacant executive positions and assume responsibility for important projects and reports.

NBIM has established a women's network to attract, retain and develop female employees. The work to promote women in finance has continued through activities such as delivering speeches at "Women's Finance Day" at the NHH Norwegian School of Economics and visits by women's investment clubs at the Bank's London office.

The pay level for women as a percentage of the pay level for men at year-end 2019[2] was 94% for executives in NBCBO, (unchanged from 2018), and 82% for executives in NBIM, compared with 88% in 2018. For non-executive employees, the figure was 89% for NBCBO, and 82% for NBIM, unchanged from 2018.

Norges Bank aims to be a flexible 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 health and safety of all those who work in the Bank. In 2019, five workplace accidents or injuries directly related to work conducted at Norges Bank's premises were reported. No workplace accidents or injuries were reported as occupational injuries to the Norwegian Labour Inspection Authority in 2019. 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 universal design, and the Bank provides protective equipment as needed. The Bank has well-equipped fitness facilities for employees. An indoor climate report has also been completed, describing measures to further improve the indoor climate and increase flexibility.

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. According to the reports, job satisfaction is high and working conditions are primarily 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 collaboration at the Bank as positive.

2 Based on the organisational structure before the establishment of Norges Bank Administration.

Collaboration with trade unions
Norges Bank's management has close contact with the trade unions at the Bank. The collaboration 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 2019, unchanged from 2018. 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.

Oslo, 5 February 2020

Øystein Olsen
(Governor/Chair)

Jon Nicolaisen
(First Deputy Chair)

Egil Matsen
(Second Deputy Chair)

Karen Helene Ulltveit-Moe

Kristine Ryssdal

Arne Hyttnes

Hans Aasnæs

Nina Udnes Tronstad

Mona Helen Sørensen
(Employee representative)

Kjersti-Gro Lindquist
(Employee representative)

Strategy 2022 – One Bank

SUCCEEDING TOGETHER

Our most important resource is our staff. With the fund under the aegis of the Bank, we are a global organisation with a third of our employees located outside Norway and with employees representing almost 40 nationalities. The aim is for all of us to work together as a team while also allowing different parts of the organisation to retain distinctive professional characteristics and specialist expertise. How well we succeed will depend on the Bank staff working together as a team.

To accomplish this, we have to develop employee expertise in both existing and new fields. We must be able to challenge one another, think differently and develop our skills in pace with the challenges we face. At the same time, we need to communicate clearly, both within and outside our organisation, to ensure that our values and objectives are well known and complied with throughout the organisation and across nationalities.

Our working process will be characterised by teamwork and support for change. We will:

- achieve results based on professional quality, integrity and mutual respect
- foster an identity and culture based on common values
- enable new working processes to promote innovation and cooperation
- further develop digital platforms for interaction and efficiency
- encourage employees to pursue professional development
- be a preferred employer, have a systematic recruitment strategy and strive for gender equality and diversity.

We will be transparent, and communicate reliably and clearly both within and outside our organisation. We will:

- be open about our work and our performance
- spread knowledge about our activities to a wider audience
- consider new mediums of communication to reach new target groups.

A WELL-RUN BANK

In the preparatory works of the new central bank act, the authorities have underlined that the Executive Board is responsible for the efficient organisation of the Bank. As the general manager of Norges Bank, the governor will carry out this responsibility on behalf of the Executive Board. The act also establishes that the Board is to recruit a CEO for Norges Bank Investment Management (NBIM), who will be responsible to the Board for overall performance.

Organising the Bank's activities in well-run units will be a primary task for the Bank's Board and management in the coming years. We will take advantage of synergies and economies of scale in the organisation. We have established a common unit for the Bank's support functions – Norges Bank Administration (NBA) – to promote efficiency and strengthen a shared culture.

At the same time, it is essential that the different parts of the Bank retain their distinctive professional characteristics and responsibility for their performance. The division of duties between the Bank's operational areas must reflect and focus on the expertise that the Bank's experts need to perform their tasks.

Digitalisation and automation are everyday elements at the centre of Norges Bank's field of expertise. The IT systems are closely connected to the Bank's professional tasks and should be operated in close relation with the operational areas. NBIM has recently completed a considerable modernisation of its IT systems, and Central Banking Operations will undertake a similar project over the next three years. Developing well-run and secure IT solutions is crucial for secure and efficient operations at the Bank in the future.

We will further develop a well-run and secure Bank. We will:

- develop robust governance processes in the Executive Board and for the new Monetary Policy and Financial Stability Committee
- adapt the organisation in light of the new central bank act and new governing bodies
- ensure an efficient division of tasks between the Bank's operational areas
- limit the Bank's costs by utilising synergies and economies of scale
- implement new and cost-efficient IT solutions that protect the Bank's day-to-day operations and secure systemically critical systems
- continue the Bank's work on the environmental strategy
- protect the Bank's employees and assets.

LONG-TERM AND RESPONSIBLE INVESTMENT MANAGEMENT

The management objective of the Government Pension Fund Global (GPFG) is to achieve the highest possible return after costs and at an acceptable level of risk. The fund is to be a responsible investor within this overall financial objective.

The fund is a large global fund with a long-term investment horizon and plays an important role in economic policy. The new central bank act establishes that the fund will continue to be managed by Norges Bank.

The fund invests across several asset classes in a large number of countries and currencies. The fund's equity share is 70 percent. New features of the global economy, such as trade barriers, low interest rates, changing technology paradigms and climate change will affect the fund. We should be prepared for large fluctuations in the fund's value.

The investment strategy is characterised by index-tracking at low cost. We will further develop an organisation that is focused on sound investment decisions and is willing and able to manage risk and changing market conditions.

The strategy for 2020-2022 sets out the strategic direction of the fund and is based on the strategy for 2017-2019. We will:

- issue advice on the fund's investment strategy, based on professional financial market analyses and our experience as a market participant
- utilise a set of diversified complementary investment strategies to create excess return after costs
- further develop our investment strategies based on thorough financial analysis and new sources of information
- invest in real estate and renewable energy infrastructure to improve the trade-off between return and risk
- safeguard the fund's long-term economic interests by exercising our ownership rights
- focus on NBIM as an investment management organisation with a result-oriented investment culture and clear reporting lines
- pursue cost-effective investment management where costs are scrutinised in the context of improving investment risk-return.

AT THE FOREFRONT OF CENTRAL BANKING

Norges Bank Central Banking Operations aim for low and stable inflation and promote both stability in the real economy and a robust and efficient financial system.

The global economy is characterised by change and may be affected by various shocks. The possibility of an international economic downturn owing to geopolitical unrest and trade tensions between the major economies appears to pose the largest risk in the coming years. On the back of already low interest rates, a pronounced global downturn could pose larger challenges to monetary policy than previously. Persistently low interest rates may also increase financial system vulnerability.

More long-term developments are also important for the conduct of monetary and macroprudential policies. The importance of petroleum activities for value creation in Norway will gradually diminish. In addition, we face demographic changes and climate risk that may have a substantial impact on the economy and the financial system. New technology promotes innovation in the payment system, thereby removing barriers to new payment operators. Norges Bank's mission is to promote secure and efficient solutions for society as a whole.

New methods and economic models are being continually developed around the world, and Norges Bank has access to increasingly larger micro data sets from various sources. The Bank will be at the forefront in its use of models and methods that are relevant for our activities.

We will conduct our tasks in line with international best practice. We will:

- have contingency plans for countering an economic downturn and persistently low global interest rates
- give priority to analyses of long-term developments of key economic variables and in the conduct of monetary policy
- utilise new data and methods to develop stronger analytical tools
- communicate decisions and advice clearly to a wider audience
- be a driving force for improved reference rates for the Norwegian krone
- promote an efficient division of responsibilities between monetary, fiscal and macroprudential policies
- promote efficient, secure and robust payment and settlement systems between banks and the general public
- cover society's need for cash in a manner that ensures preparedness and promotes efficiency
- explore the potential for a central bank digital currency and other solutions that can improve efficiency and contingency arrangements in the payment system.

Summary
Strategy 2017–2019

The strategy for 2017-2019 identified the challenges facing Norges Bank at the start of the strategy period. The following is a brief summary of 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. The Bank has also focused on strengthening contingency planning for situations in which there is limited room for manoeuvre in interest rate setting.

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 2019, Norges Bank recommended that the countercyclical capital buffer requirement of 2.5% from the end of 2019 should be upheld. The Bank has developed a new framework for the countercyclical capital buffer, including a framework for stress tests, and has published an analysis of a framework for the systemic risk buffer. The analyses based on microdata underlying the Bank's advice, decisions and assessments in the areas of monetary policy, financial stability and macroprudential policy have been enhanced 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. Norges 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. The Bank has also strengthened its competence on the importance of climate change for financial stability.

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
Norges Bank issued a new and more secure banknote series during the strategy period. The new 100-krone and 200-krone notes were launched in 2017, the 50-krone and 500-krone notes in autumn 2018 and the 1000-krone note in November 2019. A joint project was launched in collaboration with the banking industry by the end of 2019 to facilitate real-time payments. Two reports on central bank digital currencies (CBDC) were released, providing an overview of the relevant factors in an assessment of whether a CBDC should be introduced in Norway and how this should be done. The continuity plan and the training programme to strengthen contingency arrangements for the payment system were further developed, and Norges Bank's 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. Norges Bank has also made the bank's data more accessible to outside parties via the Bank's API for open data. Furthermore, the public journal is now published weekly on the Bank's website.

Norges Bank aims to achieve the greatest possible transparency about the management of the GPFG. The website www.nbim.no provides regular updates on the GPFG's value, detailed information about the GPFG's investments, information about the GPFG's governance work, voting, advice to the Ministry of Finance, consultations, research and analysis, and detailed data.

Norges Bank launched www.generasjonsfondet.no, a digital communication solution, in autumn 2019. The website gives young Norwegians insight into what the GPFG is and why it is important for their future.

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

Challenge
The value of the 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 1998–2019, the annual return on the GPFG averaged 6.1%. In 2017, the overall return on the GPFG outperformed the benchmark index by 0.7 percentage point. In 2018, the overall return was 0.3 percentage point lower than the benchmark index and in 2019, the return outperformed the benchmark index by 0.2%.

Norges Bank advises the Ministry of Finance on the investment strategy. In the period 2017-2019, the Bank submitted a total of 27 letters to the Ministry of Finance with information and recommendations related to the investment strategy.

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 2.7% of the GPFG at the end of 2019.

In the period 2017-2019, the GPFG participated in 51 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. Two position papers were also published related to other issues. Additionally, three *Asset Manager Perspectives* were published, in which Norges Bank Investment Management's (NBIM) views and reflections on issues topical for the financial industry.

OUR MOST IMPORTANT RESOURCE IS OUR STAFF

Challenge
Norges Bank is a knowledge-based institution with high employee knowledge and performance standards. The Bank competes 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 have completed a management programme. In addition, all employees of Norges Bank Central Banking Operations (NBCBO) were offered a course in self-management, while NBIM has further developed its performance culture and international investment organisation.

In 2019, the Bank introduced a new employer branding strategy focusing on how to market the Bank as an employer in order to ensure that both the best executives and experts in the Bank's fields are retained and attracted at all times. The strategy is based on four pillars of communication that all Bank employees are familiar with, regardless of gender, age, seniority and field.

- Unique corporate social responsibility
- Meaningful work
- Knowledge development as the driving force
- Strong collective identity

Norges Bank Central Banking Operations' (NBCBO) salary and promotion system is directly linked to individual performance and Norges Bank's values: team spirit, integrity, innovation and excellence. The management of the fund is a complex mission. NBIM has further developed the international investment culture necessary to manage a fund invested in many parts of the world.

Norges Bank has a gender equality and diversity action plan. Continued efforts to promote gender balance and diversity in the organisation included choosing female economists to promote Norges Bank at educational institutions, and actively encouraging internal and external female candidates 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

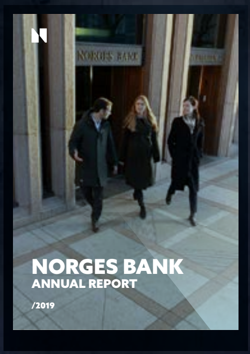
In summer 2019, the Norwegian parliament (the Storting) passed a new central bank act. Norges Bank has adjusted its operations in line with the new act and in summer 2019, the Executive Board decided to establish a new common unit for the Bank's support functions - Norges Bank Administration (NBA) - to enhance efficiency, strengthen a shared culture and underpin the organisation of the Bank as one institution. Several external comparisons were conducted, comparing the Bank's use of resources with that of other, similar organisations, including costs related to the management of the GPFG, the use of resources in NBCBO and management costs for unlisted real estate.

The Bank has developed an environmental strategy for the Bank's operations and has received Norwegian Eco-lighthouse certification for its head office and the offices in London and New York. The Bank participates in international cooperation on climate risk through its membership of the "Central Banks and Supervisors Network for Greening the Financial System" (NGFS).

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

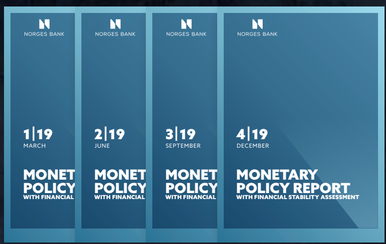
Supplementary reporting by Norges Bank

ANNUAL REPORTING FOR 2019



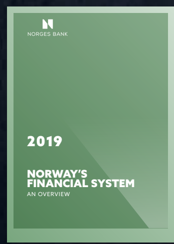
www.norges-bank.no/en/Published/Publications/
www.nbim.no/en/publications/reports

NORGES BANK'S PUBLICATIONS IN 2019

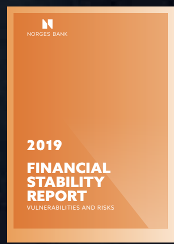


Monetary Policy Report with financial stability assessment

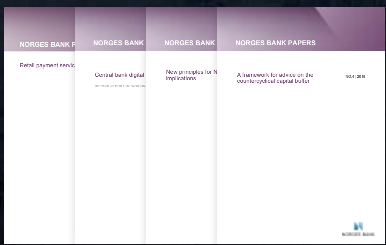
Financial Infrastructure Report



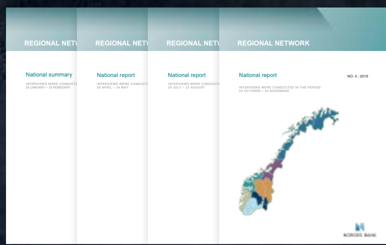
Norway's financial system



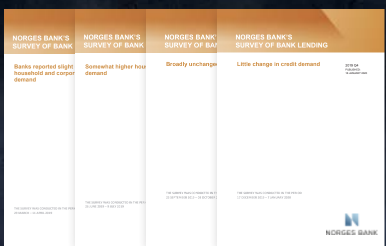
Financial Stability Report



Norges Bank Staff Memo

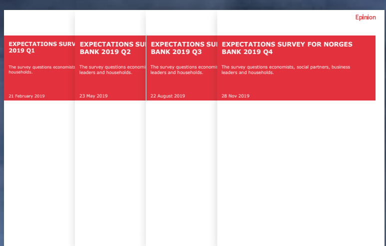


Regional Network reports (summary)



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

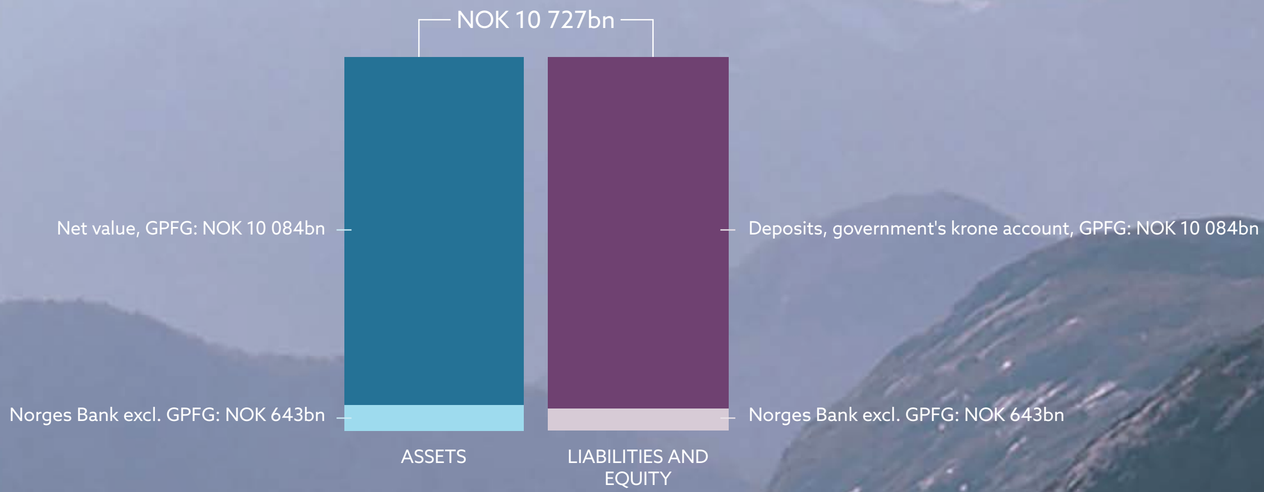
Income statement

	2019	2018
NET INCOME from financial instruments	NOK 38bn	NOK -2bn
FOREIGN EXCHANGE GAINS/LOSSES	NOK 7bn	NOK 19bn
PROFIT/LOSS, GPFG	NOK 1 815bn	NOK -266bn
PROFIT/LOSS, GPFG TRANSFERRED -TO/FROM KRONE ACCOUNT	NOK -1 815bn	NOK 266bn
OTHER INCOME	NOK 4.5bn	NOK 4.7bn
– of which management fee, GPFG	NOK 4.3bn	NOK 4.5bn
OPERATING EXPENSES	NOK -5.4bn	NOK -5.7bn
– of which management costs, GPFG	NOK -4.3bn	NOK -4.5bn
TOTAL COMPREHENSIVE INCOME	NOK 44bn	NOK 16bn
TRANSFER TO THE TREASURY	NOK 20bn	NOK 15bn

Main points

Balance sheet

NORGES BANK



NORGES BANK EXCL. GOVERNMENT PENSION FUND GLOBAL

Costs for Norges Bank's primary tasks

Norges Bank allocates costs to its primary tasks. The purpose of this allocation is to identify the costs associated with these tasks and help to make operations cost-effective.

Costs are allocated to these primary tasks:

1. Management of the Government Pension Fund Global (GPFG)
2. Monetary policy
3. Financial stability
4. Management of the foreign exchange reserves
5. Banknotes and coins
6. Settlement services for banks
7. Government debt management
8. The central government's consolidated account

The costs for the Bank's primary tasks include direct and indirect costs. The allocation of common costs is based on an assessment of cost drivers. The size of the allocation key represents the best estimate of actual resource use.

The Bank's total operating expenses in 2019 were NOK 5 419m. Management of the GPFG was by far the most resource-intensive task, and accounted for NOK 4 312m or 80% of the Bank's total costs. Costs for Norges Bank's other primary tasks amounted to NOK 1 107m.

Costs by primary task

- GPFG
- Central banking operations

Costs by primary task excl. GPFG

- Monetary policy
- Financial stability
- Foreign exchange reserves
- Banknotes and coins
- Bank settlement
- Government debt management
- Government's consolidated account

Annual financial statements 2019

ANNUAL FINANCIAL STATEMENTS 2019

NOTES

REPORTS, RESOLUTION AND STATEMENT

Income statement

Amounts in NOK millions	Note	2019	2018
NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS			
Net income/expense from:			
- Equities	3	28 660	-4 310
- Bonds	3	12 265	3 437
- Financial derivatives		-728	62
- Secured lending	9	342	257
Interest income and expense from deposits and short-term borrowing		21	33
Interest income from lending to banks	18	69	81
Interest expense on deposits from banks and the Treasury	18	-3 042	-1 918
Net interest income from the IMF	17	102	68
Tax expenses	3	-50	-64
Other financial income/expenses		-10	-25
Net income/expense from financial instruments before foreign exchange gains/losses		**37 629**	**-2 379**
Foreign exchange gains/losses	8	7 007	19 182
Net income/expense from financial instruments		**44 636**	**16 803**
MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)			
Total comprehensive income, GPFG	20	1 814 470	-266 126
Withdrawn from/transferred to the krone account of the GPFG	20	-1 814 470	266 126
OTHER OPERATING INCOME			
Management fee, GPFG	13	4 312	4 544
Other operating income	15	139	125
Total other operating income		**4 451**	**4 669**
OPERATING EXPENSES			
Personnel expenses	12	-2 001	-1 799
Other operating expenses	15	-3 129	-3 612
Depreciation, amortisation and impairment losses	14	-289	-285
Total operating expenses		**-5 419**	**-5 696**
Profit/loss for the period		**43 669**	**15 776**
STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the period		43 669	15 776
Change in actuarial gains/losses	11	114	110
Total comprehensive income		**43 783**	**15 886**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
Financial assets			
Deposits in banks		17 231	23 894
Secured lending	9,10	7 665	5 984
Unsettled trades		642	796
Equities	4	121 295	91 127
Equities lent	4,9,10	6 303	7 292
Bonds	4	406 898	394 995
Financial derivatives		9	-
Claims on the IMF	17	69 075	68 015
Lending to banks	18	6 560	-
Other financial assets	13	4 804	5 030
Total financial assets		**640 482**	**597 133**
Net value, GPFG			
Net value, GPFG	**20**	**10 083 771**	**8 251 401**
Non-financial assets			
Pensions	11	331	141
Non-financial assets	14	2 294	2 420
Total non-financial assets		**2 625**	**2 561**
Total assets		**10 726 878**	**8 851 095**

Amounts in NOK millions	Note	31 Dec. 2019	31 Dec. 2018
LIABILITIES AND EQUITY			
Financial liabilities			
Short-term borrowing		-	685
Secured borrowing	9,10	100	201
Unsettled trades	9,10	11 716	10 034
Financial derivatives		2	20
Other financial liabilities		2 248	2 645
Liabilities to the IMF	17	57 235	58 713
Deposits from banks	18	58 888	40 434
Deposits from the Treasury	18	187 727	187 653
Notes and coins in circulation	16	41 613	44 803
Total financial liabilities		**359 529**	**345 188**
Deposits in krone account, GPFG			
Deposits in krone account, GPFG	**20**	**10 083 771**	**8 251 401**
Other liabilities	**19**	**20 414**	**15 419**
Total liabilities		**10 463 714**	**8 612 008**
Equity		**263 164**	**239 087**
TOTAL LIABILITIES AND EQUITY		**10 726 878**	**8 851 095**

Oslo, 5 February 2020

Øystein Olsen
(General Manager / Chair)

Jon Nicolaisen
(First Deputy Chair)

Egil Matsen
(Second Deputy Chair)

Karen Helene Ulltveit-Moe

Kristine Ryssdal

Arne Hyttnes

Hans Aasnæs

Nina Udnes Tronstad

Mona Helen Sørensen
(Employee representative)

Kjersti-Gro Lindquist
(Employee representative)

Statement of cash flows

Amounts in NOK millions, inflows (+)/outflows (-)	2019	2018
Operating activities		
Receipts of dividend from equities	2 854	4 295
Receipts of interest from bonds	5 995	4 698
Net receipts of interest and fee from secured lending and borrowing	381	299
Receipts of dividend, interest and fee from holdings of equities and bonds	*9 230*	*9 292*
Net cash flow from purchase and sale of equities	-2 093	80 727
Net cash flow from purchase and sale of bonds	-2 642	-77 673
Net cash flow financial derivatives	-760	250
Net cash flow related to deposits in banks	23	94
Net cash flow secured lending and borrowing	2 849	19 464
Net cash flow related to other expenses, other assets and other liabilities	-13 422	-11 245
Net cash flow related to other financial assets and other financial liabilities	11 401	-22 325
Net cash flow to/from the Treasury	17 725	57 787
Inflow from the Norwegian government to the GPFG	-32 051	-42 320
Withdrawals by the Norwegian government from the GPFG	14 400	9 799
Management fee received from the GPFG	4 544	4 728
Net cash flow from operating activities	**9 204**	**28 579**
Investing activities		
Net cash flow related to non-financial assets and liabilities	-149	-144
Net cash flow from investing activities	**-149**	**-144**
Financing activities		
Cash flow to the Treasury from the Transfer Fund	-14 798	-14 333
Net cash flow from financing activities	**-14 798**	**-14 333**
Net change in cash		
Deposits in banks at 1 January	23 209	8 533
Net increase/decrease of cash in the period	-5 743	14 102
Net foreign exchange gains and losses on cash	-235	574
Deposits in banks at 31 December	**17 231**	**23 209**

Accounting policy

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

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 2018	209 334	28 665	237 999
Total comprehensive income	156	15 730	15 886
Transfer to the Treasury	-	-14 798	-14 798
31 December 2018	**209 490**	**29 597**	**239 087**
1 January 2019	209 490	29 597	239 087
Total comprehensive income	14 261	29 522	43 783
Transfer to the Treasury	-	-19 706	-19 706
31 December 2019	**223 751**	**39 413**	**263 164**

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 on 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 2019.
2 The immunisation portfolio is not in use at 31 December 2019.
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. The Bank is a separate legal entity and is owned by the government. The Bank's main office is Bankplassen 2, Oslo, Norway.

Norges Bank shall promote economic stability and manage substantial assets on behalf of the nation. The aim of central banking operations is to promote stability in the economy. The Bank conducts monetary policy, monitors financial stability, promotes robust and efficient payment systems and financial markets and manages Norway's foreign exchange reserves.

Norges Bank manages the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance in accordance with Section 3, 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 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 listed equities, bonds, real estate and infrastructure for renewable energy. The GPFG is invested in its entirety outside of Norway.

Transfers are made to and from the krone account in accordance with the management mandate for the GPFG. When the Norwegian State's petroleum revenue exceeds the use of petroleum revenue in the fiscal budget, deposits will be made into the krone account. In the opposite situation, withdrawals will be made. Transfers to and from the krone account lead to a corresponding change in *Owner's capital*.

For further information about the management mandate for the GPFG, Norges Bank's governance structure and risk management (see Note 20.8 *Investment risk*).

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, less the accrued management fee. This is presented on a separate line as an asset in Norges Bank's balance sheet, and the krone account is presented as a liability in the same amount to the Ministry of Finance.

2. Approval of the financial statements
The annual financial statements of Norges Bank for 2019 were approved by the Executive Board on 5 February 2020 and approved by the Supervisory Council on 26 February 2020. The annual financial reporting for the GPFG is an excerpt of Norges Bank's financial reporting and is included in Norges Bank's annual financial statements as Note 20.

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 relating to future events that affect the reported amounts for assets, liabilities, income and expenses. Estimates are based on historical experience and reflect management's expectations about future events. Actual outcome may deviate from the estimates. The preparation of the financial statements also involves the use of judgement when applying accounting policies, which may have a significant impact 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)).*

The financial statements are presented in a manner that is most relevant to an understanding of the Bank's financial performance, in line with IAS 1.

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, including new and amended standards or interpretations

IFRS 16 *Leases* was implemented by Norges Bank on 1 January 2019. IFRS 16 regulates the recognition of lease agreements and related note disclosures and replaced IAS 17 *Leases*. Implementation of IFRS 16 had no effect on the Bank's financial reporting. Nor did other amendments to IFRS that became effective in 2019 have any effect on the Bank's financial reporting.

3. New and amended standards and interpretations effective in 2020 or later

Issued IFRS standards, changes in existing standards and interpretations with effective dates from 2020 or later are expected to be immaterial or not applicable for the financial reporting for the Bank at the time of implementation.

4. Accounting policies for the financial statements as a whole

4.1 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 is extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

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

<u>Classification and measurement</u>

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 issued by the management of Norges Bank Investment Management. These mandates and strategies, including the risk management strategies, entail that financial assets are 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 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 which 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.

4.2 Subsidiaries

Investments in unlisted real estate are made through subsidiaries of Norges Bank, which are exclusively established as part of the management of the investment portfolio. These subsidiaries are recognised in the financial reporting for the GPFG, pursuant to Section 3-4 of the Regulation. The subsidiaries are controlled by 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.

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 4.1 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.

Accounting judgement

The GPFG is an investment entity based on the following:

a) The GPFG receives funds from the Norwegian government, a related party and its sole owner, and delivers professional investment services in the form of management of the fund, to the Norwegian government,
b) The GPFG commits to the Norwegian government that it will invest solely for capital appreciation and investment income,
c) The GPFG measures and evaluates returns for all 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. Following an overall assessment, it has been concluded that the GPFG meets the criteria in the definition of an investment entity.

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 dividends are 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 primarily represents amounts realised when assets or liabilities have been derecognised. Average acquisition cost is assigned at 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 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	2019	2018
Dividends	2 837	4 257
Realised gain/loss	1 029	30 691
Unrealised gain/loss	24 794	-39 258
Income/expense from equities before foreign exchange gains/losses	**28 660**	**-4 310**

Table 3.2 Income/expense from bonds

Amounts in NOK millions	2019	2018
Interest	6 035	4 872
Realised gain/loss	-413	-1 411
Unrealised gain/loss	6 643	-24
Income/expense from bonds before foreign exchange gains/losses	**12 265**	**3 437**

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 2019 was NOK 50.4m, compared with NOK 63.5m in 2018.

Tax paid in Japan and Germany amounts to NOK 21m and NOK 13m, 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. Earned 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 certificates (GDR/ADR) and units in listed funds. Lent equities are presented separately.

Financial derivatives are measured at fair value through profit or loss. Variation margin for exchange traded futures is regarded as settled, and values 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 for the period are recognised in the income statement and specified in Note 3 *Income/expense from equities and bonds*.

Table 4.1 Equities

	31 Dec. 2019		31 Dec. 2018	
Amounts in NOK millions	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities	127 598	114	98 419	131
Total equities	**127 598**	**114**	**98 419**	**131**
Of which equities lent	*6 303*	-	*7 292*	-

Table 4.2 Bonds

	31 Dec. 2019			31 Dec. 2018		
Amounts in NOK millions	Nominal value [1]	Fair value including accrued interest	Accrued interest	Nominal value [1]	Fair value including accrued interest	Accrued interest
Bonds	393 793	406 898	1 773	390 401	394 995	1 733
Total bonds	**393 793**	**406 898**	**1 773**	**390 401**	**394 995**	**1 733**

[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)
The Bank for International Settlements (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. 2019	31 Dec. 2018
Shares in the BIS	200	200
Share capital in the BIS not paid, not recognised	391	387
Dividend received from the BIS	25	23

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 are divided into a fixed income portfolio, an equity portfolio and a petroleum buffer 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 *Investment 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.

See Note 8 *Foreign exchange gains/loss* for a specification of the foreign exchange reserves' currency breakdown.

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						2019
	Portfolios					
Income statement	Equities	Fixed Income	Petro-leum buffer	Total foreign exchange reserves	Other	Total
Net income/expenses from:						
– Equities	28 635	-	-	28 635	25	28 660
– Bonds	-	12 265	-	12 265	-	12 265
– Financial derivatives	-71	-657	-	-728	-	-728
– Secured lending	36	126	180	342	-	342
Interest income and expense from deposits and short-term borrowing	-1	14	6	19	2	21
Interest income from lending to banks	-	-	-	-	69	69
Interest expense on deposits from banks and the Treasury	-	-	-	-	-3 042	-3 042
Net interest income from the IMF	-	-	-	-	102	102
Tax expense	-50	-	-	-50	-	-50
Other financial income/expenses	-5	3	-3	-5	-5	-10
Net income/expense from financial instruments before foreign exchange gains/losses	**28 544**	**11 751**	**183**	**40 478**	**-2 849**	**37 629**
Foreign exchange gains/losses	1 278	5 290	286	6 854	153	7 007
Net income/expense from financial instruments	**29 822**	**17 041**	**469**	**47 332**	**-2 696**	**44 636**

Amounts in NOK millions						2018
	Portfolios					
Income statement	Equities	Fixed Income	Petro-leum buffer	Total foreign exchange reserves	Other	Total
Net income/expenses from:						
– Equities	-4 333	-	-	-4 333	23	-4 310
– Bonds	6	3 431	-	3 437	-	3 437
– Financial derivatives	107	-45	-	62	-	62
– Secured lending	59	-7	205	257	-	257
Interest income and expense from deposits and short-term borrowing	-2	35	-	33	-	33
Interest income from lending to banks	-	-	-	-	81	81
Interest expense on deposits from banks and the Treasury	-	-	-	-	-1 918	-1 918
Net interest income from the IMF	-	-	-	-	68	68
Tax expense	-64	-	-	-64	-	-64
Other financial income/expenses	-17	-	-	-17	-8	-25
Net income/expense from financial instruments before foreign exchange gains/losses	**-4 244**	**3 414**	**205**	**-625**	**-1 754**	**-2 379**
Foreign exchange gains/losses	3 773	14 567	585	18 925	257	19 182
Net income/expense from financial instruments	**-471**	**17 981**	**790**	**18 300**	**-1 497**	**16 803**

Table 5.2 Foreign exchange reserves by portfolio

Amounts in NOK millions						31 Dec. 2019
	Portfolios					
Balance sheet	Equities	Fixed Income	Petro-leum buffer	Total foreign exchange reserves	Other	Total
FINANCIAL ASSETS						
Deposits in banks	15	10 204	6 571	16 790	441	17 231
Secured lending	100	1 726	5 839	7 665	-	7 665
Unsettled trades	-	642	-	642	-	642
Equities	121 094	-	-	121 094	201	121 295
Equities lent	6 303	-	-	6 303	-	6 303
Bonds	-	406 898	-	406 898	-	406 898
Financial derivatives	7	1	1	9	-	9
Claims on the IMF	-	-	-	-	69 075	69 075
Lending to banks	-	-	-	-	6 560	6 560
Other financial assets	64	9 771	-9 771	64	4 740	4 804
Total financial assets	**127 583**	**429 242**	**2 640**	**559 465**	**81 017**	**640 482**
FINANCIAL LIABILITIES						
Short-term borrowing	-	-	-	-	-	-
Secured borrowing	100	-	-	100	-	100
Unsettled trades	-	5 877	5 839	11 716	-	11 716
Financial derivatives	1	1	-	2	-	2
Other financial liabilities	194	-	1 129	1 323	925	2 248
Liabilities to the IMF	-	-	-	-	57 235	57 235
Deposits from banks	-	-	-	-	58 888	58 888
Deposits from the Treasury	-	-	-	-	187 727	187 727
Notes and coins in circulation	-	-	-	-	41 613	41 613
Total financial liabilities	**295**	**5 878**	**6 968**	**13 141**	**346 388**	**359 529**
Net foreign exchange reserves	**127 288**	**423 364**	**-4 328**	**546 324**		

Amounts in NOK millions						31 Dec. 2018
	Portfolios					
Balance sheet	Equities	Fixed Income	Petro-leum buffer	Total foreign exchange reserves	Other	Total
FINANCIAL ASSETS						
Deposits in banks	49	19 224	4 447	23 720	174	23 894
Secured lending	201	3 786	1 997	5 984	-	5 984
Unsettled trades	3	793	-	796	-	796
Equities	90 927	-	-	90 927	200	91 127
Equities lent	7 292	-	-	7 292	-	7 292
Bonds	-	394 995	-	394 995	-	394 995
Financial derivatives	-	-	-	-	-	-
Claims on the IMF	-	-	-	-	68 015	68 015
Lending to banks	-	-	-	-	-	-
Other financial assets	33	-	-	33	4 997	5 030
Total financial assets	**98 505**	**418 798**	**6 444**	**523 747**	**73 386**	**597 133**
FINANCIAL LIABILITIES						
Short-term borrowing	685	-	-	685	-	685
Secured borrowing	201	-	-	201	-	201
Unsettled trades	-	9 994	40	10 034	-	10 034
Financial derivatives	-	3	17	20	-	20
Other financial liabilities	154	-	881	1 035	1 610	2 645
Liabilities to the IMF	-	-	-	-	58 713	58 713
Deposits from banks	-	-	-	-	40 434	40 434
Deposits from the Treasury	-	-	-	-	187 653	187 653
Notes and coins in circulation	-	-	-	-	44 803	44 803
Total financial liabilities	**1 040**	**9 997**	**938**	**11 975**	**333 213**	**345 188**
Net foreign exchange reserves	**97 465**	**408 801**	**5 506**	**511 772**		

Note 6 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 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 is not active, fair value is established by using standard valuation techniques. Estmating 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 classified 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 and are considered to have very limited valuation uncertainty. 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 considerable 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 measured 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. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Equities	126 981	97 862	416	357	-	-	127 397	98 219
Bonds	404 932	392 507	1 966	2 488	-	-	406 898	394 995
Financial derivatives (assets)	9	-	-	-	-	-	9	-
Financial derivatives (liabilities)	-2	-20	-	-	-	-	-2	-20
Other[1]	-	-	12 022	18 578	-	-	12 022	18 578
Total	**531 920**	**490 349**	**14 404**	**21 423**	**-**	**-**	**546 324**	**511 772**
Total (percent)	**97.4%**	**95.8%**	**2.6%**	**4.2%**	**-**	**-**	**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 2019, the valuation uncertainty for the foreign exchange reserves was generally unchanged compared with year-end 2018. The majority of foreign exchange reserves is associated with low valuation risk and is classified as Level 1. 99.7% of equity holdings and 99.5% of bond holdings are classified as Level 1, and valuation is thus based on quoted market prices.

Accounting policy

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

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 2018.

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 classified as Level 2 are valued based on observable market inputs from comparable issues, in addition to direct indicative or binding quotes. These holdings usually consist of less liquid bonds than those classified as Level 1, ie where there is not an activity volume for binding trades and a low activity volume for indicative price quotes at the measurement date.

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. Therefore, Norges Bank Markets and ICT does not have its own valuation committee, but 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 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 of Norway 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.

7. Classification of financial instruments

Financial assets are classified in three measurement categories: fair value through profit or loss (obligatorily or on the basis of the business model), fair value through other comprehensive income (OCI) and amortised cost. The measurement category is determined at initial recognition of the asset.

Financial obligations shall generally be measure at amortised cost, except for financial derivatives measured at fair value through profit or loss.

Table 6.2 Classification of financial instruments

Amounts in NOK millions				31 Dec. 2019
	Fair value through profit or loss			
Balance sheet	Based on business model	Obligatorily	Amortised cost	Total
Deposits in banks	16 790	-	442	17 231
Secured lending	7 665	-	-	7 665
Unsettled trades	642	-	-	642
Equities	121 295	-	-	121 295
Equities lent	6 303	-	-	6 303
Bonds	406 898	-	-	406 898
Financial derivatives	-	9	-	9
Claims on the IMF	-	-	69 075	69 075
Lending to banks	-	-	6 560	6 560
Other financial assets	64	-	4 740	4 804
Total financial assets	**559 657**	**9**	**80 816**	**640 482**
Short-term borrowing	-	-	-	-
Secured borrowing	100	-	-	100
Unsettled trades	11 716	-	-	11 716
Financial derivatives	-	2	-	2
Other financial liabilities	1 323	-	925	2 248
Liabilities to the IMF	-	-	57 235	57 235
Deposits from banks	-	-	58 888	58 888
Deposits from the Treasury	-	-	187 727	187 727
Notes and coins in circulation	-	-	41 613	41 613
Total financial liabilities	**13 139**	**2**	**346 388**	**359 529**

Amounts in NOK millions				31 Dec. 2018
	Fair value through profit or loss			
Balance sheet	Based on business model	Obligatorily	Amortised cost	Total
Deposits in banks	23 720	-	174	23 894
Secured lending	5 984	-	-	5 984
Unsettled trades	796	-	-	796
Equities	91 127	-	-	91 127
Equities lent	7 292	-	-	7 292
Bonds	394 995	-	-	394 995
Claims on the IMF	-	-	68 015	68 015
Other financial assets	33	-	4 996	5 030
Total financial assets	**523 948**	**-**	**73 185**	**597 133**
Short-term borrowing	685	-	-	685
Secured borrowing	201	-	-	201
Unsettled trades	10 034	-	-	10 034
Financial derivatives	-	20	-	20
Other financial liabilities	1 034	-	1 611	2 645
Liabilities to the IMF	-	-	58 713	58 713
Deposits from banks	-	-	40 434	40 434
Deposits from the Treasury	-	-	187 653	187 653
Notes and coins in circulation	-	-	44 803	44 803
Total financial liabilities	**11 954**	**20**	**333 214**	**345 188**

Note 7 Investment risk

The foreign exchange reserves are held for the purpose of crisis management and shall be used as part of the conduct of monetary policy with a view to promoting financial stability and to meeting Norges Bank's international commitments. The aim of the management of the foreign exchange reserves is to attain the highest possible return within established limits. The foreign exchange reserves are divided into a fixed income portfolio, an equity portfolio and a petroleum buffer portfolio.

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.

The division of roles and responsibilities in the risk management system is organised along three lines of defence. The *first line of defence* comprises the operational risk management and control activities that are performed by the operating units. The *second line of defence* comprises the central risk management and compliance functions, which are tasked with advising and supporting the operating units. Their task is to challenge the assessments of the first line of defence and ensure that the first line of defence performs adequate controls. The *third line of defence* is the internal audit function. Internal audit is placed under the Executive Board, independently of the administration, and shall assess whether risk management and compliance function as required.

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. The strategic equity allocation of the total equity and fixed income portfolio is 20%.

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 the countries in the benchmark index.

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 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.

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

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 premiums.

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

		31 Dec. 2019		31 Dec. 2018	
Amounts in NOK millions		Market value in percent	Market value	Market value in percent	Market value
EQUITY PORTFOLIO					
Equities	Americas	66.4%	84 462	64.8%	63 137
	Europe	22.0%	28 001	22.9%	22 278
	Asia and Oceania	11.6%	14 825	12.3%	12 050
Total equity portfolio		**100.0%**	**127 288**	**100.0%**	**97 465**
FIXED INCOME PORTFOLIO					
Bonds	US	48.0%	203 230	48.4%	198 094
	France	18.9%	80 190	18.5%	75 598
	Germany	13.8%	58 605	14.3%	58 540
	UK	7.9%	33 370	7.7%	31 365
	Japan	7.5%	31 503	7.7%	31 398
Total bonds		**96.1%**	**406 898**	**96.6%**	**394 995**
Deposits	Americas	0.9%	3 550	2.5%	10 397
	Europe	2.3%	9 802	0.4%	1 547
	Asia and Oceania	0.7%	3 113	0.5%	1 862
Total deposits		**3.9%**	**16 465**	**3.4%**	**13 806**
Total fixed income portfolio		**100.0%**	**423 363**	**100.0%**	**408 801**
PETROLEUM BUFFER PORTFOLIO					
Deposits	Americas	-35.6%	1 541	0.0%	0
	Europe	135.6%	-5 868	100.0%	5 506
Total petroleum buffer portfolio		**100.0%**	**-4 327**	**100.0%**	**5 506**
Total foreign exchange reserves		**100.0%**	**546 324**	**100.0%**	**511 772**

Table 7.2 Equity portfolio by industry

	31 Dec. 2019		31 Dec. 2018	
Amounts in NOK millions	Market value	Share	Market value	Share
Finance	26 148	20.5%	20 466	21.0%
Technology	22 370	17.6%	15 074	15.5%
Health care	16 436	12.9%	13 213	13.6%
Industrials	16 086	12.6%	11 720	12.0%
Consumer services	14 534	11.4%	11 447	11.7%
Consumer goods	13 622	10.7%	10 819	11.1%
Oil and gas	6 616	5.2%	6 085	6.2%
Basic materials	4 783	3.8%	3 808	3.9%
Telecommunications	3 355	2.6%	2 826	2.9%
Utilities	3 341	2.6%	2 629	2.7%
Cash	-2	0.0%	-622	-0.6%
Total equity portfolio	**127 288**	**100.0%**	**97 465**	**100.0%**

Table 7.3 Foreign exchange reserves 10 largest holdings of equities

			31 Dec. 2019
Amounts in NOK millions	Sector	Market value	Share
Apple Inc	Technology	3 941	3.1%
Microsoft Corp	Technology	3 580	2.8%
Alphabet Inc	Technology	2 418	1.9%
Amazon.com Inc	Consumer services	2 291	1.8%
Facebook Inc	Technology	1 469	1.2%
Berkshire Hathaway Inc	Financials	1 321	1.0%
JPMorgan Chase & Co	Financials	1 314	1.0%
Johnson & Johnson	Health care	1 165	0.9%
Visa Inc	Financials	983	0.8%
Nestlé SA	Consumer goods	947	0.7%
Total		**19 429**	**15.2%**

			31 Dec. 2018
Amounts in NOK millions	Sector	Market value	Share
Microsoft Corp	Technology	2 210	2.3%
Apple Inc	Technology	2 207	2.3%
Alphabet Inc	Technology	1 812	1.9%
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	0.8%
Total		**13 558**	**13.9%**

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 *Foreign exchange gains/loss* 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 3.72 for the fixed income portfolio. In isolation, this means that a 1% fall in yields corresponds to a 3.72% rise in bond prices. By comparison, modified duration at year-end 2018 was 3.59.

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.

In two out of three years, portfolio return is expected to deviate from the estimate. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. Relative volatility (tracking error) 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, weekly 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 forecast 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

	Expected volatility							
	31 Dec. 2019	Min 2019	Max 2019	Avg. 2019	31 Dec. 2018	Min 2018	Max 2018	Avg. 2018
Equity portfolio	10.6%	10.6%	12.2%	10.9%	12.2%	11.9%	14.2%	12.9%
Fixed income portfolio	6.7%	6.4%	8.4%	7.1%	6.4%	6.0%	8.0%	6.8%

	Expected relative volatility, basis points							
	31 Dec. 2019	Min 2019	Max 2019	Avg. 2019	31 Dec. 2018	Min 2018	Max 2018	Avg. 2018
Equity portfolio	9	6	10	8	12	8	18	10
Fixed income portfolio	2	1	7	4	7	6	15	11

At year-end 2019, expected absolute volatility was measured at 10.6% for the equity portfolio and 6.7% for the fixed income portfolio. This means that yearly value fluctuations on the order of NOK 13bn and NOK 28bn, respectively, can be expected. At year-end 2018, the corresponding expected value fluctuations were NOK 12bn and NOK 26bn, 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 9 and 2 basis points, respectively, compared with 12 and 7 basis points, respectively, at year-end 2018.

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

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

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 sovereign issuer and credit rating

Amounts in NOK millions	Credit rating	31 Dec. 2019 Market value	31 Dec. 2019 Share	31 Dec. 2018 Market value	31 Dec. 2018 Share
US	AAA	203 230	50.0%	198 094	50.2%
Germany	AAA	58 605	14.4%	58 540	14.8%
France	AA	80 190	19.7%	75 598	19.1%
UK	AA	33 370	8.2%	31 365	7.9%
Japan	A	31 503	7.7%	31 398	8.0%
Total bonds		**406 898**	**100.0%**	**394 995**	**100%**

Counterparty risk

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.

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 agreement, 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 2019, 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. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
AAA	1	1	-	-
AA	29	30	13	13
A	45	44	36	36
BBB	10	9	20	16
BB	2	2	9	8
B	-	-	6	6
Total	**87**	**86**	**84**	**79**

[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. Counterparties that are central banks are not included in the table.

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% at year-end 2019, compared with 0.1% at year-end 2018.

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.

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. The majority of assets in foreign currency are highly liquid financial instruments. They may be realised at short notice without a substantial change in value and are regarded as sufficient for meeting foreign currency obligations. Other liabilities are primarily in NOK.

Other risk
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 their 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. Level 1 requires an estimation of a 12-month expected credit loss. The expected loss in Level 1 reflects the entire loss on an asset weighted by the probability that the loss will occur in the next 12 months. Entities shall assess whether the credit risk of a financial asset has increased significantly on each reporting date. If this is the case, the exposure must be moved to Level 2 or 3. Levels 2 and 3 require estimation of an expected credit loss over the entire life of the exposure.

Table 7.7 Expected credit loss

Amounts in NOK millions	31 Dec. 2019 Carrying amount	31 Dec. 2019 Expected credit loss	31 Dec. 2018 Carrying amount	31 Dec. 2018 Expected credit loss
Loans to and net claims on the IMF	11 840	-	9 302	-
Lending to banks	6 560	-	-	-
Other[1]	4 570	-	4 828	-
Total	**22 970**	**-**	**14 130**	**-**

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

Note 8 Foreign exchange gains/loss

Accounting judgement

The management of Norges Bank has concluded that the Bank's functional currency is the Norwegian krone (NOK), since this is the dominant currency in the Bank's underlying activities. Owner's equity, in the form of 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.

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 NOK 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 gains/-losses*.

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

						31 Dec. 2019
Amounts in NOK millions	USD	EUR	GBP	JPY	Other	Total
FINANCIAL ASSETS						
Deposits in banks	5 187	7 592	884	3 127	-	16 790
Secured lending	100	7 565	-	-	-	7 665
Unsettled trades	-	642	-	-	-	642
Equities	78 196	13 640	7 138	9 489	12 631	121 094
Equities lent	2 516	673	271	2 302	541	6 303
Bonds	203 230	138 795	33 370	31 503	-	406 898
Financial derivatives	8	1	-	-	-	9
Other financial assets	2	23	1	-	38	64
Total financial assets	**289 239**	**168 931**	**41 664**	**46 421**	**13 210**	**559 465**
FINANCIAL LIABILITIES						
Short-term borrowing	-	-	-	-	-	-
Secured borrowing	100	-	-	-	-	100
Unsettled trades	3 086	7 935	-	695	-	11 716
Financial derivatives	1	-	-	-	1	2
Other financial liabilities	1 129	93	20	11	70	1 323
Total financial liabilities	**4 316**	**8 028**	**20**	**706**	**71**	**13 141**
Net foreign exchange reserves	**284 923**	**160 903**	**41 644**	**45 715**	**13 139**	**546 324**

						31 Dec. 2018
Amounts in NOK millions	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	57 805	10 225	6 475	7 053	9 369	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	**270 566**	**159 721**	**39 886**	**43 556**	**10 018**	**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	**265 144**	**153 740**	**39 814**	**43 059**	**10 015**	**511 772**

Total comperehenseive income is affected by exchange rate movements. A 1% depreciation of NOK against all currency crosses will result in a positive impact on the income statement of around NOK 5.5bn, and a corresponding negative impact on the income statement from a 1% appreciation of NOK.

Table 8.2 shows the exchange rates applied in the preparation of the financial statements at 31 December 2019.

Table 8.2 Exchange rates

	31 Dec. 2019	31 Dec. 2018	Change[1]
US dollar	8.79	8.66	1%
Euro	9.86	9.90	0%
Pound sterling	11.64	11.03	6%
Japanese yen (per 100)	8.09	7.89	2%

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, as a part of liquidity management and contributes to efficient market pricing. The share of securities lent shall not exceed 20% of the equity portfolio's market value. Lending is governed by demand for the equities in the portfolio and market pricing. All lending is secured by sufficient collateral received.

Accounting policy

Income and expense from secured lending and borrowing

Income and expenses from secured lending and borrowing transactions 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 lending* and *Income/expense from secured borrowing,* respectively.

Table 9.1 Income/expense from secured lending and borrowing

Amounts in NOK millions	2019	2018
Income/expense from secured lending	342	257
Net income/expense from secured lending and borrowing	**342**	**257**

Accounting policy

Transferred financial assets

Securities transferred 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*. 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 measured at fair value.

Secured borrowing

Cash collateral received is recognised as Deposits in banks together with a corresponding liability, *Secured borrowing*. This liability is measured at fair value.

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 Secured lending

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Secured lending	7 665	5 984
Of which unsettled trades (liability)	*7 565*	*3 827*
Secured lending excluding unsettled trades	**100**	**2 157**
Associated collateral in the form of securities (off-balance sheet)		
Bonds received as collateral	106	2 232
Total security collateral received related to lending	**106**	**2 232**

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. 2019	31 Dec. 2018
Transferred financial assets		
Equities lent	6 303	7 292
Total transferred financial assets	**6 303**	**7 292**
Associated cash collateral, recognised as liability		
Secured borrowing	100	201
Of which unsettled trades (assets)	-	-
Secured borrowing excluding unsettled trades	**100**	**201**
Associated collateral in the form of securities (off-balance sheet)		
Equities received as collateral	5 686	5 194
Bonds received as collateral	1 103	2 617
Total security collateral received related to transferred financial assets	**6 789**	**7 811**

Cash collateral received is reinvested in its entirety. No securities received as collateral were reinvested at year-end 2019 or 2018. 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 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 measured at fair value.

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. 2019
	Amounts subject to enforceable netting agreements						
ASSETS	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	Gross financial assets as recognised in the balance sheet
Secured lending	100	-	-	100	-	7 565	7 665
Financial derivatives	-	-	-	-	-	9	9
Total	**100**	**-**	**-**	**100**	**-**	**7 574**	**7 674**

Amounts in NOK millions							31 Dec. 2019
	Amounts subject to enforceable netting agreements						
LIABILITIES	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	Gross financial liabilities as recognised in the balance sheet
Secured borrowing	100	-	-	98	2	-	100
Financial derivatives	-	-	-		-	2	2
Total	**100**	**-**	**-**	**98**	**2**	**2**	**102**

Amounts in NOK millions							31 Dec. 2018
	Amounts subject to enforceable netting agreements						
ASSETS	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	Gross financial assets as recognised in the balance sheet
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
	Amounts subject to enforceable netting agreements						
LIABILITIES	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	Gross financial liabilities as recognised in the balance sheet
Secured borrowing	201	-	-	196	5	-	201
Financial derivatives	-	-	-		-	20	20
Total	**201**	**-**	**-**	**196**	**5**	**20**	**221**

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), among others. 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. 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 significant 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. Service credit for retirement benefits is generally earned for each the year the employee is working up until age 70. 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. 2019	31 Dec. 2018
Members drawing retirement benefits	1 021	954
Active members (including all those affected by restructuring)	769	781
Members who have left the Bank with vested rights	987	970
Total number of pension plan members	**2 777**	**2 705**

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 2019 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. 2019	31 Dec. 2018
Discount rate	2.30%	2.60%
Interest rate on assets	2.30%	2.60%
Rate of compensation increase	2.25%	2.75%
Rate of pension increase	1.25%	1.75%
Increase in social security base amount (G)	2.00%	2.50%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0
Payroll tax/social security tax	14.10%	14.10%
Mortality table	K2013BE	K2013BE
Disability table	KU	KU

Table 11.3 Net liability recognised in the balance sheet

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Change in defined benefit obligation (DBO) incl. payroll tax		
DBO at beginning of year	4 435	4 310
Service cost	166	159
Interest cost	113	102
Payroll tax on employer contribution	-29	-30
Benefits paid	-150	-148
Remeasurement loss/gain	-121	42
DBO at year-end	**4 414**	**4 435**
Change in plan assets		
Fair value of assets at beginning of year	4 577	4 252
Interest income	113	96
Employer contribution incl. payroll tax	236	247
Payroll tax on employer contribution	-29	-30
Benefits paid	-144	-140
Remeasurement (loss) gain	-7	152
Fair value of assets at year-end	**4 746**	**4 577**
Pension scheme not recognised in the actuarial calculation	1	1
Net amount recognised in the balance sheet	**-331**	**-141**

Table 11.4 Specification of funded and unfunded plans

Amounts in NOK millions	31 Dec. 2019			31 Dec. 2018		
	Funded plan	Unfunded plans	Total	Funded plan	Unfunded plans	Total
Accrued benefit obligations	4 233	182	4 415	4 254	182	4 436
Plan assets	-4 746	-	-4 746	-4 577	-	-4 577
Net benefit obligation/net plan assets	**-513**	**182**	**-331**	**-323**	**182**	**-141**

Table 11.5 Allocation of plan assets for funded plan

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Bonds	2 399	2 563
Equities	1 786	1 419
Real estate	561	595
Total	**4 746**	**4 577**

Pension expense for employees in Norway

Pension expense includes current service cost, interest expense and expected return on plan assets.

The change in the unfunded plants is included in the overall pension expense.

Expenses relating to employees associated with NBIM are covered in their entirety by the management fee and amounted to NOK 89.1m for 2019 and NOK 77.3m for 2018.

Table 11.6 Pension expense

Amounts in NOK millions		2019		2018
Service cost and cost of benefit changes		**171**		**154**
Service cost incl. interest and payroll tax	167		150	
Administration cost incl. payroll tax	4		4	
Financial cost/income		**-4**		**1**
Net interest cost/income incl. payroll tax	-4		1	
Net periodic pension cost		**167**		**155**
Other comprehensive income (OCI) in the period				
Remeasurement loss/gain - change in discount rate		266		-157
Remeasurement loss/gain - change in other economic assumptions		-433		168
Remeasurement loss/gain - experience adjustments, DBO		46		30
Remeasurement loss/gain - experience adjustments, assets		-14		-172
Investment management cost		21		21
OCI losses/gains in the period		**-114**		**-110**

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 31.6m in 2019 and NOK 30.3m in 2018. 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. 2019
	Discount rate	General compen-sation increase	ABO pensioners/ DBO other, amounts in NOK millions	Change[1]
Assumptions at 31 Dec. 2019	2.30%	2.25%	4 414	**I/A**
Discount rate + 0.5%	2.80%	2.25%	4 040	**-8.47%**
Discount rate - 0.5%	1.80%	2.25%	4 847	**9.81%**
General compensation increase + 0.5%	2.30%	2.75%	4 548	**3.04%**
General compensation increase - 0.5%	2.30%	1.75%	4 290	**-2.81%**

[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. 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.

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. 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 are determined by the CEO of NBIM in accordance with the salary bands set by the Executive Board.

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 in addition to a fixed salary. Performance-based pay is capped at 100% of fixed salary, but for a limited number of employees at international offices, the cap may be up to 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. For employees with performance-based pay equal to 100% of fixed salary, 40% is paid the year after it is accrued, and other 60% is held back and paid over the following three years.

At year-end 2019, 237 out of a total 597 employees received performance-based pay, 12 of whom were employed by subsidiaries. Their total upper limit for performance-based pay was NOK 393m. Employees with performance-based pay earned an average of 55% of the total limit for 2019, based on performance over serveral years.

Employees of CBO whose work directly involves investment decisions for the foreign exchange reserves may be entitled to performance-based pay. 12 employees has a performance-based pay agreement. 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 6% of the total limit for 2019, based on performance over the past two years.

Table 12.1 Personnel expenses

Amounts in NOK millions	2019	2018
Salary and fees	1 426	1 265
Employer's social security contributions	177	107
Pension expense, see Note 11 *Pension*	167	155
Other personnel expenses	231	272
Personnel expenses	**2 001**	**1 799**

Table 12.2 Number of employees/FTEs

	31 Dec. 2019	31 Dec. 2018
Number of employees	940	953
Number of FTEs	935	949

Benefits to governing bodies

Supervisory Council

Total remuneration paid in 2019 was NOK 1 115 960. Of this amount, fixed remuneration was NOK 915 100 and remuneration of alternates for attending meetings of the Permanent Committee was NOK 7 200. The remaining NOK 193 600 is remuneration for lost earnings. Total remuneration paid in 2018 was NOK 1 125 833.

Remuneration rates for 2019 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 2019.

Table 12.3 Remuneration to the Supervisory Council and the Permanent Committee

			2019
Amounts in NOK	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.

			2018
Amounts in NOK	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.

Executive Board – external members
Service on the Executive Board is remunerated at fixed annual rates. 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 2 357 300 in 2019 compared with NOK 2 283 000 in 2018.

Table 12.4 Remuneration to the Executive Board

Amounts in NOK						2019
Name	Total remuneration	Executive Board	Audit Committee	Remuneration Committee	Ownership Committee	Risk and Investment Committee
Kjetil Storesletten	352 600	266 400	-	-	-	86 200
Karen Helene Ulltveit-Moe	392 400	266 400	79 000	-	47 000	-
Kathryn M. Baker	418 700	266 400	66 100	-	-	86 200
Steinar Juel	358 800	266 400	66 100	26 300	-	-
Kristine Ryssdal	313 400	266 400	-	-	47 000	-
Arne Hyttnes (alternate)	260 700	234 400	-	26 300	-	-
Kristine Landmark (alternate)	260 700	234 400	-	26 300	-	-

Amounts in NOK						2018
Name	Total remuneration	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[1]	303 500	258 000	-	-	45 500	-
Arne Hyttnes (alternate)	252 500	227 000	-	25 500	-	-
Kristine Landmark (alternate)	252 500	227 000	-	25 500	-	-

1 Kristine Ryssdal was appointed on 1 January 2018.

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

					2019
Amounts in NOK	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 450 028	173 643	285 893	-
Deputy Governor	Jon Nicolaisen	2 013 297	21 110	133 750	23 334
Deputy Governor	Egil Matsen	2 010 370	19 989	125 770	-

					2018
Amounts in NOK	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	-

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

					2019
Amounts in NOK	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Torbjørn Hægeland	1 711 114	22 231	388 198	-
Executive Director, Monetary Policy	Ida Wolden Bache	1 734 767	7 974	245 123	-
Executive Director, Markets and ICT	Olav Andreas Bø	2 016 069	8 504	290 876	-
Executive Director, Corporate and Shared Services	Jane Kristin Aamodt Haugland	1 708 307	15 612	343 408	1 897 149
Executive Director, General Secretariat	Birger Vikøren	1 645 016	12 859	332 594	-
Director, Internal Audit	Ingunn Valvatne	1 750 753	27 429	380 335	798 199
Director, Communications and External Relations	Runar Malkenes	1 415 284	9 692	480 441	-
General Counsel	Marius Ryel	1 799 562	16 343	556 239	-

					2018
Amounts in NOK	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.

Remuneration to senior executives in Norges Bank Investment Management

NBREM's real estate organisation was integrated into NBIM following a decision by the Executive Board. NBIM's new organisation model entered into force on 1 April. Subsequent changes in the leader group are shown in Table 12.7.

Table 12.7 Remuneration to senior executives in Norges Bank Investment Management

						2019
Amounts in NOK	Name	Gross salary	Gross performance pay	Value of other benefits	Pension benefits earned	Employee loan
Chief Executive Officer	Yngve Slyngstad	6 721 094	-	9 597	590 683	-
Deputy Chief Executive Officer	Trond Grande	4 713 889	-	7 069	357 573	-
Chief Compliance and Control Officer	Stephen A. Hirsch	4 207 019	-	18 330	296 401	-
Chief Corporate Governance Officer	Carine Smith Ihenacho[1,2]	3 598 737	57 633	77 587	359 874	-
Chief Financial Officer	Hege Gjerde[1]	2 818 339	202 876	8 120	299 642	1 356 964
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen[1]	4 480 911	-	13 363	252 412	-
Chief Investment Officer Asset Strategies	Geir Øivind Nygård[1]	4 554 383	564 447	18 722	211 953	500 000
Chief Investment Officer Equity Strategies	Petter Johnsen[2]	7 867 369	-	85 884	786 737	-
Chief Investment Officer Real Estate	Karsten Kallevig[3]	5 322 133	-	15 308	331 247	-
Chief Operating Officer	Age Bakker	3 801 524	-	16 384	391 432	-
Chief People and Operations Officer	Nina Kathrine Hammerstad[4]	3 041 218	-	12 544	290 160	-
Chief Risk Officer	Dag Huse	4 581 515	-	6 960	587 080	-
Former senior executives						
Chief Human Resources Officer	Sirine Fodstad[5]	1 617 561	-	4 431	177 454	-
Chief Administrative Officer	Mie Caroline Holstad[6]	887 022	-	4 098	94 067	-
Chief Compliance and Control Officer	Jan Thomsen[7]	861 678	-	2 232	95 025	-
Chief Investment Officer Europe	Romain Veber[1,2,7]	1 253 108	818 562	16 832	125 311	-
Chief Investment Officer US	Per Løken[1,7]	650 000	62 373	2 426	58 006	-
Chief Risk Officer	Lars Oswald Dahl[7]	850 000	-	1 740	96 784	-

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 are equal to the year's payments into a defined contribution pension plan.

3 Began in this position on 1 April 2019. Previous leader group position in Norges Bank Real Estate Management leader group. Remuneration shown for all of 2019.

4 Began in this position on 1 June 2019. Previous leader group position in Norges Bank Real Estate Management. Remuneration shown for all of 2019.

5 Resigned from this position on 31 May 2019. Remuneration shown up until the resignation became effective.

6 Previous leader group position in Norges Bank Real Estate Management. Remuneration shown until 31 May 2019.

7 Previous leader group position in Norges Bank Real Estate Management. Remuneration shown until 31 March 2019.

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						
Norges Bank Real Estate Management	Karsten Kallevig	5 322 133	-	9 027	338 497	-
Chief Executive Officer	Mie Caroline Holstad	2 044 234	-	8 628	233 428	-
Chief Administrative Officer	Jan Thomsen	3 446 713	-	9 015	386 198	-
Chief Compliance and Control Officer	Romain Veber[1,2]	4 874 836	1 522 259	66 085	487 484	-
Chief Investment Officer Europe	Per Løken[1]	2 572 855	73 542	7 068	232 007	-
Chief Investment Officer US	Nina Kathrine Hammerstad	3 025 926	-	8 695	300 128	-
Chief Operating Officer	Lars Oswald Dahl	3 430 421	-	8 628	398 033	-
Chief Risk Officer						

[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 are equal to the year's payments into a defined contribution pension plan.

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 2 995 000 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. The norm rate at December 2019 was 2.5%. Total loans to employees at 31 December 2019 were NOK 258m, compared with NOK 285m at 31 December 2018.

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, excluding administrations fees invoiced separately to Norges Bank's subsidiaries in Norway and 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 *Management fee, Government Pension Fund Global*. The management fee was NOK 4 312m in 2019 and NOK 4 544m in 2018. 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 recognised at estimated cost in accordance with 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. 2019	31 Dec. 2018
Non-current assets	1 808	1 947
Gold	291	291
Art and numismatic collections	89	89
Other assets	106	93
Non-financial assets	**2 294**	**2 420**

Table 14.2 Non-current assets

						2019
	Intangible assets	Property, plant and equipment			Plant under construc-tion	
Amounts in NOK millions	Software	Buildings	Land	Other		Total
Cost at 1 Jan.	731	3 143	60	368	153	4 455
+ Additions for the year	73	80	-	6	-	160
- Disposals for the year	-79	-35	-	-108	-11	-233
Cost at 31 Dec.	**725**	**3 188**	**60**	**267**	**143**	**4 382**
- Accumulated depreciation and impairment at 1 Jan.	-494	-1 742	-	-272	-	-2 508
+ Disposals depreciation for the year	80	35	-	108	-	223
- Depreciation for the year	-114	-102	-	-73	-	-289
- Impairment for the year	-	-	-	-	-	-
Depreciation and impairment at 31 Dec.	**-528**	**-1 808**	**-**	**-237**	**-**	**-2 574**
Carrying amount at 31 Dec.	**197**	**1 379**	**60**	**30**	**143**	**1 808**
Depreciation schedule, no. of years	3–6	5–75	none	4–10	none	

						2018
	Intangible assets	Property, plant and equipment			Plant under construc-tion	
Amounts in NOK millions	Software	Buildings	Land	Other		Total
Cost at 1 Jan.	666	3 035	60	297	266	4 323
+ Additions for the year	65	109	-	71	-	245
- Disposals for the year	-	-1	-	-	-101	-102
Cost at 31 Dec.	**731**	**3 143**	**60**	**368**	**165**	**4 466**
- Accumulated depreciation and impairment at 1 Jan.	-391	-1 633	-	-210	-	-2 234
+ Disposals depreciation for the year	-	-	-	-	-	-
- Depreciation for the year	-103	-109	-	-62	-	-274
- Impairment for the year	-	-	-	-	-11	-11
Depreciation and impairment at 31 Dec.	**-494**	**-1 742**	**-**	**-272**	**-11**	**-2 519**
Carrying amount at 31 Dec.	**237**	**1 401**	**60**	**96**	**154**	**1 947**
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 2019 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	2019	2018
Custody costs	453	408
IT services, systems and data	945	885
Research, consulting and legal fees	359	424
Other costs	470	498
Total other operating expenses excl. external managers	**2 227**	**2 215**
Base fees to external managers	611	724
Performance-based fees to external managers	291	673
Total fees to external managers	**902**	**1 397**
Total other operating expenses	**3 129**	**3 612**
Depreciation, amortisation and impairment losses	289	285
Personnel expenses	2 001	1 799
Total operating expenses	**5 419**	**5 696**

Table 15.2 Fees, external auditor

Amounts in NOK thousands, inclusive VAT	Norges Bank		Subsidiaries[1]	
	2019	2018	2019	2018
Statutory audit	15 455	15 046	7 074	5 716
Other assurance services[2]	320	1 021	400	200
Tax advice	-	-	46	4
Other services	-	-	-	-
Total fees, external auditor	**15 775**	**16 067**	**7 519**	**5 920**

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

2 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	2019	2018
Services, banks	66	58
Services, government (see Note 19 *Related parties*)	42	38
Rent (see Note 19 *Related parties*)	27	25
Other income	4	4
Total other operating income	**139**	**125**

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 10-year deadline for redemption, in accordance with Section 15 of the previous 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 10-year deadline are recognised as income in profit or loss as *Other financial income/expenses*. After the 10-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 2019, NOK 4 674m comprised withdrawn notes. This pertains to Series VII 100-krone and 200-krone notes and 50-krone and 500-krone notes, which are no longer legal tender from 31 May 2018 and 19 October 2019, respectively. Series VII 1000-krone notes remain legal tender until 14 November 2020.

Table 16.1 Notes and coins in circulation

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
DENOMINATION		
50-krone	1 029	1 079
100-krone	2 194	2 095
200-krone	6 362	6 184
500-krone	16 064	17 119
1000-krone	11 592	13 869
Total notes	**37 241**	**40 346**
Total coins	**4 372**	**4 457**
Total	**41 613**	**44 803**

No withdrawn notes and coins were recognised as income in 2019 or 2018. In 2019, withdrawn notes and coins were redeemed in the amount of NOK 10.3m, compared with NOK 13.9m in 2018.

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 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

					31 Dec. 2019
Amounts in NOK millions	Loan resource commit-ments[1]	Amounts drawn on commit-ments	Subscrip-tion [2]	SDRs	Total amount recognised
Financial assets					
IMF subscription (quota)			45 791		45 791
Holdings of Special Drawing Rights (SDRs)				20 283	20 283
Loans to the IMF – NAB	*23 954*	1 256			1 256
Loans to the IMF – Bilateral borrowing agreement	*73 080*	-			-
Loans to the IMF – PRGT	*7 308*	1 745			1 745
Claims on the IMF		**3 001**	**45 791**	**20 283**	**69 075**
Financial liabilities					
Krone liability to the IMF			38 172		38 172
Equivalent value of SDR allocations				19 063	19 063
Liabilities to the IMF			**38 172**	**19 063**	**57 235**
Net positions with the IMF		**3 001**	**7 619**	**1 220**	**11 840**

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.

					31 Dec. 2018
Amounts in NOK millions	Loan resource commit-ments[1]	Amounts drawn on commit-ments	Subscrip-tion [2]	SDRs	Total amount recognised
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		**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		**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.

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 2019, SDR 1 was equal to NOK 12.18.

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 2019 was SDR 3 755m, unchanged from 2018.

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. 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. As at 31 December 2019, a total of SDR 1 563m had been allocated to Norway, unchanged from 2018. Norway's holdings of SDRs have been deposited with the IMF and amounted to SDR 1 663m at 31 December 2019, compared with SDR 1 530m at year-end 2018.

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 2018. Norges Bank's loans to the IMF under the NAB at 31 December 2019 totalled SDR 103m compared with SDR 156m at year-end 2018.

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 2019 totalled SDR 143m, compared with SDR 199 at year-end 2018.

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 2019, krone deposits from the IMF totalled SDR 3 130m, compared with SDR 3 304m at year-end 2018.

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	Amount drawn on loan resource commitments	Subscription	SDRs	Total
				2019
Interest income from the IMF	40	449	195	684
Interest expenses to the IMF	-	-392	-190	-582
Net interest income from the IMF	**40**	**57**	**5**	**102**

Amounts in NOK millions	Amount drawn on loan resource commitments	Subscription	SDRs	Total
				2018
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**

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.

At initial recognition, deposits from banks and deposits from the Treasury are recognised in the balance sheet at fair value. Subsequent measurement is at amortised cost, where the effective interest 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. 2019	31 Dec. 2018
F-loans to banks	6 560	-
Total lending to banks	**6 560**	**-**

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

Table 18.2 Deposits from banks

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Sight and reserve deposits from banks	40 143	35 069
F-deposits from banks	18 004	5 000
Other deposits	741	365
Deposits from banks	**58 888**	**40 434**

Table 18.3 Deposits from the Treasury

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Deposits from the Treasury	187 727	187 653
Deposits from the Treasury	**187 727**	**187 653**

Table 18.4 Interest income from lending to banks

Amounts in NOK millions	2019	2018
Interest income on F-loans to banks	69	81
Total interest income from lending to banks	**69**	**81**

Interest terms for loans to banks

F-loans are the instrument primarily used to supply liquidity to the banking system. They are issued to banks 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 floating rate F-loans to banks was 3.6 days in 2019 and 5.5 days in 2018. Average maturity on fixed rate F-loans to banks was 2.5 days in 2019, compared with 4.5 days in 2018

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, with an interest rate 1 percentage point above the policy rate.

Table 18.5 Interest expense on banks' and Treasury deposits

Amounts in NOK millions	2019	2018
Interest expense on sight and reserve deposits from banks	-394	-196
Interest expense on F-deposits from banks	-318	-82
Interest expense on depots operated by banks	-6	-3
Interest expense on deposits from the Treasury	-2 324	-1 637
Total interest expense on banks' and Treasury deposits	**-3 042**	**-1 918**

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.

F-deposits: Norges Bank reduces the quantity of reserves in the banking system by providing banks with 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 offer 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 was 3.6 days in 2019 and 4.2 days in 2018.

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 2019, interest on Treasury deposits was paid at an annual rate of 1.25% in Q1 through Q3 and 1% in Q4. In 2018, interest was paid on these deposits at an annual rate of 0.5% in Q1 and 0.75% in Q2 and 1% 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 financial instruments, real estate and renewable energy infrastructure. 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 312m in 2019 and NOK 4 544m in 2018. 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 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 consolidated account
- Managing commemorative coins

The Ministry of Finance covers Norges Bank's costs related to these tasks, which amounted to NOK 42.6m for 2019 and NOK 37.6m for 2018.

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 19.7m for 2019 and NOK 14.8bn for 2018.

On the basis of the prepared financial statements, the transfer takes place in the following year, but the amount due appears under the balance sheet item *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 26.9m in 2019 and NOK 25.4m in 2018.

Note 20 Government Pension Fund Global (GPFG)

Income statement

Amounts in NOK millions	Note	2019	2018
Profit/loss on the portfolio before foreign exchange gain/loss			
Income/expense from:			
– Equities	4	1 486 909	-517 214
– Bonds	4	192 820	14 568
– Unlisted real estate	6	16 175	16 421
– Financial derivatives	4	353	2 819
– Secured lending	12	4 529	4 733
– Secured borrowing	12	-1 926	-1 466
Tax expense	9	-6 827	-5 050
Interest income/expense		77	10
Other income/expense		-8	-13
Profit/loss on the portfolio before foreign exchange gain/loss		**1 692 103**	**-485 192**
Foreign exchange gain/loss	10	126 679	223 611
Profit/loss on the portfolio		**1 818 782**	**-261 581**
Management fee	11	-4 312	-4 544
Profit/loss and total comprehensive income		**1 814 470**	**-266 126**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2019	31 Dec. 2018
Assets			
Deposits in banks		14 476	11 561
Secured lending	12,13	222 946	216 768
Cash collateral posted	13	1 090	1 806
Unsettled trades		3 169	13 767
Equities	5	6 714 195	5 048 647
Equities lent	5,12	426 623	437 651
Bonds	5	2 316 823	1 996 929
Bonds lent	5,12	479 852	662 920
Financial derivatives	5,13	3 335	3 576
Unlisted real estate	6	264 538	243 818
Other assets		3 737	3 448
Total assets		**10 450 786**	**8 640 892**
Liabilities and owner's capital			
Secured borrowing	12,13	338 266	360 105
Cash collateral received	13	6 754	5 017
Unsettled trades		13 894	15 565
Financial derivatives	5,13	3 294	4 222
Other liabilities		495	37
Management fee payable	11	4 312	4 544
Total liabilities		**367 015**	**389 491**
Owner's capital		10 083 771	8 251 401
Total liabilities and owner's capital		**10 450 786**	**8 640 892**

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	2019	2018
Operating activities			
Receipts of dividend from equities		172 591	146 082
Receipts of interest from bonds		67 751	70 360
Receipts of interest and dividend from unlisted real estate	6	5 865	5 822
Net receipts of interest and fee from secured lending and borrowing		2 711	3 330
Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate		*248 918*	*225 594*
Net cash flow from purchase and sale of equities		-256 760	-345 478
Net cash flow from purchase and sale of bonds		23 993	36 052
Net cash flow to/from investments in unlisted real estate	6	-5 300	-8 638
Net cash flow financial derivatives		-357	11 494
Net cash flow cash collateral related to derivative transactions		3 556	-1 685
Net cash flow secured lending and borrowing		-18 907	59 834
Net payment of taxes	9	-6 648	-4 343
Net cash flow related to interest on deposits in banks and bank overdraft		44	-14
Net cash flow related to other income/expense, other assets and other liabilities		22	263
Management fee paid to Norges Bank	11	-4 544	-4 728
Net cash inflow/outflow from operating activities		**-15 983**	**-31 650**
Financing activities			
Inflow from the Norwegian government		32 051	42 320
Withdrawal by the Norwegian government		-14 400	-9 799
Net cash inflow/outflow from financing activities		**17 651**	**32 520**
Net change deposits in banks			
Deposits in banks at 1 January		11 561	11 027
Net increase/decrease of cash in the period		1 668	870
Net foreign exchange gain/loss on cash		1 246	-336
Deposits in banks at end of period		**14 476**	**11 561**

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 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 January 2019	3 366 340	4 885 061	8 251 401
Profit/loss and total comprehensive income	-	1 814 470	1 814 470
Inflow during the period[1]	32 300	-	32 300
Withdrawal during the period[1]	-14 400	-	-14 400
31 December 2019	**3 384 240**	**6 699 531**	**10 083 771**

[1] There was an inflow to the krone account of NOK 32.3bn in 2019, while NOK 18.9bn was withdrawn from the krone account. Of this, NOK 4.5bn was used to pay the accrued management fee for 2018, and NOK 14.4bn was transferred to the investment portfolio. There was an inflow of NOK 43.2bn to the krone account in 2018, 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.

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

	2019	2018
Returns measured in the fund's currency basket (percent)		
Return on equity investments	26.02	-9.49
Return on fixed-income investments	7.56	0.56
Return on unlisted real estate investments	6.84	7.53
Return on fund	19.95	-6.12
Relative return on fund (percentage points)	0.23	-0.30
Returns measured in Norwegian kroner (percent)		
Return on equity investments	28.20	-6.56
Return on fixed-income investments	9.41	3.82
Return on unlisted real estate investments	8.68	11.02
Return on fund	22.01	-3.07

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 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 are 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 related balance sheet item during the period, 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, respectively, 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	2019	2018
Dividends	173 225	147 630
Realised gain/loss	104 429	190 643
Unrealised gain/loss	1 209 256	-855 488
Income/expense from equities before foreign exchange gain/loss	**1 486 909**	**-517 214**

Table 4.2 Specification Income/expense from bonds

Amounts in NOK millions	2019	2018
Interest	67 097	69 505
Realised gain/loss	38 143	-17 918
Unrealised gain/loss	87 580	-37 020
Income/expense from bonds before foreign exchange gain/loss	**192 820**	**14 568**

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK millions	2019	2018
Interest	1 146	541
Realised gain/loss[1]	-57	2 187
Unrealised gain/loss	-735	91
Income/expense from financial derivatives before foreign exchange gain/loss	**353**	**2 819**

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

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 in the balance sheet as *Deposits in banks*. Norges Bank does not engage in hedge accounting, 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. 2019		31 Dec. 2018	
Amounts in NOK millions	Fair value incl. accrued dividends	Accrued dividends	Fair value incl. accrued dividends	Accrued dividends
Equities	7 140 818	8 292	5 486 298	7 659
Total equities	**7 140 818**	**8 292**	**5 486 298**	**7 659**
Of which equities lent	*426 623*		*437 651*	

Table 5.2 specifies investments in bonds per category. Nominal value represents 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. 2019 Nominal value	31 Dec. 2019 Fair value incl. accrued interest	31 Dec. 2019 Accrued interest	31 Dec. 2018 Nominal value	31 Dec. 2018 Fair value incl. accrued interest	31 Dec. 2018 Accrued interest
Government bonds						
Government bonds issued in the government's local currency	1 404 163	1 526 110	10 076	1 370 667	1 433 456	9 859
Total government bonds	**1 404 163**	**1 526 110**	**10 076**	**1 370 667**	**1 433 456**	**9 859**
Government-related bonds						
Sovereign bonds	7 099	7 642	94	9 221	9 443	116
Bonds issued by local authorities	94 219	104 104	629	103 401	110 036	671
Bonds issued by supranational bodies	47 506	49 790	285	55 770	57 409	349
Bonds issued by federal agencies	150 843	155 619	587	157 576	159 691	781
Total government-related bonds	**299 667**	**317 155**	**1 596**	**325 968**	**336 579**	**1 917**
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	157 821	174 406	424	135 717	139 396	398
Total inflation-linked bonds	**157 821**	**174 406**	**424**	**135 717**	**139 396**	**398**
Corporate bonds						
Bonds issued by utilities	45 768	50 253	532	42 717	43 401	513
Bonds issued by financial institutions	245 018	253 261	2 214	259 045	252 867	2 461
Bonds issued by industrial companies	304 445	325 659	2 801	314 502	313 046	3 057
Total corporate bonds	**595 230**	**629 172**	**5 547**	**616 264**	**609 314**	**6 031**
Securitised bonds						
Covered bonds	155 564	149 833	848	138 121	141 105	938
Total securitised bonds	**155 564**	**149 833**	**848**	**138 121**	**141 105**	**938**
Total bonds	**2 612 446**	**2 796 675**	**18 490**	**2 586 737**	**2 659 849**	**19 144**
Of which bonds lent		*479 852*			*662 920*	

Financial derivatives

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. Foreign exchange derivatives are also used in connection with liquidity management. Equity derivatives with an option component are often a result of corporate actions, and can be converted into equities or sold. The GPFG also uses equity swaps in combination with purchase and sale of equities.

Table 5.3 specifies financial derivatives recognised in the balance sheet. Notional amounts are the basis for calculating any cash flows and gains/losses for derivative contracts. This provides information on the extent to which different types of financial derivatives are used.

Table 5.3 Financial derivatives

Amounts in NOK millions	31 Dec. 2019			31 Dec. 2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange derivatives[1]	330 125	2 884	2 740	225 766	3 022	3 863
Interest rate derivatives	21 605	291	554	25 693	504	358
Equity derivatives[2]	-	159	-	-	50	-
Exchange-traded futures contracts[3]	27 287	-	-	35 861	-	-
Total financial derivatives	**379 017**	**3 335**	**3 294**	**287 320**	**3 576**	**4 222**

1 The method for calculating notional amount for foreign exchange derivatives was changed in 2019. The absolute value of the currency to be bought or sold under currency exchange contracts is now used as the basis for the notional value. The change in method is considered to provide more relevant information about the amount of foreign exchange currency traded under currency exchange contracts. Comparative amounts for notional value have been restated to conform with current period presentation.

2 Notional amounts are not considered relevant for equity derivatives and are therefore not included in the table.

3 Exchange-traded futures contracts are settled daily with margin payments. Fair value is therefore zero at the balance sheet date.

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, where 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 recognised in the balance sheet 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.

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.

Equity swaps in combination with purchase or sale of equities

Equity swaps are not recognised in the balance sheet. See the accounting policy in Note 12 *Secured lending and borrowing* for further information. At the end of 2019, equities purchased in combination with offsetting short equity swaps amounted to NOK 67bn (NOK 37bn at the end of 2018). Equity sales in combination with offsetting long equity swaps amounted to NOK 47bn (NOK 37bn at the end of 2018). See also Table 13.1 in Note 13 *Collateral and offsetting*. The GPFG has virtually no net exposure from equity swaps in combination with purchase or sale of equities.

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 it is accrued.

Dividends are recognised when the dividend is formally approved by the general meeting/equivalent decision-making body, or is paid out as a result 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 Income/expense from unlisted real estate

Amounts in NOK millions	2019	2018
Payments of interest and dividend from unlisted real estate	5 865	5 822
Unrealised gain/loss	10 311	10 599
Income/expense from unlisted real estate before foreign exchange gain/loss	**16 175**	**16 421**

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Unlisted real estate at 1 January	**243 818**	**217 160**
Net cash flow to/from investments in unlisted real estate	5 300	8 638
Unrealised gain/loss	10 311	10 599
Foreign exchange gain/loss	5 109	7 421
Unlisted real estate, closing balance for the period	**264 538**	**243 818**

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 can be distributed back to the GPFG in the form of interest and dividend as well as repayment of equity and long-term loan financing. Net income generated in the underlying real estate companies that is not distributed back to the GPFG, is reinvested in the underlying entities to finance for instance property development and repayment of external debt. There are no significant restrictions on the distribution of interest and dividend from subsidiaries to the GPFG.

Tables 6.3 and 6.4 provide a specification of the cash flows between the GPFG and subsidiaries presented as *Unlisted real estate,* as presented in the statement of cash flows.

Net income in the underlying real estate companies which is distributed back to the GPFG in the form of interest and dividends is specified in Table 6.3.

Table 6.3 Receipts of interest and dividend from unlisted real estate

Amounts in NOK millions	2019	2018
Interest and dividend from ongoing operations	5 099	4 440
Interest and dividend from sales	766	1 381
Receipts of interest and dividend from unlisted real estate	**5 865**	**5 822**

Cash flows between the GPFG and subsidiaries in the form of equity and loan financing, as well as repayment of these, are presented in the statement of cash flows as *Net cash flows to/ from investments in unlisted real estate*. These cash flows are further specified by transaction type in Table 6.4. A net cash flow from the GPFG to subsidiaries will result in an increase in the balance sheet value of unlisted real estate, while a net cash flow from subsidiaries to the GPFG will result in a decrease.

Table 6.4 Cash flow to/from investments in unlisted real estate

Amounts in NOK millions	2019	2018
Payments to new investments	-8 126	-12 710
Repayments from sales	3 429	4 717
Payments for property development	-1 419	-1 562
Repayments from ongoing operations	1 267	1 430
Net payments external debt	-451	-513
Net cash flow to/from investments in unlisted real estate	**-5 300**	**-8 638**

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 6.5 and 6.6. Table 6.5 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 6.6 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 6.5:

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 net income in the underlying real estate companies which is not distributed back to the GPFG, and will therefore not correspond to fair value changes for properties, debt and other assets and liabilities presented in Table 6.5.

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

Table 6.5 Income from underlying real estate companies

Amounts in NOK millions	2019	2018
Net rental income	10 478	9 312
External asset management - fixed fees	-576	-506
External asset management - variable fees	-91	-88
Internal asset management - fixed fees[1]	-63	-38
Management costs within the limit from the Ministry of Finance[2]	-70	-88
Other operating costs, not within the limit from the Ministry of Finance	-101	-94
Interest expense external debt	-525	-506
Tax expense	-290	-256
Net income from ongoing operations	*8 762*	*7 736*
Realised gain/loss - properties	1 114	1 212
Unrealised gain/loss - properties	6 677	7 807
Unrealised gain/loss - debt	-212	233
Unrealised gain/loss - other assets and liabilities	46	-176
Realised and unrealised gain/loss	*7 624*	*9 077*
Stamp duty and registration fees	-50	-147
Due diligence and insurance costs	-161	-244
Transaction costs purchases and sales	*-211*	*-391*
Net income underlying real estate companies	**16 175**	**16 421**

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 6.6 Assets and liabilities underlying real estate companies

Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Properties	283 191	262 364
External debt	-18 407	-18 361
Net other assets and liabilities[1]	-246	-185
Total assets and liabilities underlying real estate companies	**264 538**	**243 818**

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 6.7 provides an overview of announced agreements for purchases and sales of properties which are not completed at the balance sheet date.

Table 6.7 Announced agreements for purchases and sales of properties[1]

Type	Property address	City	Ownership percent	Currency	Price in stated currency (million)[2]	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	2017 Q3	2020 Q1
Purchase	Industrial Property Trust portfolio[3]	Multiple American cities	45.0	USD	896	2019 Q4	2020 Q1
Sale	Sophienstrasse 26, Katharina-von-Bora-Strasse 1 and 3, Karlstrasse 23 and Luisenstrasse 14	Munich	100.0	EUR	390	2019 Q4	2020 Q1

1 Purchases and sales above USD 25m are announced.
2 The stated price is for the GPFG's share.
3 The transaction was completed early January 2020.

In the second quarter of 2019, Norges Bank entered into agreements to acquire a 48% interest in two to-be-constructed buildings in New York at 561 Greenwich Street and 92 Avenue of the Americas, with expected completion in the second quarter of 2022 and the fourth quarter of 2023, respectively. The buildings will be purchased and the final purchase price determined upon completed construction.

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 or observable market inputs. If the market is not active, fair value is established using standard valuation techniques. Estimating fair value can 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 market 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 measured 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 Categorisation of the investment portfolio by level in the fair value hierarchy

Amounts in NOK millions	Level 1 31 Dec. 2019	Level 1 31 Dec. 2018	Level 2 31 Dec. 2019	Level 2 31 Dec. 2018	Level 3 31 Dec. 2019	Level 3 31 Dec. 2018	Total 31 Dec. 2019	Total 31 Dec. 2018
Equities	**7 093 963**	**5 450 137**	**46 039**	**35 808**	**816**	**353**	**7 140 818**	**5 486 298**
Government bonds	1 386 488	1 331 386	139 622	102 070	-	-	1 526 110	1 433 456
Government-related bonds	256 537	284 545	60 618	51 609	-	425	317 155	336 579
Inflation-linked bonds	162 582	131 271	11 824	8 125	-	-	174 406	139 396
Corporate bonds	546 322	519 829	82 834	89 457	16	28	629 172	609 314
Securitised bonds	119 821	126 377	30 012	14 728	-	-	149 833	141 105
Total bonds	**2 471 750**	**2 393 408**	**324 910**	**265 989**	**16**	**453**	**2 796 675**	**2 659 849**
Financial derivatives (assets)	140	20	3 192	3 544	3	12	3 335	3 576
Financial derivatives (liabilities)	-	-	-3 294	-4 222	-	-	-3 294	-4 222
Total financial derivatives	**140**	**20**	**-102**	**-678**	**3**	**12**	**41**	**-646**
Unlisted real estate	**-**	**-**	**-**	**-**	**264 538**	**243 818**	**264 538**	**243 818**
Other (assets)[1]	**-**	**-**	**245 418**	**247 351**	**-**	**-**	**245 418**	**247 351**
Other (liabilities)[2]	**-**	**-**	**-359 409**	**-380 724**	**-**	**-**	**-359 409**	**-380 724**
Total	**9 565 853**	**7 843 565**	**256 856**	**167 746**	**265 373**	**244 636**	**10 088 083**	**8 255 945**
Total (percent)	**94.8**	**95.0**	**2.6**	**2.0**	**2.6**	**3.0**	**100.0**	**100.0**

1 *Other (assets)* consists of the balance sheet lines *Deposits in banks, Secured lending, Cash collateral posted, Unsettled trades (assets)* and *Other assets*.

2 *Other (liabilities)* consists of the balance sheet lines *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 2019, 97.4% of the portfolio was classified as Level 1 or 2, which is a marginal increase compared to year-end 2018. 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 share 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 (88.38%) have observable, executable market quotes in active markets and are classified as Level 1. Bonds classified as Level 2 amount to 11.62%. These are securities that do not have a sufficient number of observable quotes or that are priced based on comparable liquid bonds. A negligible proportion of holdings that do not have observable quotes are classified as Level 3, since 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 share of equities classified as Level 1 is unchanged compared to year-end 2018.

The share of bonds classified as Level 1 has decreased by 1.60 percentage points compared to year-end 2018, with a corresponding increase in the share of Level 2 holdings. The main reason for the reclassifications from Level 1 to Level 2 is reduced liquidity at the end of 2019 for some government bonds in both developed and emerging markets, as well as corporate bonds denominated in US dollars.

In addition to reclassifications between levels, Level 2 holdings have increased in 2019 due to the purchase of several government bonds just prior to year-end that were classified as Level 2.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK millions	1 Jan. 2019	Purchases	Sales	Settlements	Net gain/loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gain/loss	31 Dec. 2019
Equities	353	696	-128	-2	-90	44	-60	3	816
Bonds	453	-	-425	-	-9	-	-3	-	16
Financial derivatives (assets)	12	-	-	-	-7	-	-2	-	3
Unlisted real estate[1]	243 818	5 300	-	-	10 311	-	-	5 109	264 538
Total	**244 636**	**5 996**	**-553**	**-2**	**10 205**	**44**	**-65**	**5 112**	**265 373**

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**

[1] *Purchases* represent the net cash flow in the period to investments in unlisted real estate. See Table 6.4 in Note 6 *Unlisted real estate*.

The relative share of holdings classified as Level 3 was 2.6% at the end of 2019, a decrease from 3.0% at year-end 2018. The GPFG's aggregate holdings in Level 3 was NOK 265 373m at year-end 2019, an increase of NOK 20 737m compared to year-end 2018. The increase is mainly due to investments in unlisted real estate, which are all classified as Level 3.

The relative share of equities classified as Level 3 was virtually unchanged compared to year-end 2018. Level 3 holdings have however increased in absolute value by NOK 463m, mainly due to a new holding received through a corporate action and valued with significant use of unobservable inputs.

The relative share of bond holdings classified as Level 3 has marginally decreased compared to year-end 2018. The absolute value of Level 3 holdings at year-end 2019 was negligible, reduced by NOK 437m compared to year-end 2018. The reduction is due to one bond, which previously accounted for the majority of Level 3 holdings, was called by the issuer during the last quarter of 2019.

All unlisted real estate investments are classified as Level 3, and the increase of NOK 20 720m in 2019 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. Market activity and volume are monitored using several price sources which provide access to market prices, quotes and transactions at the measurement date.

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 primarily 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.

Future cash flows are discounted with a combination of capitalisation and discounting factors. These take into account a range of factors reflecting the specific investment, including specific asset level characteristics, comparable market transactions, the local and global economic environment and future projections.

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 classified as Level 2 are valued using observable inputs from comparable issues, as well as direct indicative or executable quotes. These holdings usually consist of less liquid bonds than those classified as Level 1, ie where there is no trading volume of binding offers and a low volume of indicative quotes at the measurement date.

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 rates.

Interest rate derivatives, which mainly consist 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
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.

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK millions	Specification of Level 3 holdings 31 Dec. 2019	Sensitivities 31 Dec. 2019		Specification of Level 3 holdings 31 Dec. 2018	Sensitivities 31 Dec. 2018	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	**816**	**-238**	**238**	**353**	**-116**	**116**
Government-related bonds	-	-	-	425	-43	43
Corporate bonds	16	-16	2	28	-3	3
Total bonds	**16**	**-16**	**2**	**453**	**-45**	**45**
Financial derivatives (assets)	**3**	**-3**	**-**	**12**	**-1**	**1**
Unlisted real estate	**264 538**	**-16 563**	**14 359**	**243 818**	**-14 627**	**17 888**
Total	**265 373**	**-16 820**	**14 599**	**244 636**	**-14 790**	**18 050**

Unlisted real estate
Changes in key assumptions can have a material effect on the valuation of unlisted real estate investments. A number of key assumptions are used, of which yields and growth assumptions applied to future market rents are the assumptions that have the largest impact when estimating property values. 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 unlisted real estate portfolio, and reflects both favourable and unfavourable changes.

In an unfavourable outcome, an increase in the yield of 0.2 percentage point, and a reduction in future market rents of 2% would result in a decrease in value of the unlisted real estate portfolio of approximately NOK 16 563m or 6.3% (6.0% at year-end 2018). In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future market rents of 2% would result in an increase in value of the unlisted real estate portfolio of approximately NOK 14 359m or 5.4% (7.3% at year-end 2018).

For unlisted real estate, changes in yields are a more significant factor for valuation than changes in market rents. The isolated effects of changes in yields and future market rents for an unfavourable change are 4.5% and 1.8%, respectively. Similarly, the effects of changes in yields and future market rent for a favourable change are 3.7% and 1.7%, respectively.

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 decrease in relative sensitivity for the equity portfolio compared to 2018 is due to a new holding with 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 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 2019 in absolute terms is in line with the decrease in the holdings classified as Level 3.

Financial derivatives
The fair value of equity 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 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 the valuation represents fair value in accordance with IFRS. As part of this review, particular attention is paid to illiquid financial instruments and unlisted real estate investments, ie 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 3, 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 actual benchmark index, 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.

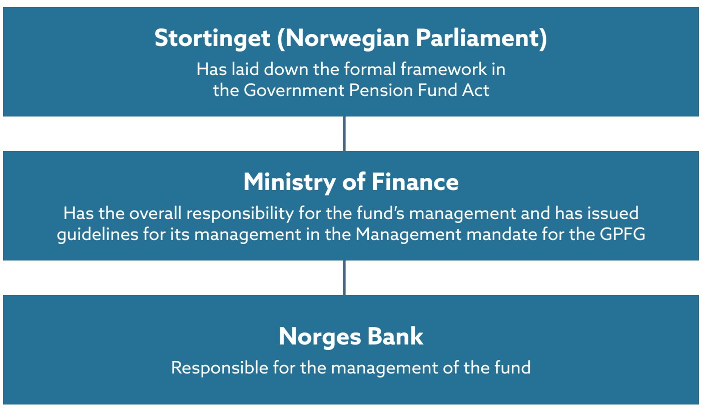
The benchmark index for equities is constructed based on the market capitalisation for equities in the countries included in the benchmark. The benchmark index for bonds specifies a defined allocation between government bonds and corporate bonds, with a weight of 70% to government bonds and 30% to corporate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

Investments in real estate are not defined by the fund's benchmark index. The management mandate sets a maximum allocation to unlisted real estate of 7% of the investment portfolio. The fund's allocation to unlisted 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 management mandate, and how it shall be financed.

The management mandate was updated at the end of 2019 to also open for investments in unlisted infrastructure for renewable energy of up to 2% of the investment portfolio.

The fund may not invest in securities issued by Norwegian entities, securities issued in Norwegian kroner, or real estate and infrastructure 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



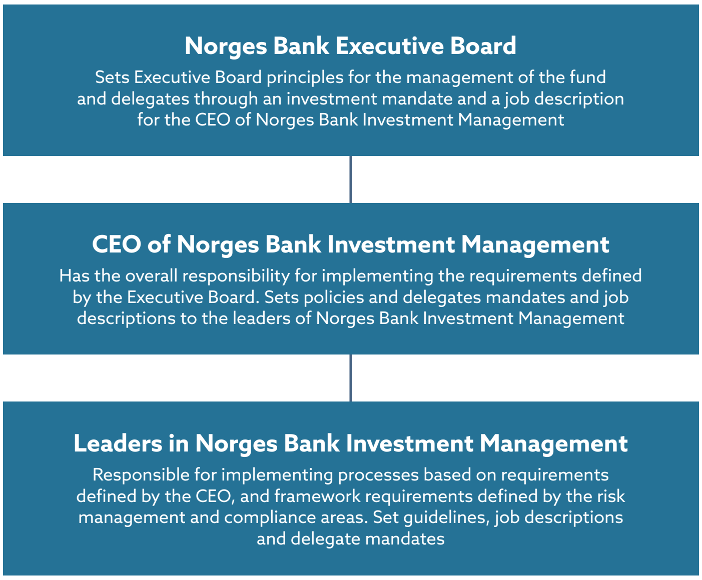
Norges Bank's governance structure

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.

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.

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 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. Separate risk assessments 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 – Derivatives including FX contracts – Unsecured bank deposits and securities – 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 resulting from a bond issuer defaulting on their 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 at portfolio level, where the correlation of credit losses between instruments and issuers is taken into account. 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 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.

Concentration risk
Concentration analysis complements statistical risk estimation by describing the concentration of a single exposure or a group of exposures. More concentrated portfolios tend to contribute to less diversification. Concentration is measured across different dimensions depending on the asset class, including country, sector, issuer and company exposure.

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. 2019	Market	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Equities	**Developed**	**88.6**	**Developed**	**89.0**				
	US	39.7	US	38.4				
	UK	8.8	UK	9.4				
	Japan	8.4	Japan	8.8				
	France	5.2	France	5.1				
	Germany	4.8	Germany	4.9				
	Total other	21.7	Total other	22.5				
	Emerging	**11.4**	**Emerging**	**11.0**				
	China	4.3	China	3.6				
	Taiwan	1.8	Taiwan	1.7				
	India	1.2	India	1.2				
	Brazil	1.0	Brazil	1.0				
	South Africa	0.6	South Africa	0.7				
	Total other	2.6	Total other	2.8				
Total equities					**70.83**	**66.34**	**7 145 463**	**5 477 159**
Fixed income	**Developed**	**92.0**	**Developed**	**91.8**				
	US dollar	45.9	US dollar	44.6				
	Euro	26.9	Euro	26.1				
	Japanese yen	7.5	Japanese yen	7.7				
	British pound	4.3	British pound	4.2				
	Canadian dollar	3.1	Canadian dollar	3.3				
	Total other	4.4	Total other	5.9				
	Emerging	**8.0**	**Emerging**	**8.2**				
	Mexican peso	1.6	Mexican peso	1.7				
	South Korean won	1.1	South Korean won	1.3				
	Indonesian rupiah	1.0	Indonesian rupiah	1.1				
	Indian rupee	0.7	Indian rupee	0.7				
	Brazilian real	0.7	Malaysian ringgit	0.6				
	Total other	2.9	Total other	2.9				
Total fixed income					**26.46**	**30.68**	**2 669 606**	**2 532 774**
Unlisted real estate	US	48.5	US	47.8				
	UK	21.2	UK	23.0				
	France	17.9	France	16.5				
	Switzerland	3.5	Switzerland	3.7				
	Germany	3.4	Germany	3.5				
	Total other	5.6	Total other	5.5				
Total unlisted real estate					**2.71**	**2.98**	**273 014**	**246 013**

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

At the end of 2019, the equity portfolio's share of the fund was 70.8%, up from 66.3% at year-end 2018. The bond portfolio's share of the fund was 26.5%, down from 30.7% at year-end 2018.

The unlisted real estate portfolio's share of the fund was 2.7%, compared with 3.0% at year-end 2018.

For equity investments, concentration in the portfolio is further measured by sector. Table 8.3 shows the composition of the equity asset class by sector.

Table 8.3 Allocation of equity investments by sector[1], percent

Sector	31 Dec. 2019	31 Dec. 2018
Financials	23.6	23.7
Technology	14.6	12.6
Industrials	13.4	12.9
Consumer goods	11.5	11.9
Health care	11.3	11.4
Consumer services	10.7	10.8
Oil and gas	5.0	5.9
Basic materials	4.4	5.0
Utilities	2.8	2.8
Telecommunications	2.7	3.0

1 Does not sum up to 100% because cash and derivatives are not included.

The GPFG has substantial investments in government-issued bonds. Table 8.4 shows the largest holdings in bonds issued by governments. These include government bonds issued in local and foreign currency and inflation-linked bonds issued in local currency.

Table 8.4 Largest holdings within the segment government bonds

Amounts in NOK millions	Market value 31 Dec. 2019
US	701 616
Japan	244 195
Germany	98 548
France	80 783
UK	72 793
Spain	51 554
South Korea	49 049
Mexico	43 360
Italy	42 427
Canada	30 640

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

The portfolio is also invested in companies which issue both equities and bonds. Table 8.5 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 8.5 Largest holdings excluding sovereigns, both bonds and equities

				31 Dec. 2019
Amounts in NOK millions	Sector	Equities	Bonds	Total
Apple Inc	Technology	116 967	7 711	124 677
Microsoft Corp	Technology	104 640	1 258	105 897
Alphabet Inc	Technology	77 831	529	78 360
Nestlé SA	Consumer goods	71 686	1 900	73 585
Amazon.com Inc	Consumer services	68 631	3 716	72 347
Roche Holding AG	Health care	55 297	360	55 657
Alibaba Group Holding Ltd	Consumer services	51 992	1 073	53 065
Royal Dutch Shell Plc	Oil and gas	52 193	496	52 689
Novartis AG	Health care	44 604	3 679	48 283
Facebook Inc	Technology	46 241	0	46 241

				31 Dec. 2018
Amounts in NOK millions	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

Table 8.6 shows the composition of the unlisted real estate asset class by sector.

Table 8.6 Distribution of unlisted real estate investments by sector, percent

Sector	31 Dec. 2019	31 Dec. 2018
Office	56.5	59.3
Retail	18.2	18.0
Logistics	21.9	21.6
Other	3.4	1.2
Total	**100.0**	**100.0**

Volatility and correlation risk
Norges Bank Investment Management uses models to quantify the risk of fluctuations in value for 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 gives an estimate of how much one can expect the portfolio's 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 or relative risk. Norges Bank Investment Management uses the same model both for portfolio risk and for relative volatility.

All the fund's investments are included in the calculation of expected relative volatility, and are measured against the fund's benchmark index consisting of global equity and bond indices.

The Barra Private Real Estate 2 (PRE2) model from MSCI is used to calculate 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 share 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 8.7 and 8.8 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 8.7 Portfolio risk, expected volatility, percent

	Expected volatility, actual portfolio							
	31 Dec. 2019	Min 2019	Max 2019	Average 2019	31 Dec. 2018	Min 2018	Max 2018	Average 2018
Portfolio	7.7	7.7	8.6	7.9	8.6	8.5	11.0	9.5
Equities	9.9	9.9	11.5	10.2	11.6	11.4	13.7	12.4
Fixed income	7.0	6.7	7.2	6.9	7.0	6.8	9.4	7.8
Unlisted real estate	8.7	8.7	9.4	9.0	9.3	9.2	11.9	10.4

Table 8.8 Relative risk measured against the fund's benchmark index, expected relative volatility, basis points

	Expected relative volatility							
	31 Dec. 2019	Min 2019	Max 2019	Average 2019	31 Dec. 2018	Min 2018	Max 2018	Average 2018
Portfolio	33	31	34	32	33	29	37	31

Risk measured as expected volatility indicates an expected annual value fluctuation in the fund of 7.7%, or approximately NOK 780bn at the end of 2019, compared to 8.6% at year-end 2018. Expected volatility for the equity portfolio was 9.9% at year-end, down from 11.6% at year-end 2018, while expected volatility for the bond portfolio was 7.0%, unchanged from year-end 2018. The decrease in expected volatility for the fund in 2019 is mainly due to decreased price volatility in the equity markets for the last three years than was the case at the end of 2018.

The management mandate for the GPFG specifies that expected relative volatility for the fund shall not exceed 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 at year-end 2018.

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 quantifies the expected loss of a portfolio in extreme market situations. Expected shortfall measured on relative returns provides an estimate of the annual expected relative underperformance versus the benchmark index for a given confidence level. Using historical simulations, relative returns of the current portfolio compared to the benchmark index 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 measured against the benchmark index 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 1.50 percentage points, compared to 1.37 percentage points at year-end 2018.

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 a 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 returns.

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 8.9 Bond portfolio specified by credit rating

Amounts in NOK millions	AAA	AA	A	BBB	Lower rating	31 Dec. 2019 Total
Government bonds	784 270	219 428	367 235	113 426	41 750	1 526 110
Government-related bonds	127 462	131 904	42 359	14 164	1 265	317 155
Inflation-linked bonds	127 523	29 901	7 433	9 549	-	174 406
Corporate bonds	5 567	39 019	260 796	317 812	5 978	629 172
Securitised bonds	122 767	24 524	1 583	526	433	149 833
Total bonds	**1 167 588**	**444 778**	**679 406**	**455 478**	**49 425**	**2 796 675**

Amounts in NOK millions	AAA	AA	A	BBB	Lower rating	31 Dec. 2018 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**

The share of holdings in government-related bonds was reduced during the year, to 11.3% of the bond portfolio at year-end 2019, from 12.7% at year-end 2018. Corporate bonds were also reduced to 22.5% of the bond portfolio at year-end 2019, from 22.9% at year-end 2018. Government bonds, including inflation-linked bonds, amounted to 60.8% of the bond portfolio, compared to 59.1% at year-end 2018.

The share of bonds with credit rating AA increased by 0.8 percentage point to 15.9% of the total bond portfolio at year-end. This increase was mainly due to an increase in the holdings in government bonds, including inflation-linked bonds. The share of the bond portfolio with credit rating AAA decreased by 0.4 percentage point to 41.7% of the total bond portfolio at year-end 2019. This was mainly due to a decrease in the holdings of government-related bonds during the year. The share of the bond portfolio with credit rating BBB was reduced by 0.3 percentage point compared to year-end 2018, to 16.3% of the bond portfolio at year-end 2019. The decrease is due to a reduction in corporate bond holdings mainly issued in US dollars.

The share of bonds grouped under *Lower rating* was reduced to 1.8% of the bond portfolio at year-end 2019, from 2.2% at year-end 2018. This is mainly due to reduced holdings of emerging market government bonds within this category. Defaulted bonds had a market value of NOK 129m at year-end 2019, compared to NOK 44m at year-end 2018. Defaulted bonds are grouped under *Lower rating*. The overall credit quality of the bond portfolio improved slightly during the year.

Table 8.10 Bond portfolio by credit rating and currency, percent

31 Dec. 2019	AAA	AA	A	BBB	Lower rating	Total
US dollar	26.1	2.1	6.8	8.4	0.2	43.5
Euro	9.1	7.3	5.3	4.5	0.1	26.2
Japanese yen	-	-	9.4	-	-	9.4
British pound	0.3	2.8	0.5	0.6	-	4.2
Canadian dollar	2.4	0.8	0.1	-	-	3.4
Other currencies	3.9	2.9	2.2	2.8	1.5	13.3
Total	**41.7**	**15.9**	**24.3**	**16.3**	**1.8**	**100.0**

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**

There were no credit derivatives in the portfolio at year-end 2019.

In addition to credit ratings from credit rating agencies, measurement of credit risk is complemented by two credit risk models, of which one is based on credit ratings and the other is based on observable credit premiums. Both of these methods also take into account the 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 bank deposits 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 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 by the CRO. In 2019, 11 transactions were approved by the CRO through this process, compared to 18 transactions in 2018.

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 methodologies 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 Standardised Approach in the Basel regulations (SA-CCR) is used for derivatives and foreign exchange contracts. The Standardised Approach takes into account collateral received and netting arrangements when calculating counterparty risk.

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. When determining counterparty risk exposure for these positions, an adjustment is also made for netting and actual collateral received and posted.

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. For some 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 8.11.

Norges Bank Investment Management has invested in Saudi Arabian equities. Counterparty risk arises from these listed equities as they are considered to be unsecured.

In Table 8.11, exposure is broken down by type of activity/instrument associated with counterparty risk.

Total counterparty risk was reduced to NOK 116.4bn at year-end 2019, from NOK 122.5bn at year-end 2018. The reduction in risk exposure is mainly due to lower risk exposure from securities lending, unsecured securities and settlement risk towards brokers related to foreign exchange contracts. The risk exposure from derivatives including foreign exchange contracts has increased. Both equities and bonds are lent through the securities lending programme. The risk exposure for the programme decreased to NOK 58.5bn at year-end 2019, from NOK 67.1bn at year-end 2018. Counterparty risk exposure from securities lending amounted to 50% of the fund's total counterparty risk exposure at year-end 2019, compared to 55% at year-end 2018.

Table 8.11 Counterparty risk by type of position

	Risk exposure	
Amounts in NOK millions	31 Dec. 2019	31 Dec. 2018
Securities lending	58 488	67 110
Derivatives including foreign exchange contracts	32 611	22 529
Unsecured bank deposits[1] and securities	18 501	23 619
Repurchase and reverse repurchase agreements[2]	6 535	4 780
Settlement risk towards brokers and long settlement transactions	266	4 437
Total	**116 401**	**122 475**

1 Includes bank deposits in non-consolidated subsidiaries.
2 Comparable amounts have been restated to reflect a correction in the underlying data used in the calculation.

Norges Bank's counterparties have a credit rating from independent credit rating agencies or a documented internal credit rating. Credit ratings for counterparties are monitored and complemented by alternative credit risk indicators.

Table 8.12 shows approved counterparties classified by credit rating category. The table also includes brokers that are used when purchasing and selling securities.

Table 8.12 Counterparties by credit rating[1]

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
AAA	1	1	1	-
AA	34	33	35	33
A	61	61	79	76
BBB	10	8	32	28
BB	2	2	19	17
B	-	-	7	7
Total	**108**	**105**	**173**	**161**

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 and brokers has increased during the year. There were 108 counterparties at year-end 2019, compared to 105 at year-end 2018. The number of brokers increased to 173 at year-end 2019, from 161 at year-end 2018. The change is mainly due to an increase of new approved brokers for bond trading. The overall credit quality of brokers and counterparties remained unchanged from year-end 2018.

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 in both 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 1.1% for the aggregated equity and bond portfolio at the end of 2019, compared to 1.5% at the end of 2018. 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 6.1% at the end of 2019, compared to 6.7% at the end of 2018.

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 2019.

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, tax on fee income from secured lending and taxes in consolidated subsidiaries. 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 tax is 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 liability 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.

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 withholding tax refunds, are assessed each reporting period. The best estimate of the probable reimbursement 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	Gross income before taxes	Income tax on dividends, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
						2019
Income/expense from:						
Equities	1 486 909	-6 214	-472	-	-6 685	1 480 224
Bonds	192 820	-22	-38	-	-60	192 760
Secured lending	4 529	-73	-	-	-73	4 456
Other	-	-	-	-9	-9	-
Tax expense		**-6 308**	**-510**	**-9**	**-6 827**	

Amounts in NOK millions	Gross income before taxes	Income tax on dividends, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
						2018
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**	

Table 9.2 shows receivables and liabilities recognised in the balance sheet related to income tax.

Table 9.2 Specification of balance sheet items related to income tax

Amounts in NOK millions	2019	2018
Included in *Other assets*:		
Withholding tax receivable	2 163	1 895
Included in *Other liabilities*:		
Tax payable	9	12
Deferred tax	450	-

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	2019	2018
Receipt of refunded withholding tax	5 201	4 469
Payment of taxes	-11 848	-8 812
Net payment of taxes	**-6 648**	**-4 343**

GPFG Note 10 Foreign exchange gains/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 or infrastructure located in Norway. The fund's returns are measured primarily in the fund's currency basket, which is a weighted combination 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 GPFG krone account, is denominated in Norwegian kroner and a share of the costs related to management of the GPFG are incurred in Norwegian kroner. The financial reporting for the GPFG is part of Norges Bank's financial statements 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, there is no single investment currency that stands out as 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 fund's market value 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	2019	2018
Foreign exchange gain/loss – USD/NOK	44 005	163 983
Foreign exchange gain/loss – GBP/NOK	33 334	-1 329
Foreign exchange gain/loss – JPY/NOK	15 693	50 721
Foreign exchange gain/loss – EUR/NOK	-5 461	14 654
Foreign exchange gain/loss – other	39 108	-4 418
Foreign exchange gain/loss	**126 679**	**223 611**

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. 2019	31 Dec. 2018
US dollar	4 325 398	3 418 802
Euro	1 999 881	1 678 501
Japanese yen	807 056	682 120
British pound	758 899	631 180
Other currencies	2 196 849	1 845 342
Market value investment portfolio	**10 088 083**	**8 255 945**

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. 2019	31 Dec. 2018	Percent change
US dollar	8.79	8.66	1.5
Euro	9.86	9.90	-0.4
Japanese yen	0.08	0.08	2.5
British pound	11.64	11.03	5.6

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 that are 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	2019	2019 Basis points	2018	2018 Basis points
Salary, social security and other personnel-related costs	1 448		1 262	
Custody costs	431		385	
IT services, systems, data and information	671		651	
Research, consulting and legal fees	258		282	
Other costs	428		400	
Allocated costs Norges Bank	174		167	
Base fees to external managers	611		724	
Management fee excluding performance-based fees	**4 021**	**4.4**	**3 872**	**4.6**
Performance-based fees to external managers	291		673	
Management fee	**4 312**	**4.7**	**4 544**	**5.4**

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, unlisted real estate subsidiaries

Amounts in NOK millions	2019	Basis points	2018	Basis points
Salary, social security and other personnel-related costs	34		25	
IT services, systems, data and information	19		41	
Research, consulting and legal fees	36		30	
Other costs	22		13	
Total management costs, unlisted real estate subsidiaries	**111**	**0.1**	**108**	**0.1**
Of which management costs non-consolidated subsidiaries	*70*		*88*	
Of which management costs consolidated subsidiaries	*41*		*20*	

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 2019, 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. This is the same as the equivalent limit for 2018. 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 4 132m in 2019. This consisted of management costs in Norges Bank, excluding performance-based fees to external managers, of NOK 4 021m and management costs in subsidiaries of NOK 111m. This corresponds to 4.5 basis points of assets under management.

Total management costs including performance-based fees to external managers amounted to NOK 4 423m in 2019. This corresponds to 4.8 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 subsidiaries are presented in the income statement line *Income/expense from unlisted real estate*. See Table 6.5 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 consists of 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, repurchase and 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 consists 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 Income/expense from secured lending and borrowing

Amounts in NOK millions	2019	2018
Income/expense from secured lending	4 529	4 733
Income/expense from secured borrowing	-1 926	-1 466
Net income/expense from secured lending and borrowing	**2 603**	**3 267**

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 separately in the balance sheet lines *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 virtually 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. 2019	31 Dec. 2018
Secured lending	222 946	216 768
Total secured lending	**222 946**	**216 768**
Associated collateral in the form of securities (off balance sheet)		
Equities received as collateral	68 147	38 018
Bonds received as collateral	155 990	182 703
Total collateral received in the form of securities related to secured lending	**224 137**	**220 721**

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. 2019	31 Dec. 2018
Transferred financial assets		
Equities lent	426 623	437 651
Bonds lent	479 852	662 920
Total transferred financial assets	**906 475**	**1 100 571**
Associated cash collateral, recognised as liability		
Secured borrowing	338 266	360 105
Total secured borrowing	**338 266**	**360 105**
Associated collateral in the form of securities or guarantees (off balance sheet)		
Equities received as collateral	436 482	486 470
Bonds received as collateral	178 250	309 951
Guarantees	8 548	10 696
Total collateral received in the form of securities or guarantees related to transferred financial assets	**623 280**	**807 117**

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. 2019				
			Amounts subject to enforceable master netting agreements				
Description	Gross financial assets recognised in the balance sheet	Assets not subject to enforceable netting agreements[1]	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
Assets							
Secured lending	222 946	80 807	142 140	-	90 773	51 367	**-**
Cash collateral posted	1 090	-	1 090	984	-	-	**107**
Financial derivatives	3 335	159	3 176	2 441	598	-	**136**
Total	**227 372**	**80 966**	**146 406**	**3 425**	**91 371**	**51 367**	**243**

Amounts in NOK millions			31 Dec. 2019				
			Amounts subject to enforceable master netting agreements				
Description	Gross financial liabilities recognised in the balance sheet	Liabili-ties not subject to enforceable netting agreements[2]	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted- (recognised as asset)	Security collateral posted (not de-recognised)	Liabilities after netting and collateral
Liabilities							
Secured borrowing	338 266	71 979	266 287	-	100 734	164 663	**890**
Cash collateral received	6 754	-	6 754	920	-	-	**5 834**
Financial derivatives	3 294	-	3 294	2 441	570	-	**283**
Total	**348 314**	**71 979**	**276 335**	**3 362**	**101 304**	**164 663**	**7 006**

Amounts in NOK millions							31 Dec. 2018
			Amounts subject to enforceable master netting agreements				
Description	Gross financial assets recognised in the balance sheet	Assets not subject to enforceable netting agreements[1]	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
Assets							
Secured lending	216 768	58 238	158 530	-	106 432	52 098	**-**
Cash collateral posted	1 806	-	1 806	1 685	-	-	**121**
Financial derivatives	3 576	50	3 526	2 593	908	-	**25**
Total	**222 150**	**58 288**	**163 862**	**4 278**	**107 340**	**52 098**	**146**

Amounts in NOK millions							31 Dec. 2018
			Amounts subject to enforceable master netting agreements				
Description	Gross financial liabilities recognised in the balance sheet	Liabili-ties not subject to enforceable netting agreements[2]	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted- (recognised as asset)	Security collateral posted (not de-recognised)	Liabilities after netting and collateral
Liabilities							
Secured borrowing	360 105	51 746	308 358	-	106 432	200 752	**1 174**
Cash collateral received	5 017	-	5 017	1 488	-	-	**3 529**
Financial derivatives	4 222	-	4 222	2 593	1 176	-	**452**
Total	**369 344**	**51 746**	**317 597**	**4 081**	**107 608**	**200 752**	**5 155**

[1] *Secured lending* includes amounts related to shares purchased in combination with equity swaps. In 2019, this amounted to NOK 67bn (NOK 37bn in 2018). See Note 12 *Secured lending and borrowing* for further information.

[2] *Secured borrowing* includes amounts related to shares sold in combination with equity swaps. In 2019, this amounted to NOK 47bn (NOK 37bn in 2018). See Note 12 *Secured lending and borrowing* for further information.

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 2019, NOK 4.5bn was deducted from the krone account to pay the accrued management fee for 2018 to Norges Bank, compared to NOK 4.7bn in 2018.

Internal trades in the form of money market lending or borrowing 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 2019, the net balance between the portfolios represented a receivable for the GPFG of NOK 195m, compared to a receivable of NOK 154m at the end of 2018. 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 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
WOSC Partners LP	London	London	75.00	75.00	2019
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
NBIM Jeanne SCI	Paris	Paris	100.00	100.00	2019

Company	Business address	Property address	Ownership share and voting right in percent	Effective ownership share of underlying properties in percent	Recognised from
Germany					
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Cologne	Berlin	50.00	50.00	2012
STEG LBG 2 S.C.S	Luxembourg	Munich	100.00	100.00	2014
STEG LBG 3 S.C.S	Luxembourg	Munich	100.00	100.00	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
United States					
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 under-lying properties in percent	Recog-nised from
Consolidated subsidiaries					
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.

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 2019, 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 2019, 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.

Sentrale forhold ved revisjonen
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2019. 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 PORTFOLIO IN THE FOREIGN EXCHANGE RESERVES AND THE GOVERNMENT PENSION FUND GLOBAL

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 investment management processes are analysed and followed up. Norges Bank's IT systems are mainly standard systems adapted to Norges Bank's needs. The IT solutions are operated in cooperation with various third parties, and during the year central IT systems for asset management were transferred to a cloud-based platform. There is often increased operational risk involved in this type of change process. For a more detailed description of the development, management and operation of IT systems in Norges Bank, see chapter 5.1 Management organisation in the annual report 2019. The IT systems used in the investment management are absolutely central for accounting and reporting. Effective internal controls in the automated investment management processes as well as in handling deviations and in the transition to a cloud-based solution are of significant importance to form the basis for ensuring accurate, complete and reliable financial reporting and this 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. This also included controls related to the transition to a cloud-based platform. 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 2019, the launch of new denominations in Norway’s eighth banknote series was completed with the 1000-krone banknote. See note 16 for a description of the accounting policy 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 control activities, 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 one of these we conducted a re-count of a sample of notes. We participated on a count of the cash depot run by Norges Bank and conducted in relation to this a re-count of a sample of notes.. We compared the reports from the external third parties, Norges Bank 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 USING MODELS WITH SIGNIFICANT USE OF UNOBSERVABLE INPUT (LEVEL 3 ASSETS), GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Fair value of the majority of assets and liabilities in the Government Pension Fund Global is based on official closing prices and observable market prices. Investments in unlisted real estate and some securities are, however, valued using models with significant use of unobservable inputs, and these type of assets are classified as Level 3 in the fair value hierarchy. 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. The valuation of Level 3 investments is therefore subject to considerable uncertainty. The recognised value of assets classified as level 3 is NOK 265.4 billion at 31 December 2019. Of this, investments in unlisted real estate amount to NOK 264.5 billion. The valuation of unlisted real estate investments is complex and requires judgement. Valuation 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 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 cashflows and applicable discount rates. For a sample of properties, we tested that these control activities had operated effectively in the reporting period. For a sample of properties, 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 selected unobservable inputs used in determining future 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 notes 6 and 7 regarding valuation of unlisted real estate was adequate.

RETURNS 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. All of the fund's investments, including investments in unlisted real estate 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 Returns. Measurement of absolute and relative returns is a complex area for the financial reporting and is therefore a key audit matter.	Norges Bank has established various control activities related to the calculation of returns. We assessed and tested the design of 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. We tested that a sample of these control activities had operated effectively in the reporting period. In addition, we recalculated that 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. We assessed whether the returns disclosures in note 20, GPFG note 3 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 also provide the Executive Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 result is consistent with the financial statements and complies with the law, the regulations and the guidelines 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, 5 February 2020
Deloitte AS

Henrik Woxholt
State Authorised Public Accountant (Norway)

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

To the Supervisory Council of Norges Bank

Independent auditor's assurance report on the information on "Responsible investment management for 2019"

We have been engaged by the Supervisory Council of Norges Bank to provide limited assurance in respect of the information in the section "Responsible investment management until Responsible Real Estate investment management in GPFG, presented on pages 71 – 74 in the Norge Bank – Annual Report 2019. Our responsibility is to conclude with a limited level of assurance that:

- Norges Bank has established procedures to identify, collect, compile, document and validate information for 2019 to be included in the abovementioned part of the section regarding Responsible investment management.
- The information in the abovementioned part of the section regarding Responsible investment management is presented consistently with the underlying documentation.

Responsibilities of the Executive Board and the Governor

The Executive Board and the Governor are responsible for the preparation and presentation of the information. The Executive Board and the Governor are also responsible for such internal controls they deem necessary to be able to prepare information that is free from material misstatements, whether due to fraud or error.

Norges Bank's reporting principles for the preparation of the Responsible investment management section is described in the section.

Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion on the information in the Responsible investment management section. We have conducted our work in accordance with ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

Deloitte AS is subject to International Standard on Quality Control 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Considering the risk of material misstatement, our work included analytical procedures and interviews with management and individual resources responsible for responsible investment management, as well as a review on a sample basis of evidence supporting the information in the Responsible investment management section.

We believe that our work provides an appropriate basis for us to provide a conclusion with a limited level of assurance on the subject matters.

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

Conclusions
Based on our review, nothing has come to our attention that causes us not to believe that:

- Norges Bank has established procedures to identify, collect, compile, document and validate information for 2019 to be included in the abovementioned part of the section regarding Responsible investment management.
- The information in the abovementioned part of the section regarding Responsible investment management is presented consistently with the underlying documentation.

Oslo, 5 February, 2020
Deloitte AS

Henrik Woxholt
State Authorised Public Accountant

Frank Dahl
Deloitte Sustainability

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

RESOLUTION OF THE SUPERVISORY COUNCIL ON THE FINANCIAL STATEMENTS FOR 2019

Norges Bank's Supervisory Council adopted the following decision at its meeting 26 February 2020:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2019.
- The Supervisory Council takes note of the auditor's report for Norges Bank and the auditor's report on responsible investment for 2019 and approves Norges Bank's financial statements for 2019.
- In accordance with the guidelines, the net profit of NOK 43.8bn is to be transferred as follows: NOK 14.3bn to the Adjustment Fund and NOK 29.5bn to the Transfer Fund. From the Transfer Fund, one-third, or NOK 19.7bn, 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 2019 will be adopted by the Supervisory Council on 25 March 2020 and published upon submission to the Storting.

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