NORGES BANK
ANNUAL REPORT

/2017

Our mission

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

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

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

This is Norges Bank

Norges Bank is Norway's central bank.

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

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

Norges Bank sets the key policy rate eight times a year. The operational implementation of monetary policy is oriented towards low and stable inflation, with an operational target of annual consumer price inflation of close to 2.5% over time. As part of its work to promote stability in the financial system, the Bank has been assigned responsibility for preparing a decision basis and providing advice to the Ministry of Finance regarding the level of the countercyclical capital buffer requirement imposed on banks.

The Bank is responsible for the management of the GPFG. The objective is to achieve the highest possible return net of costs, measured in the fund's currency basket and in line with the limits set for investment management.

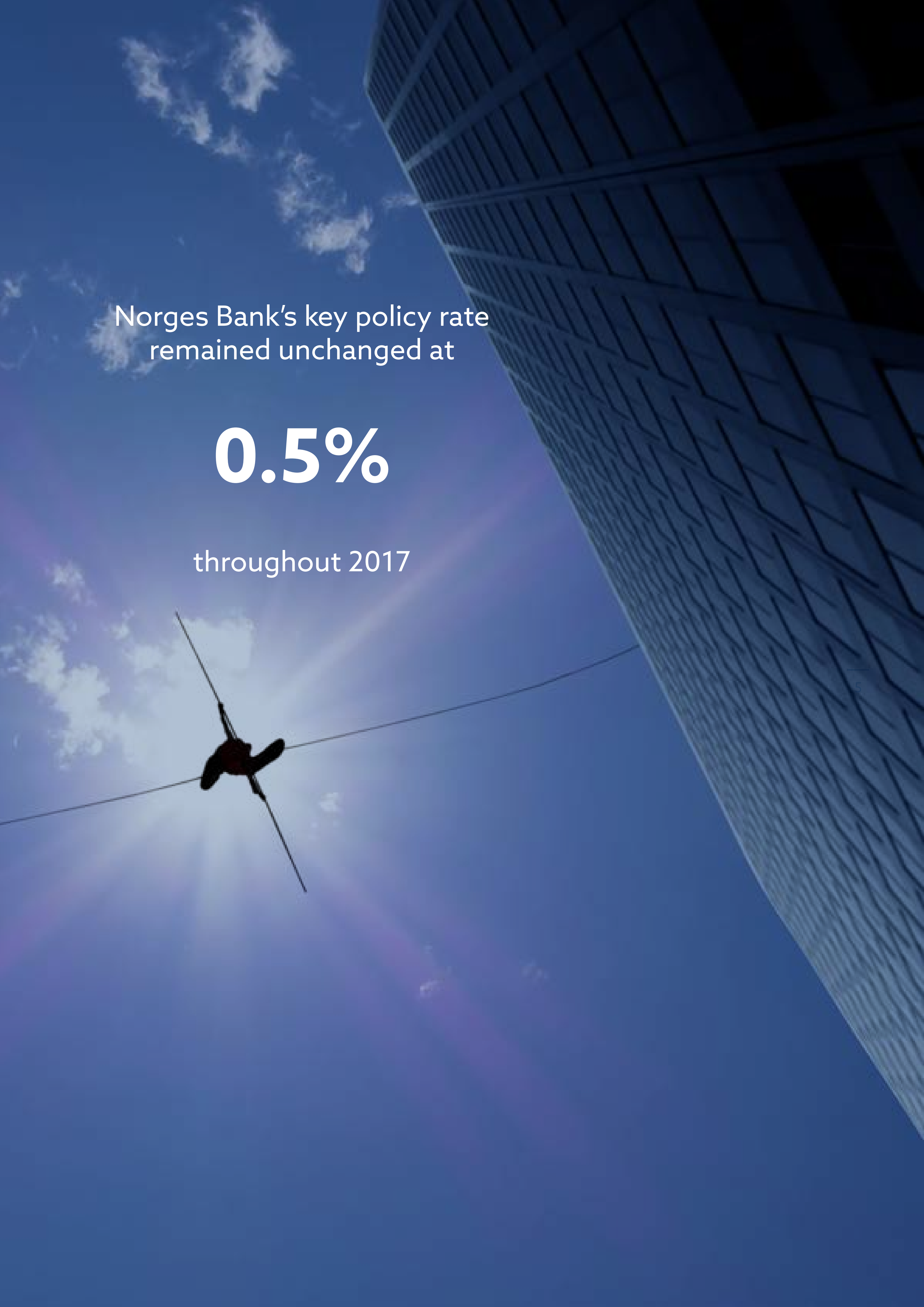
Even though Norges Bank acts on behalf of the government and the nation, the Bank plays an independent role in the Norwegian state system.

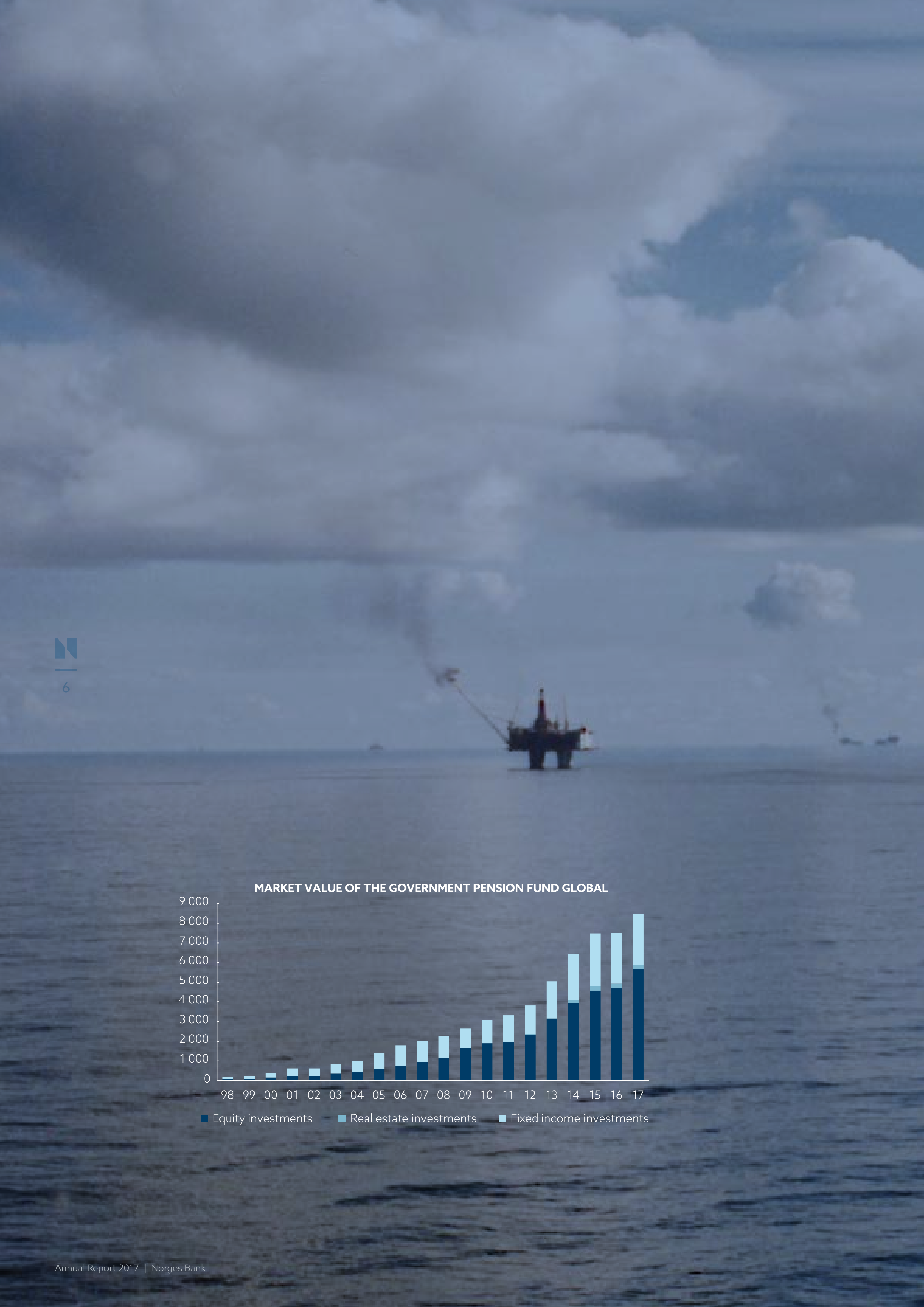
Our vision and our values

Norges Bank is committed to being a transparent and well-run central bank. We aim to be at the forefront of monetary policy innovation and the further development of a modern payment system. 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 responsible.


KEY POLICY RATE IN NORWAY
7
6
5
4
3
2
1
0
2007
2009
2011
2013
2015
2017
Source: Norges Bank

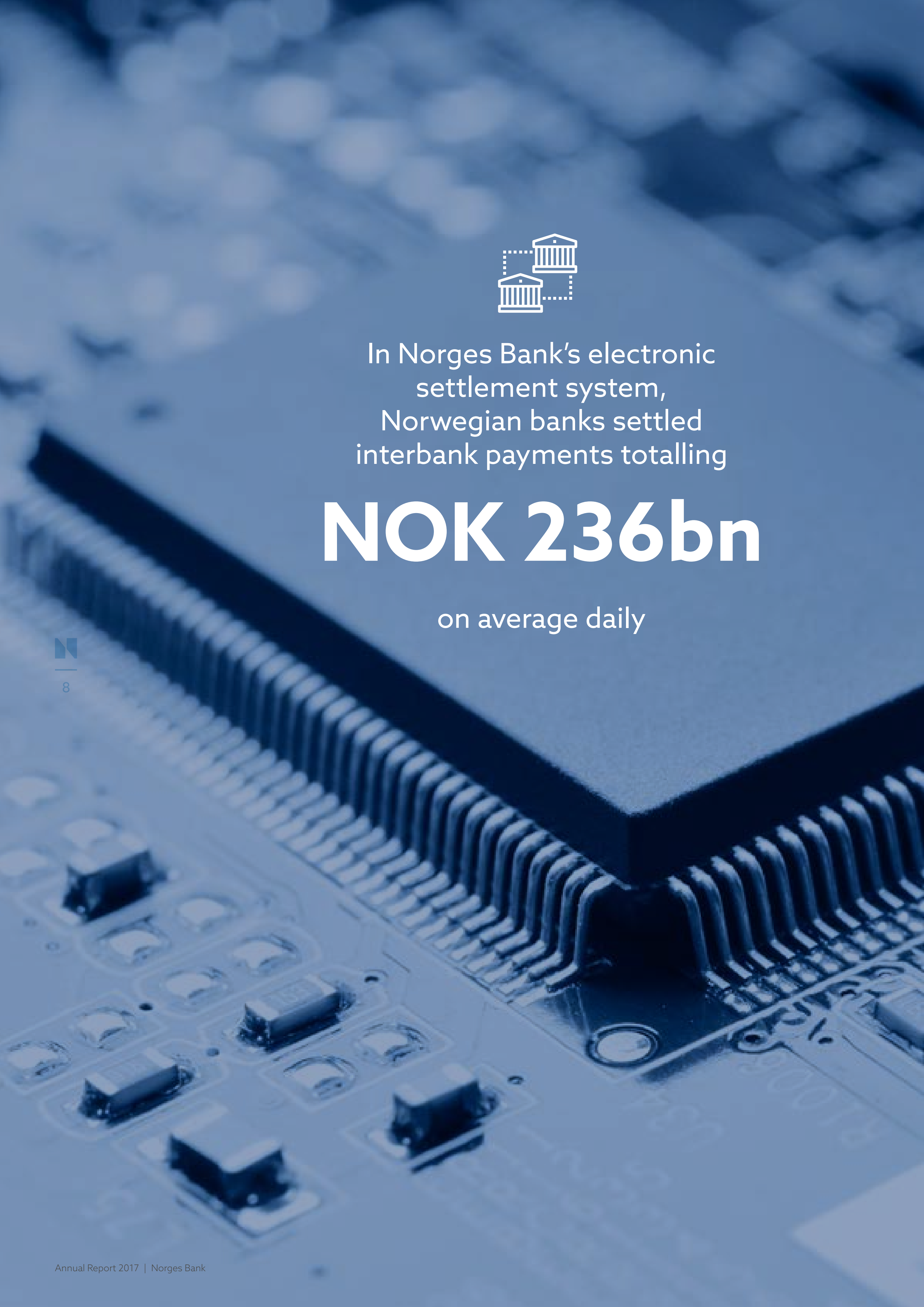

Norges Bank's key policy rate remained unchanged at
0.5%
throughout 2017


MARKET VALUE OF THE GOVERNMENT PENSION FUND GLOBAL
9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
0
98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17
Equity investments
Real estate investments
Fixed income investments

The market value of the Government Pension Fund Global increased to

NOK 8 488bn

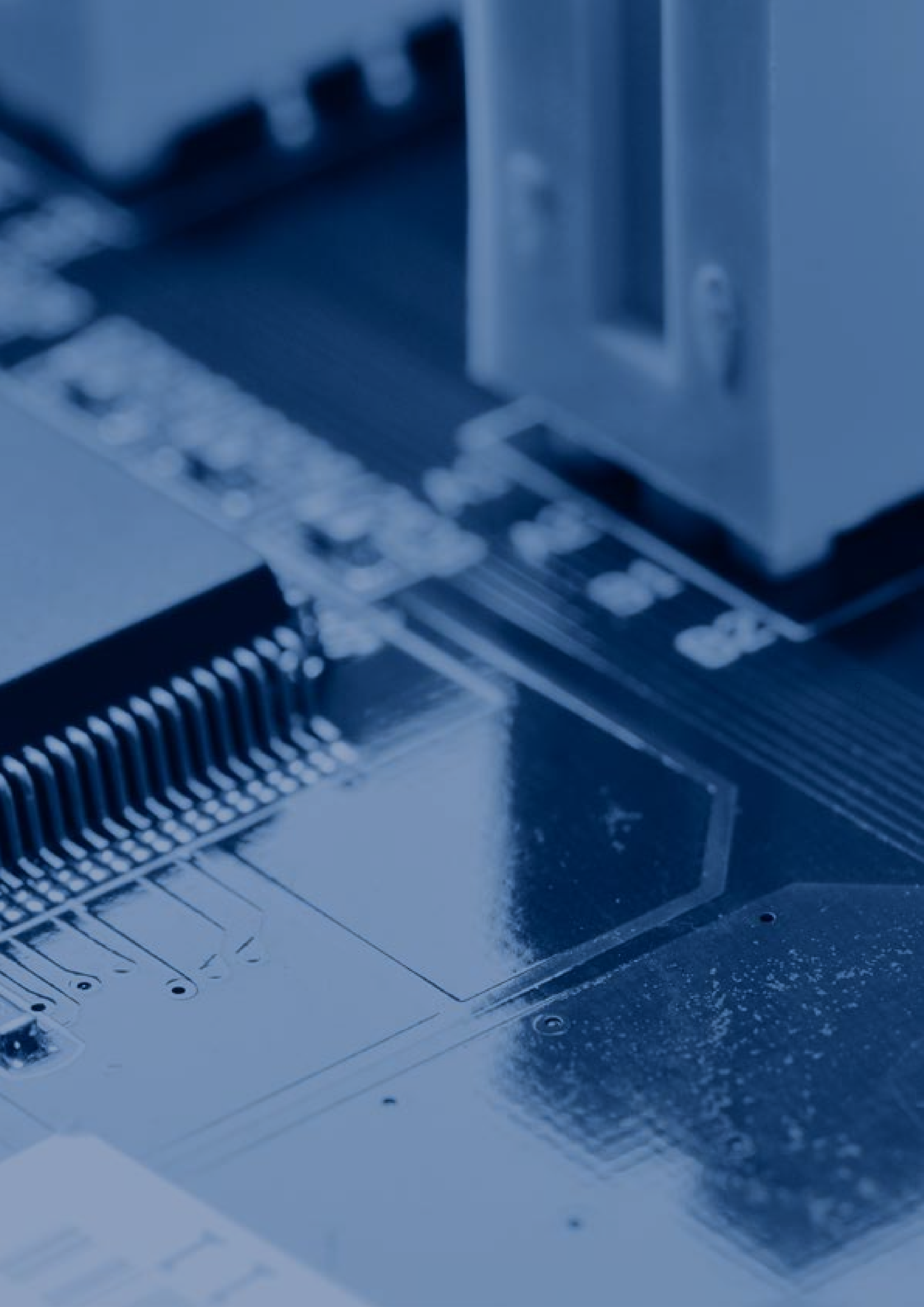
at the end of 2017



In Norges Bank's electronic settlement system, Norwegian banks settled interbank payments totalling

NOK 236bn

on average daily



	2013	2014	2015	2016	2017
Employees	**701**	**763**	**856**	**923**	**922**
Employees NBCBO	**331**	**335**	**338**	**355**	**349**
Employees NBIM	**370**	**428**	**518**	**568**	**573**


Norges Bank has
922 employees
from 34 countries

Strategy for 2017–2019

of 10 January 2017

Challenges and actions

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 will strengthen contingency planning for situations in which there is limited room for manoeuvre in interest rate setting
- Norges Bank will provide the Ministry of Finance with its assessment of the monetary policy mandate in the light of its experience of inflation targeting since 2001
- Norges Bank will evaluate and update the model apparatus used in monetary policy analyses
- Norges Bank will continue working to determine how best to take uncertainty and risk into account in monetary policy
- Norges Bank will enhance communication regarding the Executive Board's monetary policy discussions
- Norges Bank will develop its understanding of the way monetary policy affects financial stability and continue its work on integrating monetary and macroprudential policy analyses
- Norges Bank will establish general principles for liquidity policy

FINANCIAL STABILITY AFTER THE FINANCIAL CRISIS

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

ACTIONS:

- Norges Bank will continue working to prevent systemic risk and to enhance the resilience of the financial system
- Norges Bank will develop and use a wider range of systemic risk indicators and macroprudential models, in line with international best practice
- Norges Bank will increase its use of different types of microdata to shed light on monetary policy and macroprudential issues
- Norges Bank will influence the formulation of financial system regulation through its analyses and recommendations

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 will, in consultation with the industry, work to promote faster payments with immediate settlement
- Norges Bank will assess whether decentralised technology could increase the efficiency of the Norwegian financial infrastructure and will explore whether electronic central bank money could serve as a possible future means of payment in Norway
- Norges Bank will supply the public with cash as a means of payment, and a new banknote series will be issued in the course of the strategy period
- Norges Bank will, in cooperation with Finanstilsynet (Financial Supervisory Authority of Norway), follow up on its advice to the authorities regarding contingency arrangements for the payment system
- Norges Bank will update and improve its most critical IT systems and ensure their robustness, modernisation, operational reliability and cost-efficiency
- Norges Bank will strengthen its contingency planning to protect the core of the payment system (Norges Bank's settlement system) and the Bank's other mission-critical systems against cybercrime

Strategy for 2017–2019

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

CHALLENGE:

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

ACTIONS:

- Norges Bank will take advantage of the GPFG's unique characteristics and perform its investment management assignment in a cost-efficient manner to achieve the highest possible return within the framework of the investment management mandate
- Norges Bank will strengthen its advisory role with regard to the development of the GPFG investment strategy in order to secure a solid, long-term return
- Norges Bank will strengthen its operational management of the GPFG through further development of the internal reference portfolios
- Norges Bank will place emphasis on its role as a long-term, professional and responsible owner with in-depth knowledge about the largest companies
- Norges Bank will be a global leader in responsible investment and will contribute to the development of international standards and principles
- Norges Bank will continue to build a portfolio of unlisted real estate investments concentrated on a limited number of major cities around the world
- Norges Bank expects to keep internal management costs below 5 basis points

A TRANSPARENT, PREDICTABLE AND ACCESSIBLE CENTRAL BANK

CHALLENGE:

To maintain confidence in the way Norges Bank accomplishes its tasks in the interest of the Norwegian people, transparency with regard to all the Bank's activities is essential. Openly communicating our decisions and response pattern will enhance 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:

- Norges Bank will be transparent, correct, predictable and accountable
- Norges Bank will communicate frequently, simply and clearly
- Norges Bank's website will at all times be updated with all important information
- Norges Bank will give weight to expanding its dialogue with different target groups

OUR MOST IMPORTANT RESOURCE IS OUR STAFF

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

ACTIONS:
- Norges Bank will offer professional development opportunities
- Norges Bank will continue to promote a performance-oriented corporate culture with an emphasis on innovation and teamwork
- Norges Bank will strengthen its contact with academic communities in Norway and abroad
- Norges Bank will continue to promote gender balance and diversity in the workplace
- Norges Bank will use leadership training programmes to strengthen the understanding of leadership roles and provide insight into staff management processes

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:
- Norges Bank's use of resources will be cost-efficient, prudent and commensurate with its tasks. The cost level will be reasonable compared with similar institutions
- Norges Bank will further develop its governance framework in line with best practice. Risk management will be efficient and appropriate to the nature, scope and complexity of the Bank's activities
- Norges Bank will develop a security management model that takes account of the needs of all areas of activity. Contingency exercises will be conducted regularly
- Norges Bank will develop an environmental strategy for the day-to-day operation of the Bank

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NORGES BANK'S ANNUAL FINANCIAL STATEMENTS

Governance of Norges Bank

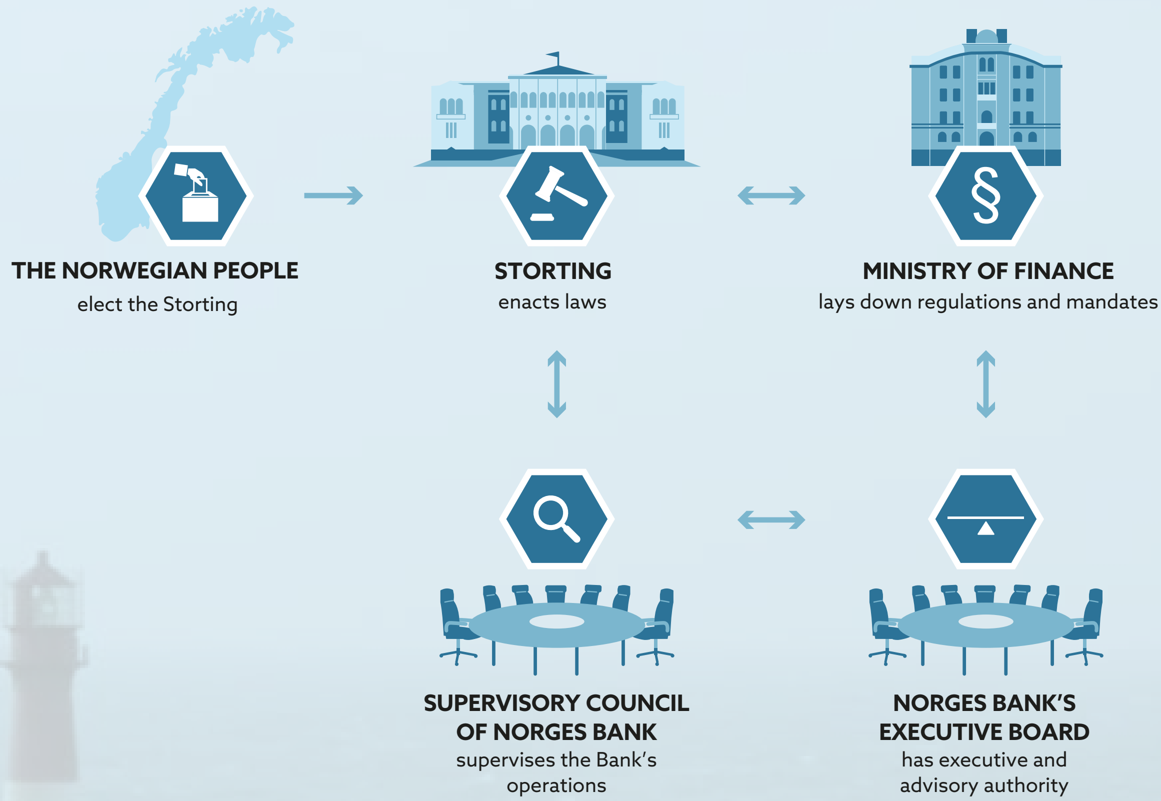
Norges Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (the Norges Bank Act). The Act states that Norges Bank is to be an executive and advisory body for monetary, credit and foreign exchange policy. The Bank is required to issue banknotes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

The highest decision-making bodies of Norges Bank are the Executive Board and the Supervisory Council.

The Executive Board is appointed by the King in Council and is responsible for the Bank's executive and advisory activities. With a total of 12 members, including two alternates and two employee representatives, the Board is responsible for ensuring the sound organisation of, and establishing satisfactory frameworks, objectives and principles for, the Bank's operations. The Board must ensure that the Bank's operations are subject to adequate management and control.

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

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


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

Norges Bank's Executive Board

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

Internal Audit provides the Executive Board with independent assessments of risk management and internal control.

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

STANDING FROM LEFT: Mona Helen Sørensen, Karen Helene Ulltveit-Moe, Jon Nicolaisen, Øystein Olsen, Kathryn Moore Baker, Steinar Juel, Egil Matsen and Nina Larsson Midthjell
SITTING FROM LEFT: Kjetil Storesletten, Kristine Landmark, Arne Hyttnes and Kristine Ryssdal

AUDIT COMMITTEE

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

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2009 to contribute to thorough and independent discussions of matters pertaining to Norges Bank's salary and remuneration schemes. The Committee comprises three members, and the

General Secretariat functions as the Committee's secretariat.

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

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

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

RISK AND INVESTMENT COMMITTEE
The Risk and Investment Committee was established in 2015 to strengthen and improve the efficiency of the Executive Board's work related to overall risk management, the real estate management framework and major investment decisions.

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

MEMBERS OF THE EXECUTIVE BOARD

ØYSTEIN OLSEN

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

Mr Olsen's work experience includes posts as Director General of Statistics Norway and Director General at the Ministry of Finance. He has also chaired or been a member of several government-appointed commissions. Mr 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 six years.

Mr Nicolaisen's 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. In the period June 2015–June 2017, he was co-chair of the Regional Consultative Group for Europe under the Financial Stability Board (FSB) with Ms Anne Le Lorier, First Deputy Governor of the Banque de France. Mr 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 six years. Chair of the Ownership Committee and of the Risk and Investment Committee of the Executive Board.

Mr Matsen served on the Executive Board as alternate 2010–2011 and as board member 2012–2015. He holds the position of professor and Head of the Department of Economics at the Norwegian University of Science and Technology (NTNU) and has been a Fulbright Fellow at Harvard University and researcher at Norges Bank. Mr Matsen holds a PhD in economics from the NHH Norwegian School of Economics.

KJETIL STORESLETTEN

Re-appointed board member for the period 1 January 2018–31 December 2021. Member of the Executive Board since 2014. Member of the Risk and Investment Committee of the Executive Board.

Mr Storesletten holds a professorship at the Institute of Economics of the University of Oslo. He was previously affiliated with Stockholm University and the Federal Reserve Bank of Minneapolis. He has been a member of government-appointed commissions and holds a number of other positions of responsibility, including Vice-President of the European Economic Association and editor of the journal *Quantitative Economics*. Mr Storesletten holds a degree in economics and business administration from the NHH Norwegian School of Economics and a PhD in economics from Carnegie Mellon University.

KAREN HELENE ULLTVEIT-MOE

Re-appointed board member for the period 1 January 2018–31 December 2021. Member of the Executive Board since 2014. Chair of the Audit Committee and member of the Risk and Investment Committee of the Executive Board.

Ms Ulltveit-Moe holds a professorship at the Institute of Economics of the University of Oslo and is Research Fellow at the Centre for Economic Policy Research (CEPR) and CESifo. She has previously been affiliated with NHH Norwegian School of Economics and has held a number of positions of responsibility. She has board experience from the business sector, including the Kverneland Group and the Renewable Energy Corporation (REC), and has chaired or been a member of several government-appointed commissions, including the Government Commission on Tax Policy, the EEA Review Committee and the Government Commission on Working Time. Ms Ulltveit-Moe holds an MSc in economics from the University of Mannheim and a PhD in economics from the NHH Norwegian School of Economics.

KATHRYN MOORE BAKER

Appointed board member for the period 1 January 2016–31 December 2019. Member of the Audit Committee and the Risk and Investment Committee of the Executive Board. Ms Baker served as alternate member in the period 19 June 2015–31 December 2015.

Ms Baker has extensive board experience, including the positions of Chair of the Board at Catena Media and Navamedic ASA and board member at Akastor, DOF and Sevan Marine. She was previously a partner at the private equity company Reiten & Co, a consultant at McKinsey & Company and a financial analyst at Morgan Stanley. Ms Baker holds a BA in economics from Wellesley College and an MBA from the Tuck School of Business at Dartmouth College.

STEINAR JUEL

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

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

KRISTINE RYSSDAL

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

Ms Ryssdal is General Counsel at Yara International ASA. Other professional experience includes Vice President Legal at Statoil, Chief Legal Officer at the Renewable Energy Corporation (REC) and Legal Counsel at Norsk Hydro. In addition, she has several years' experience as a lawyer at the Office of the Attorney General. She has previously held various board positions in REC and has been a member of Kommunalbanken Norway's Supervisory Board. Member of the board of Borregaard ASA. Ms Ryssdal holds a degree in law (Cand. jur.) from the University of Oslo and a Master of Laws from the London School of Economics. She also has a right of audience in the Supreme Court.

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

ARNE HYTTNES,
First alternate

Mr 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. Mr Hyttnes holds a degree in economics and business administration from the NHH Norwegian School of Economics.

KRISTINE LANDMARK,
Second alternate

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

Ms Landmark has extensive business sector experience, including positions at Sunnmørsbanken, and as Managing Director of Stokke AS and the Slettvoll furniture company. Other professional experience includes various positions of responsibility and board member experience. Ms Landmark is an active member of the board of Hexagon Composites, Glamox, Plantasjen, Norway Royal Salmon and Ratos AB. Ms Landmark holds a degree in economics and business administration from the NHH Norwegian School of Economics.

EMPLOYEE REPRESENTATIVES

MONA HELEN SØRENSEN

Employee representative as from 1 January 2016.

Norges Bank employee since 1991. Chair and chief union representative of the Finance Sector Union of Norway at Norges Bank from 1 January 2016. Ms 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. Mr Robert Kjørholt Leirpoll is alternate for Ms Sørensen.

NINA LARSSON MIDTHJELL

Employee representative as from 1 November 2016.

Norges Bank employee since 2008. Nominated by the Federation of Norwegian Professional Associations at Norges Bank (ANB). Ms Midthjell holds a PhD in economics from the University of Oslo. Mr Kristoffer Haugen is alternate for Ms Midthjell.

The composition of the Executive Board was changed at the turn of the year 2017–2018. Hilde Myrberg resigned after four years as a member. Kjetil Storesletten and Karen Helene Ulltveit-Moe were reappointed for a further four-year term. Kristine Ryssdal was appointed as board member on 1 January 2018.

Work of the Executive Board

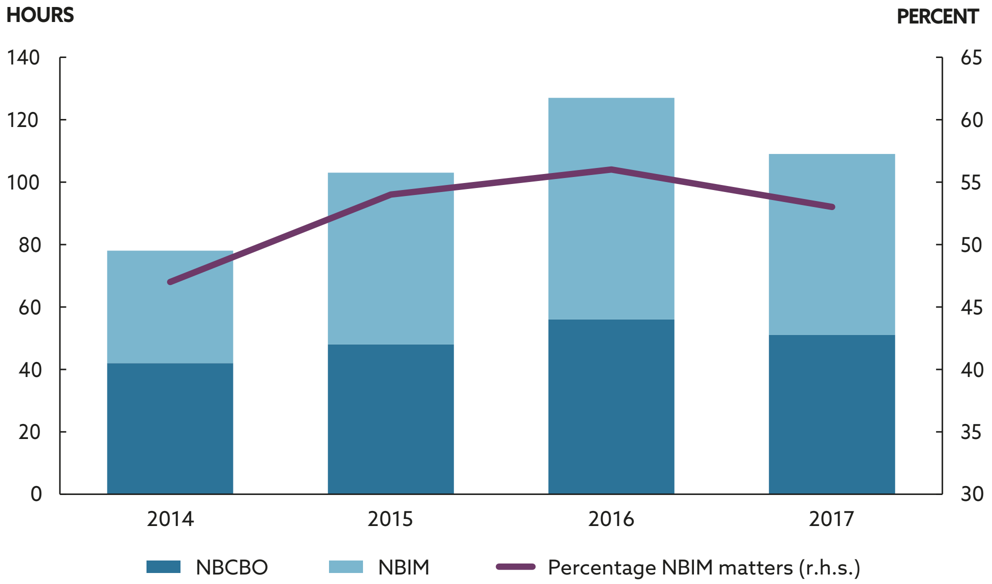
WORK OF THE EXECUTIVE BOARD 2014–2017

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

* The high number of hours worked in 2016 is due in part to the considerable amount of time spent by the Executive Board on discussing the strategy for Norges Bank for the period 2017-2019, including a three-day strategy seminar.

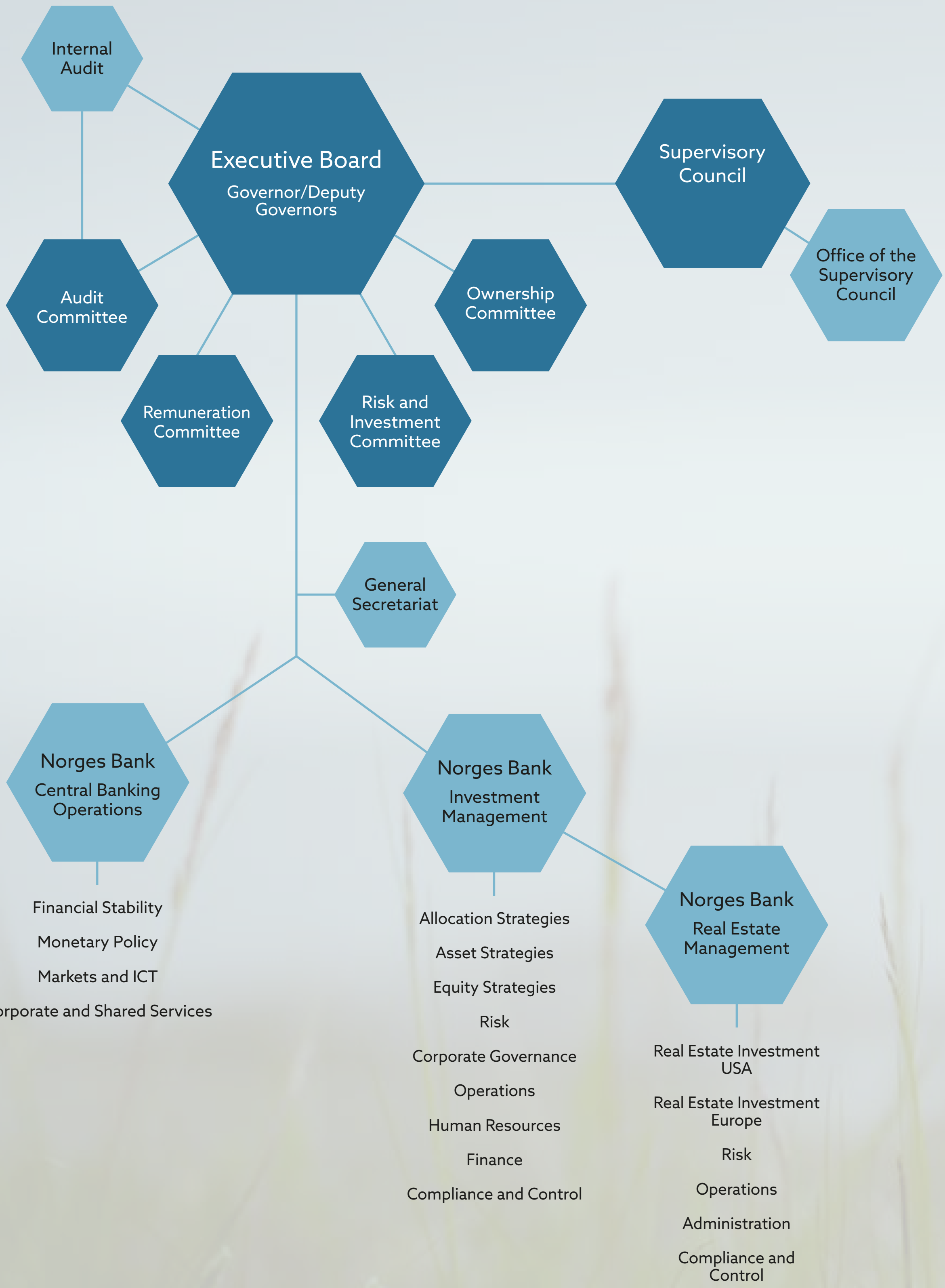
Distribution of time, Executive Board

DISTRIBUTION OF TIME, EXECUTIVE BOARD 2014-2017



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.).

ORGANISATION CHART NORGES BANK



Annual Report of the Executive Board

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

Norges Bank is in the process of implementing the strategy for the period 2017–2019. The Bank's monetary policy communication has improved. The frequency of monetary policy meetings has been increased and the minutes are published on an ongoing basis. The analytical framework for macroprudential policy and surveillance has been further developed by increasing the Bank's use of microdata and new indicators. The Bank's advisory role with regard to the development of the GPFG investment strategy has been strengthened, and in 2017, the Bank gave advice on changes in the composition of GPFG's benchmark indexes. The Executive Board monitors the threats represented by rising cybercrime, and the work to update and improve the Bank's most critical IT systems was followed up.

The first two denominations of the new Norwegian banknote series, the 100-krone and 200-krone notes, were put into circulation at an official ceremony in Svolvær on 30 May 2017. The motifs on all denominations of the new banknote series communicate the theme "The Sea" and there are new and enhanced security features compared with previous banknotes.

In June, the Central Bank Law Commission published its report *NOU (Official Norwegian Reports) 2017:13 New central bank act. Organisation of Norges Bank and the management of the Government Pension Fund Global*. The Commission's recommendation put the central bank's mandate, organisation and tasks, as well as the governance structure for the management of the GPFG on the agenda. The Executive Board submitted its consultation response in October 2017.

In 2017, the Executive Board amended the principles for the management of the foreign exchange reserves. With this change, the Executive Board's foreign exchange reserves strategy is more firmly anchored.

A total of 17 Executive Board meetings were held in 2017, of which six were monetary policy meetings.

MONETARY POLICY

Norges Bank has executive and advisory responsibilities in the area of monetary policy. The operational conduct of monetary policy is oriented towards keeping inflation low and stable. The operational target of monetary policy is annual consumer price inflation of close to 2.5% over time. Monetary policy should also contribute to smoothing fluctuations in output and employment.

In 2017, economic growth among Norway's trading partners picked up and unemployment fell. In a number of these countries, unemployment was lower towards the end of 2017 than before the financial crisis. The upturn was supported by an expansionary economic policy in many countries. Economic growth in 2017 was stronger than projected in the December 2016 *Monetary Policy Report*. Despite rising growth and falling unemployment, wage growth abroad has remained moderate. In 2017, core inflation was still lower than the inflation targets of most of Norway's trading partners. Inflation abroad as a whole was broadly as projected.

Global interest rate levels remain very low despite the policy rate increases in the US, the UK and Canada in 2017. The Federal Reserve started to cautiously reduce its balance sheet in 2017, while the European Central Bank (ECB) announced that it would reduce its asset purchases from 2018. Overall, forward rates among trading partners showed little change through 2017 and indicated a very gradual rise in international interest rates.

The premium in Norwegian money market rates declined through 2017 and more than expected at the beginning of the year. Due to lower money market premiums, Norwegian money market rates fell even though Norges Bank kept the key policy rate unchanged through the year. Together with lower risk premiums on bank bonds, this contributed to the fall in banks' funding costs. In 2017, household lending rates showed little change and banks' lending margins increased. Corporate lending rates fell, approximately in pace with money market rates.

In the first half of 2017, oil prices hovered around USD 50 per barrel, before rising to about USD 65 per barrel at the end of the year. Futures prices also moved up somewhat through 2017. Oil price developments may reflect the steady growth in global oil consumption and the oil production shortfalls in a number of important oil-exporting countries.

After appreciating in 2016, the krone weakened by a little more than 4% through 2017, as measured by the import-weighted index I-44. Developments in the interest rate differential against trading partner countries did little to explain the depreciation of the krone. This may indicate that the NOK risk premium increased through 2017 despite higher oil prices. Throughout 2017, the krone was weaker than projected at the beginning of the year.

In 2016, growth in the mainland economy was at its lowest since the financial crisis in 2009. In 2017, economic activity picked up markedly and growth was stronger than expected at year-end 2016, partly due to low interest rates, improved competitiveness and an expansionary fiscal policy. At the same time, the decline in oil investment slowed. Growth in non-oil business investment increased from 2016 to 2017, while growth in housing investment was approximately as strong as in the previous year. Consumer confidence, as measured by expectation and confidence indicators, rose from a low level in 2016, and growth in household consumption picked up through 2017.

> Throughout 2017, the key policy rate was kept unchanged at 0.5%.

Throughout 2017, capacity utilisation in the Norwegian economy was below a normal level. However, through the year, resource utilisation increased and the labour market improved. Employment rose, and both registered unemployment and unemployment measured by the Labour Force Survey (LFS) declined more than projected.

Since 2014, wage growth has been restrained by the decline in oil prices, lower capacity utilisation and lower underlying productivity growth. In 2017, wage growth was also moderate, but higher than in the previous year, partly owing to a tighter labour market and higher economic growth. In both 2016 and 2017, wage growth was lower than projected at year-end 2016.

Since 2013 and to the beginning of 2016, consumer price inflation was boosted by the depreciation of the Norwegian krone. Inflation declined from summer 2016. In 2017, the year-on-year rise in the consumer price index (CPI) was 1.8%, while the year-on-year rise in consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) was 1.4%. The low inflation reflects both low imported inflation and low cost growth in the Norwegian economy. In 2017, inflation was lower than projected at the beginning of the year. Survey-based inflation expectations fell somewhat through 2017, but remained close to the inflation target of 2.5%.

The rapid rise in house prices and debt accumulation over several years have contributed to increasing household sector vulnerability. In spring 2017, house prices began to fall, and at the end of the year they were 2.1% lower than twelve months earlier. House price developments were weaker than expected. Household credit growth slowed slightly towards the end of 2017, but was still higher than household income growth.

Throughout 2017, the key policy rate was kept unchanged at 0.5%. Global interest rates were very low and contributed to the low interest rate level in Norway. The Executive Board's assessment was that there was a continued need for an expansionary monetary policy. Capacity utilisation in the Norwegian economy was below a normal level and there were prospects that inflation would remain below 2.5% in the coming years.

Through 2017, the Bank's monetary policy assessments emphasised that growth in the Norwegian economy was picking up and the labour market was improving. Wage growth was moderate and inflation slowed through the year, but prospects for rising capacity utilisation implied that inflation would pick up again further out.

By taking into account the risk of a build-up of financial imbalances, monetary policy can promote long-term economic stability. The correction in the housing market in 2017 helped to reduce the risk of an abrupt and more pronounced decline further out. At the end of 2017, the risk of a further build-up of financial imbalances appeared to be less likely than at the beginning of the year. Uncertainty surrounding the effects of monetary policy has suggested a cautious approach to interest rate setting. The Executive Board gave weight to the fact that this consideration would also be relevant when it becomes appropriate to increase the key policy rate.

The forecast for the key policy rate was revised up through 2017. The analyses published in the December 2017 *Monetary Policy Report* implied a key policy rate that would remain close to 0.5% in the period to autumn 2018, followed by a gradual increase. The output gap was expected to narrow gradually and to close in 2019, while inflation was expected to edge higher to a little more than 2% at the end of 2020.

FINANCIAL STABILITY

A stable financial system is important for facilitating financing and the distribution of risk in the economy. Norges Bank has a particular responsibility for promoting robust and efficient financial markets and payment systems.

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. The countercyclical capital buffer is part of the total Tier 1 capital requirement applied to banks. Banks should build and hold a countercyclical capital buffer when financial imbalances are building up or have built up. Norges Bank's assessment of financial imbalances is based on developments in credit, property prices and bank funding. On the basis of decisions from 2016, the countercyclical capital buffer rate was increased from 1.5% to 2.0% of risk-weighted assets as from 31 December 2017.

Banks increased their capital adequacy ratios further in 2017 on the back of continued low loan losses and solid profitability. A stress test in the 2017 *Financial Stability Report* showed that the largest banks' capital buffers are sufficient to absorb losses in the event of a pronounced downturn in the Norwegian economy. Banks' wholesale funding ratios have long been stable, and Norwegian banks have ample access to wholesale funding. Banks have become more resilient to a potential downturn in the Norwegian economy.

Norges Bank has long pointed out that high household debt and high property price inflation are key financial system vulnerabilities. After rising faster than household income for several years, house prices began to fall in April 2017. The correction reflects the increase in residential construction to a high level, while population growth has shown a marked decline. In addition, the requirements in the residential mortgage loan regulation were tightened on 1 January 2017. In commercial real estate, estimated selling prices for office premises in Oslo have risen sharply over several years. The rise in prices for commercial real estate in other large cities has been moderate in recent years.

Governor Øystein Olsen delivering the annual address for students at the University of Oslo.

Household credit growth was high in 2017, but slowed somewhat towards the end of the year. The decline in house prices has reduced the extent of a potential fall in the housing market. Low house price inflation will have a dampening impact on debt growth, but it will take time for household vulnerabilities to recede. Banks reported low losses and have built up capital buffers that can absorb losses in the event of a downturn in the Norwegian economy. Creditworthy enterprises appear to have ample access to credit. Through 2017, Norges Bank advised the Ministry of Finance to keep the buffer rate unchanged at 2%.

In 2017, the Government presented a legislative proposal on bank recovery and resolution in Norway. The proposal largely follows the EU directive on the recovery and resolution of banks and other credit institutions (BRRD) and has been submitted for consideration by the Storting (Norwegian parliament). In its consultation response of 5 January 2017, Norges Bank supported the main features of the proposal.

Under the proposed regulation, holders of bank bonds and short-term paper must be prepared to contribute towards the bank's recapitalisation if the bank experiences a sharp fall in capital and needs new capital. This can impact investors' risk perception of such debt instruments. Over time, this may have implications for the level of bank risk and contribute to reducing the vulnerability of the banking system.

PAYMENT SYSTEM

Norges Bank monitors the operations in the interbank systems and the securities settlement systems through its continuous supervisory and oversight responsibilities.

The financial infrastructure is generally efficient, which means that payments can be executed swiftly, securely, at a low cost and tailored to users' needs. At the same time, there is room for improvement. In 2017, there were few disruptions in the systems, which generally comply with international principles.

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

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

With the exception of two brief disruptions, the operation of Norges Bank's settlement system was stable through 2017. The settlement system handled a daily average of NOK 236bn in payment transactions. At the end of 2017, banks' sight deposits and reserves on deposit with Norges Bank totalled NOK 36.5bn.

At the urging of Norges Bank, Finance Norway has launched a project to introduce a new and improved common infrastructure for faster execution of payments. The aim is for payments between banks' customers to be completed almost instantly at any time, with manageable credit risk between banks.

> Through 2017, Norges Bank advised the Ministry of Finance to keep the buffer rate unchanged at 2%.

Work on the new Norwegian banknote series is on schedule. The first two denominations, the 100-krone and 200-krone notes, were put into circulation on 30 May 2017. The official launch took place in Svolvær in Lofoten. The 50-krone and 500-krone notes are scheduled to be issued in 2018 Q4, while the 1000-krone note will be issued in 2019.

In 2016, the Ministry of Finance requested that Norges Bank and Finanstilsynet (Financial Supervisory Authority of Norway) draw up a draft consultation document concerning responsibility for cash distribution in a contingency situation. The draft regulation was circulated for comment in January 2017 with a closing date of 2 May 2017. The report of the Central Bank Law Commission, which was presented in June 2017, proposes that banks' responsibility for cash distribution in a contingency can be regulated pursuant to the new central bank act.

MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL

At the end of 2017, the market value of the GPFG was NOK 8 488bn, an increase of NOK 978bn since the beginning of the year. The return on the GPFG was equivalent to NOK 1 028bn, while net withdrawals from the GPFG came to NOK 61bn. Changes in the krone exchange rate increased the fund's value by NOK 15bn, although this has no effect on the fund's international purchasing power.

In 2017, the return on the GPFG before management costs was 13.7% measured in the fund's currency basket. Equities returned 19.4% and bonds 3.3%. The return on unlisted real estate investment was 7.5%. Management costs amounted to 0.06% of the fund's capital.

Higher global growth expectations and continued low inflation, which set the stage for monetary policy stimulus, were reflected in financial markets in 2017. Volatility was low in both equity and fixed income markets throughout the year.

Norges Bank manages the GPFG with a view to achieving the highest possible long-term return within the constraints laid down by the Ministry of Finance. To achieve this, the Bank has developed various investment strategies to exploit the GPFG's special characteristics and strengths. For the period 2013–2017, these strategies can be grouped into fund allocation, security selection and asset management. The strategies complement each other, and the aim is that they combined and over time will yield a higher return than the benchmark index.

In 2017, the return on the GPFG before management costs was 0.7 percentage point higher than on the benchmark index. Fund allocation, security selection and asset management all contributed positively to this excess return. Viewed over the five-year period beginning in 2013, annual excess return was 0.29 percentage point. The contribution to excess return from fund allocation was negative, while both security selection and asset management made positive contributions to excess return. In the period 1998–2017, annual excess return was 0.28 percentage point before management costs.

Norges Bank has gradually built up a portfolio of real estate investments since 2010. From 2017, unlisted real estate is no longer part of the GPFG's benchmark index, and decisions on investments in real estate have been delegated to Norges Bank. The Bank invests in real estate within the limits for deviation from the GPFG's benchmark index laid down in the mandate from the Ministry of Finance. Real estate investments are funded by selling equities and bonds, and the results are reported as a sub-strategy of fund allocation. In 2017, the return on unlisted real estate was higher than the return on the equities and bonds sold to finance them. Norges Bank invests in real estate to improve diversification. The effects of real estate investments on the GPFG's overall risk and return need to be assessed over a long period.

The objective of securing the highest possible return is to be met at an acceptable level of risk. Risks are measured, analysed and followed up using a broad set of measures and analyses. One key provision in the mandate from the Ministry requires the Bank to manage the GPFG with the aim that expected relative volatility (tracking error) does not exceed 1.25 percentage points.

Deputy Governor Egil Matsen delivered a speech about the Government Pension Fund Global at Norges Bank on 27 October 2017.

The measurement of relative volatility is affected to some extent by volatility in the broad financial markets. The moderate market volatility in recent years is therefore part of the reason why measured relative volatility was not higher. Relative volatility was 0.33 percentage point at the end of 2017.

Analysis of the risk associated with the different strategies shows that overall relative volatility was substantially lower than the sum of the relative volatilities measured for each strategy. This is an indication that the use of multiple strategies has helped diversify the fund's relative risk.

The Executive Board attaches importance to cost-effective management to support the objective of the highest possible return after costs. In the period 2013–2017, annual management costs were 0.06% of the market value of the GPFG.

One important part of Norges Bank's role as manager is to advise on the further development of the fund's management. Over the past year, the Executive Board has issued advice to reduce the number of currencies and market segments in the benchmark index for bonds. The Executive Board has also issued advice recommending the removal of oil and gas stocks from the benchmark index for equity investments in consideration of the composition of the Norwegian government's total wealth. The Executive Board has also recommended permitting investment in unlisted equities and has provided input to the Ministry of Finance's work on reviewing the management of the fund.

The Executive Board is satisfied that returns have been good in 2017 and over time, and higher than the return on the benchmark index, against which returns are 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 to meet Norges Bank's international commitments. The importance of investing the reserves in liquid assets is therefore given considerable weight. Within these limits, the aim of foreign exchange reserve management is to be cost-efficient and provide a positive excess return.

In 2017, the Executive Board changed the guidelines for the management of the foreign exchange reserves by incorporating provisions on equity allocation, benchmark indexes and risk limits. With this change, the Executive Board's foreign exchange reserves strategy is more firmly anchored.

The foreign exchange reserves are divided between a fixed income portfolio and an equity portfolio. The foreign exchange reserves also include a petroleum buffer portfolio, which is intended to receive the government's cash flow from petroleum activities in foreign currency and is used for transfers to and from the GPFG. The purpose of the petroleum buffer portfolio is to provide for an appropriate management of the Government's need for converting foreign currency and NOK.

The benchmark for the fixed income portfolio is a market value-weighted index of all nominal government bonds with residual maturities of between one month and ten years issued by France, Germany, Japan, the UK and the US. The benchmark for the equity portfolio is a global equity index with geographical restrictions. The strategic equity allocation of the total equity and fixed income portfolio is 35%. Management of both portfolios is subject to an index-tracking requirement whereby expected tracking error does not exceed 0.5 percentage point. The foreign exchange reserves cannot be invested in securities that are excluded from the GPFG's investment universe.

The market value of the foreign exchange reserves was NOK 512.4bn at the end of 2017. The total for the equity portfolio was NOK 183.7bn, for the fixed income portfolio NOK 305.2bn and for the petroleum buffer portfolio NOK 23.4bn. The value of the foreign exchange reserves increased by NOK 32.3bn during 2017, primarily reflecting a high return on equity investments.

Measured in international currency, the return on the total foreign exchange reserves, excluding the petroleum buffer portfolio, was 6.9% in 2017. Equity investments returned 18.9%. Technology equities in particular contributed to the strong performance, although equities in finance and manufacturing also contributed. The equity investments outperformed the benchmark index by 0.07 percentage point.

In 2017, the fixed income investments returned 0.4%. Yields rose in the course of 2017, especially on the short end, which in isolation resulted in a loss for the fixed income portfolio. Current returns on fixed income instruments made a positive contribution to the overall fixed income portfolio. The fixed income portfolio generated a relative return of 0 percentage point.

Over the past ten years, the foreign exchange reserves have earned an annual return of 4.8%. In the view of the Executive Board, the results of management in 2017 and over the past ten years are assessed as positive.

CORPORATE SOCIAL RESPONSIBILITY

The Executive Board has laid down ethical principles for employees under which the Bank is committed to maintaining high ethical standards, respecting human rights and acting in a socially responsible manner in all its activities. Norges Bank does not accept any form of discrimination or corruption. Anti-corruption programmes have been established for all areas of the Bank.

The fulfilment of Norges Bank's role depends on confidence and an understanding of the Bank's use of instruments. The Bank therefore pursues a policy of transparency and continuously seeks to improve its communication. In 2017, the Bank enhanced communication regarding the Executive Board's monetary policy discussions by publishing the minutes of the Executive Board's monetary policy meetings on an ongoing basis and by holding monetary policy meetings more frequently.

Norges Bank manages the GPFG responsibly to support the investment objective of the highest possible return with a moderate level of risk. Long-term returns depend on sustainable development and well-functioning markets.

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

In 2017, the Bank published an expectations document on tax and transparency. A position paper on CEO remuneration was also published emphasising that remuneration should be driven by long-term value creation and align CEO and shareholder interests.

On the basis of ethical assessments, the Ministry of Finance has decided that the GPFG shall not be invested in certain types of products and that certain types of corporate behaviour are unacceptable. Ethical exclusions are regulated by the guidelines for observation and exclusion from the GPFG, and decision-making authority has rested with Norges Bank's Executive Board since 2015. Decisions on ethical exclusions or observations shall be forward-looking. The Executive Board bases its decisions on the advice of the Council on Ethics. One exception is the product-based coal criterion, which was incorporated into the guidelines for exclusion and observation in 2016, and which are implemented following a separate review by Norges Bank.

> At the end of 2017, the market value of the GPFG was NOK 8 488bn.

In 2017, the Executive Board excluded eleven companies, placed six companies under observation and removed one company from the exclusion list. The Executive Board also decided to follow up two companies through ownership work. Ten of these companies were excluded and two were placed under observation in connection with a recommendation based on the coal criterion.

Norges Bank works continuously to reduce its impact on the external environment and to encourage environmentally friendly behaviour.

PERSONNEL

Norges Bank aims to recruit from leading institutions and works systematically to strengthen and maintain an established, solid reputation. Norges Bank ranks high among Norway's most attractive workplaces. Work to market the Bank as an employer is conducted regularly on social media and at various career events. The establishment of the Education Centre is a long-term marketing measure. The Education Centre enables the Bank to host school groups, facilitating contact with young people before they make their career decisions. The Bank also promotes professional development through internal mobility, internships abroad and secondments, in-house training and further education. The Bank provides for good working conditions for employees and promotes gender balance and diversity in the workplace.

The Executive Board has set a minimum target of 40% for female employees as an overall long-term goal. Strategic work and action plans are based on this objective and are given weight in the planning and implementation of recruitment processes. The share of women on the permanent staff of Norges Bank at the end of 2017 was 32% for executive-level employees in Norges Bank Central Banking Operations (NBCBO) and 22% for executive-level employees in Norges Bank Investment Management (NBIM). For non-executive employees, the share of women was 43% in NBCBO and 30% in NBIM, virtually unchanged compared with 2016.

The Bank's management has close and regular contact with trade unions. The cooperation is constructive and helps the Bank to develop and adapt in pace with requirements for companies in general and for the Bank in particular. Development of a new common salary and career system is currently under way, and negotiations with trade unions are in the final phase. The Bank engages in negotiations and discussions to create the basis for a well-functioning workplace.

Norges Bank's priority is protecting the lives and health of all those who work in the Bank. In 2017, seven incidents/injuries directly relating to work conducted at Norges Bank's office premises or conference and holiday facilities were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2017. Sickness absence remained stable at a low level in 2017 at 2.2%, unchanged from 2016.

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

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 governance framework is to be in line with best practice.

Norges Bank's use of resources will be cost-efficient and prudent, with a cost level that is reasonable relative to similar organisations. The Executive Board focuses on the cost-efficiency of the Bank's operations and also uses external comparisons of the Bank's use of resources with that of other similar organisations, "benchmarking", as a corporate governance tool. During 2017, several cost comparisons were completed: for expenses related to the management of the GPFG, the use of resources in NBCBO and the management costs for unlisted real estate. The Executive Board notes, and is satisfied with, the favourable outcome of the Bank in these comparisons.

The Executive Board maintains a high level of IT and information security awareness, including monitoring outsourced IT functions. As a result of the increasing threat of cyberattacks and cybercrime, a number of measures have been put in place to further strengthen IT security.

In the area of investment management, the Executive Board has also focused on the methodology and procedures for the valuation of the investment portfolio. Detailed information was also published in 2017 on real estate investments and performance and risk, among other areas. The calculation of the GPFG's performance results is also verified by an independent third party in compliance with the Global Investment Performance Standards (GIPS). The GIPS verification report confirmed that NBIM is in compliance with the GIPS standards.

New personal data regulations enter into force in May 2018, at the same time as the EU's new General Data Protection Regulation (GDPR). Work to ensure compliance is well under way.

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 benchmarking. The Executive Board sets equivalent 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 2017.

The reporting and follow-up of breaches constitute an important part of the measures to improve operations and internal control. For NBIM, the Executive Board has decided that over a twelve-month period the probability that operational risk factors will result in a gross loss of NOK 750m or more must not exceed 20%. This limit is referred to as the Board's risk tolerance. In 2017, operational risk exposure was within the Board's risk tolerance. For NBCBO, key risks are monitored through regular reporting to the Executive Board on risk management measures.

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

Based on reporting by the administration and Internal Audit, the Executive Board submits an annual assessment of the risk situation to the Supervisory Council. Under the Norges Bank

Act, the Bank's financial statements are required to be audited by an external auditor. The auditor's report is included in the financial statements.

No material deficiencies in the risk management and control regime were identified in 2017, and the Executive Board assesses the control environment and control systems at Norges Bank as satisfactory.

BALANCE SHEET COMPOSITION AND FINANCIAL RISK

Norges Bank's balance sheet total at the end of 2017 amounted to NOK 9 080bn, of which the investment portfolio of the GPFG accounted for NOK 8 488bn, net of management costs. Accrued management fees for the GPFG came to NOK 4.7bn.

The Ministry of Finance places funds for investment by the GPFG in the form of a (Norwegian krone) deposit with Norges Bank (the krone account). The Bank reinvests these funds, in its own name, in the krone account of an investment portfolio composed of equities (66.6%), fixed income investments (30.8%) and real estate investments (2.6%). The net value of the investment portfolio 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. These two balance sheet items are identical in size and return. 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, as the asset manager, bears no financial risk associated with the management of the GPFG.

Norges Bank's balance sheet total at the end of 2017 amounted to NOK 9 080bn.

Excluding the GPFG, the Bank's foreign exchange reserves are the largest balance sheet asset. The foreign exchange reserves investments are presented over several lines on the asset side of the balance sheet. Net foreign exchange reserves amounted to NOK 512.4bn at the end of 2017 compared with NOK 480.1bn at the end of 2016. See the separate sections in the *Annual Report of the Executive Board* for more details on the management of the GPFG and the foreign exchange reserves.

Excluding the GPFG krone account, the largest balance sheet liability is deposits from the government. At 31 December 2017, this liability item amounted to NOK 162.4bn, compared with NOK 147.2bn in 2016. This item fluctuates considerably through the year owing to incoming and outgoing payments over the government's accounts. As in recent years, the liability item banknotes and coins in circulation remained relatively stable at around NOK 50bn, but declined somewhat in 2017. At year-end 2017, banknotes and coins in circulation amounted to NOK 48.4bn compared with NOK 50.5bn in 2016. Bank deposits, which comprise sight deposits, reserve deposits and F-deposits are managed by Norges Bank through its liquidity management policy. At 31 December 2017, the deposits amounted to NOK 64.0bn, compared with NOK 52.8bn at the end of 2016. Norges Bank has both claims on and liabilities to the International Monetary Fund (IMF). See Note 17 in the notes to the financial statements for more details. At year-end 2017, net positions with the IMF amounted to a claim of NOK 8.7bn, compared with NOK 7.4bn at the end of 2016.

This balance sheet composition entails an expected positive return in the long term, disregarding foreign currency effects, as returns on investment in equities and fixed income instruments are expected to be higher than on liabilities. The Bank's assets are primarily invested in foreign currency, whereas its liabilities are primarily in NOK.

Yields on bonds, including long-term bonds, are currently low, entailing low current returns and reducing expected returns on fixed income instruments. As a substantial share of the foreign exchange reserves and the GPFG is invested in bonds, today's low market rates may contribute to lower overall returns ahead.

In addition to the return on investments, the value of the GPFG will depend on transfers to the fund. Transfers have been lower in recent years as a result of the fall in oil prices. The level of the transfers ahead is uncertain partly because the oil price could vary considerably.

Changes in the krone exchange rate can also have a substantial impact on the value of the foreign exchange reserves and 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 and these are further described through policies and guidelines for the operational areas. Investment risk includes market risk, credit risk and counterparty risk.

The 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 methodologies and processes. Valuations, performance measurement, management and control of risk in investment management are required to comply with internationally recognised standards and methods. See the notes to the financial statements for more details.

INCOME STATEMENT

Norges Bank's total comprehensive income for 2017 shows a profit of NOK 27.7bn, compared with a loss of NOK 3bn in 2016. Net income from financial instruments showed a gain of NOK 28.7bn in 2017, compared with a loss of NOK 2bn in 2016. Income from equities contributed NOK 29.1bn, while income from fixed income instruments amounted to NOK 1.6bn. Net income from financial instruments includes a loss of NOK 1.5bn as a result of the foreign currency effect. The corresponding effect for 2016 was a loss of NOK 20.3bn.

Total comprehensive income for the GPFG of NOK 1 037.8bn comprises a profit on the portfolio of NOK 1 042.5bn net of management costs of NOK 4.7bn. Total comprehensive income was added to the GPFG's krone account at 31 December 2017. The return on the portfolio, after remuneration to Norges Bank is deducted, is transferred in its entirety to the krone account and thus does not affect Norges Bank's total comprehensive income or equity. Income other than from financial instruments primarily comprises remuneration from the Ministry of Finance for the management of the

Karen Helene Ulltveit-Moe, Steinar Juel and Kathryn Moore Baker during an Audit Committee meeting

GPFG. In accordance with the GPFG's management mandate, Norges Bank is remunerated for its expenses related to the management of the GPFG within an upper limit. The management remuneration from the Ministry was NOK 4.7bn in 2017, compared with NOK 3.7bn in 2016.

Norges Bank also received income from services provided to banks and the government and rent from external tenants. Income other than management fee totalled NOK 124m in 2017, compared with NOK 128m in 2016.

Operating expenses amounted to NOK 5.9bn in 2017, compared with NOK 4.8bn in 2016. The rise in costs is mainly related to fees to external managers amounting to NOK 819m owing to higher returns from the management of the GPFG. Personnel expenses rose by NOK 182m due to the cost effect of hiring in 2016, increased pension expense and performance-based pay, and the introduction of financial tax. In addition, the procurement of notes for the new banknote series came to NOK 125m. In 2017, NOK 4.7bn of the expenses was related to management of the GPFG, including wage expenses, custody and settlement services, IT expenses, analytical research services and fees for external managers. The internal operating expenses (excluding fees for external managers) for the management of the GPFG are in accordance with Norges Bank's maximum target for internal operating expenses of five basis points. The Executive Board attaches importance to high standards and low costs in the Bank's performance of its responsibilities. Changes in the threat picture with rising cyber risk and increasing complexity in management may lead to higher operating expenses in the period ahead.

Norges Bank's equity capital at 31 December 2017 was NOK 238.0bn, compared with NOK 224.7bn at 31 December 2016. The Adjustment Fund and the Transfer Fund comprise the Bank's equity capital. At the end of 2017, the Adjustment Fund stood at

NOK 209.3bn and the Transfer Fund at NOK 28.7bn. Norges Bank's equity capital was 39.9% of the balance sheet total, excluding the GPFG, compared with 39.1% in 2016.

DISTRIBUTION OF TOTAL COMPREHENSIVE INCOME

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

In accordance with the guidelines, the following transfers and allocations will be made: Norges Bank's net profit of NOK 27.7bn is to be transferred as follows: NOK 20.1bn to the Adjustment Fund and NOK 7.6bn to the Transfer Fund. NOK 14.3bn will be transferred from the Transfer Fund to the Treasury.

Oslo, 7 February 2018

Øystein Olsen
Governor/Chair

Jon Nicolaisen
First Deputy Chair

Egil Matsen
Second Deputy Chair

Kristine Ryssdal

Kjetil Storesletten

Karen Helene Ulltveit-Moe

Kathryn M. Baker

Steinar Juel

Arne Hyttnes
First alternate

Kristine Landmark
Second alternate

Mona Helen Sørensen
Employee representative

Kristoffer Haugen
Employee representative

On 16 February, Governor Øystein Olsen delivered a speech to the Supervisory Council of Norges Bank and invited guests.

Corporate social responsibility 2017

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

A TRANSPARENT CENTRAL BANK

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

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

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

RESPONSIBLE INVESTMENT

Responsible investment is an integral part of the GPFG's investment strategy, designed to support the objective of securing the highest possible return at a moderate level of risk. The Executive Board's responsible investment principles underpin the GPFG's mission by promoting a long-term financial return on investments and reducing financial risks associated with the governance and the environmental and social conduct of the companies in the portfolio.

The Ministry of Finance has laid down guidelines for observation and exclusion of companies. The Ministry of Finance has also established the Council on Ethics as an independent body providing advice on observation and exclusion of companies from the GPFG portfolio. In 2015, Norges Bank was assigned the responsibility for decisions on 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 management of the GPFG is reported in a separate document. Below are some of the main aspects of this work carried out in 2017.

Standard-setting

Standards ensure consistency across markets and raise the bar for all companies. Norges Bank's aim is to contribute to the development of well-functioning markets and sound business practices. The Bank cooperates with international organisations on setting standards and principles and formulates its expectations to companies, including standards for corporate

Norges Bank's offices in Shanghai

governance and management, sustainable business operations and the way financial markets operate. This work is in part based on the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises.

A new expectations document on tax and transparency was published in April. Norges Bank expects company boards to set priorities for their tax policy in order to achieve long-term value creation and to report on this. Over time, the objective is for companies to publish country-by-country reports on how and where their business models generate economic value, where this value is taxed and the tax paid.

In 2017, the Bank also signed an agreement with UNICEF to establish a network for children's rights in the clothing and footwear industry. In this network, companies can address conditions related to activities that may have an adverse impact on children, and discuss and improve their respect for and work on children's human rights.

Ownership

The GPFG has a small ownership share in approximately 9 000 companies worldwide. By exercising its voting rights, the fund contributes to long-term value creation, good corporate governance and sustainable business practices. Voting decisions are based on the policies set out in the voting guidelines. In addition, information from portfolio managers is integrated into company-specific voting decisions. In 2017, the fund voted on 113 216 proposals at 11 084 annual general meetings.

Good corporate governance and board responsibility are key topics in the dialogue with companies. The GPFG gives priority to the largest investments, where detailed knowledge has been acquired. Regular meetings are held with these 1 000 companies, which account for two-thirds of the total value of the portfolio.

Long-term investments

Corporate governance, strategies and sustainable reporting can have an impact on investment decisions. The aim is to identify long-term opportunities and reduce exposure to unacceptable risk.

Technologies that promote more environmentally friendly economic activity also provide investment opportunities. Companies that develop such technologies will be able to profit from changes in demand and market regulation as economies adapt to low emissions. At year-end 2017, the Bank had invested NOK 67.8bn in environment-related mandates. These investments achieved a return of 21.7% in 2017.

In 2017, the Bank issued a statement on a proposal from Principles for Responsible Investment (PRI) about the use of their reporting framework as a platform for investor reporting on climate change.

Norges Bank emphasises sustainability in its management of unlisted real estate investments. The Bank strives to improve its annual performance against the Global Real Estate Sustainability Benchmark (GRESB). Through this survey, the Bank collects information on energy and water consumption and waste management associated with the management of its real estate investments. The bank's score for the overall portfolio of unlisted real estate investments in 2017 was 70 out of 100. The Bank also has a long-term goal of achieving green certification for all office and retail buildings in its portfolio. At the end of 2017, 62% of the office and retail portfolio of properties over 2000 m^2

was green-certified, compared with 58% at the end of 2016. Initiatives and results related to energy efficiency, water consumption and waste management are included in both the GRESB survey and the certification schemes used by the Bank.

Norges Bank applies a systematic approach to risk monitoring. Based on an understanding of global developments and future scenarios, there are sectors and companies where the Bank does not wish to be a long-term owner. Exposure to unacceptable risk is reduced by not investing in such companies.

Divestment is considered for companies whose risk exposure is considered to be too high. In 2017, the GPFG divested from six companies, including three palm oil manufacturers and one soya producer on account of high risk factors related to deforestation. In addition, the GPFG divested from a chemicals company owing to the high risk associated with water management and one company based on an assessment of governance-related and social risk factors.

Exclusion and observation

The Ministry of Finance has decided, on the basis of ethical assessments, that there are certain types of products that the GPFG must not invest in and certain types of company conduct that the Bank cannot accept. Ethical exclusion is forward-looking and based on advice from an independent Council on Ethics appointed by the Ministry of Finance. One exception is exclusion related to coal, which is decided directly by Norges Bank. Ethical exclusions are regulated by the GPFG Guidelines for Observation and Exclusion.

In 2017, Norges Bank excluded one company, placed four companies under observation and removed one company from the exclusion list on the recommendation of the Council on Ethics. Norges Bank has also decided to follow up two companies through its ownership activities. The implementation of the coal criterion and the completion of the third tranche of coal exclusions continued in 2017. Norges Bank excluded ten companies and placed two companies under observation based on the coal criterion in 2017.

RESEARCH AND KNOWLEDGE-SHARING

Norges Bank's research is largely focused on monetary policy, financial stability and investment management. The Bank's research is recognised by international and Norwegian research communities and informs the Bank's policy decisions. In 2017, ten articles written by Norges Bank's researchers were accepted for publication in peer-reviewed journals. An overview of published articles can be found on the Bank's website.

Norges Bank participates in international cooperation through several channels to update and further develop standards for the performance of core central bank tasks. On behalf of the Ministry of Finance, Norges Bank contributes to IMF financing schemes for heavily indebted countries. Norges Bank also cooperates with the IMF on a project for the further development of the central bank of Zambia. The project ran for approximately five years and was completed in 2017. In 2017, agreement was reached on a new technical assistance project for the central bank of Mozambique. The programme started on 1 October 2017 and three short-term visits were completed through 2017 Q4. As from 2018 Q1, an adviser from Norges Bank will be based in Maputo.

The Teaching Initiative is established as a regular series of lectures on macroeconomics

Pupils visiting Norges Bank's Education Centre.

and finance for universities to strengthen ties with academia.

The Norwegian Finance Initiative (NFI) is a fund that aims to strengthen financial research and education in areas relevant for the long-term management of the GPFG. Through the NFI Research Programme, the Bank supports financial economics research of a high international standard within areas of particular relevance for the long-term management of the GPFG.

Research grants were also given in 2017 to two financial research projects on the effects of climate change. New York University Stern School of Business (NYU Stern) received a two-year grant to carry out financial research on environmental risks. Columbia University received a three-year grant to carry out research and hold two research conferences on climate change and capital market efficiency.

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

The Bank has implemented social responsibility by opening the Norges Bank Education Centre, with the aim of promoting knowledge-sharing and interactive learning about the Bank's tasks and economic issues. The target group is upper secondary school pupils and teachers and college students, but the centre is also visited by groups of employees, companies and institutions. In 2017, the Education Centre was visited by 125 groups, totalling 2 400 persons.

ETHICAL CONDUCT

Ethics and anti-corruption

It is particularly important to the Executive Board that the Bank's employees in all respects conduct themselves with the necessary ethical awareness and that they are loyal to Norges Bank as their employer. The Executive Board has laid down ethical principles for employees to promote a uniform attitude to ethical issues at Norges Bank. These principles reflect the Bank's commitment to maintaining high ethical standards, respecting human rights, acting in a socially responsible manner and complying with current legislation. Ethical rules include employees' personal trading, activities outside the Bank, gifts and loyalty to the Bank in general. In 2017, further limitations on personal trading in Norwegian securities in the financial sector were introduced for members of the Bank's executive management. Norges Bank does not accept any form of discrimination or corruption. Anti-corruption programmes have been established for all areas of the Bank. The main elements are published on the Bank's website.

More detailed rules and procedures have been issued to ensure compliance with the rules on personal trading. No violations of the rules on personal trading under Section 8 of the Securities Trading Act were reported to Finanstilsynet (Financial Supervisory Authority of Norway) in 2017.

The Ministry of Finance has laid down a regulation concerning impartiality and conflicts of interest for Norges Bank's Executive Board, and an administrative procedure has been established to assist Board members in complying with the regulation. The Executive Board has also adopted ethical rules for its members.

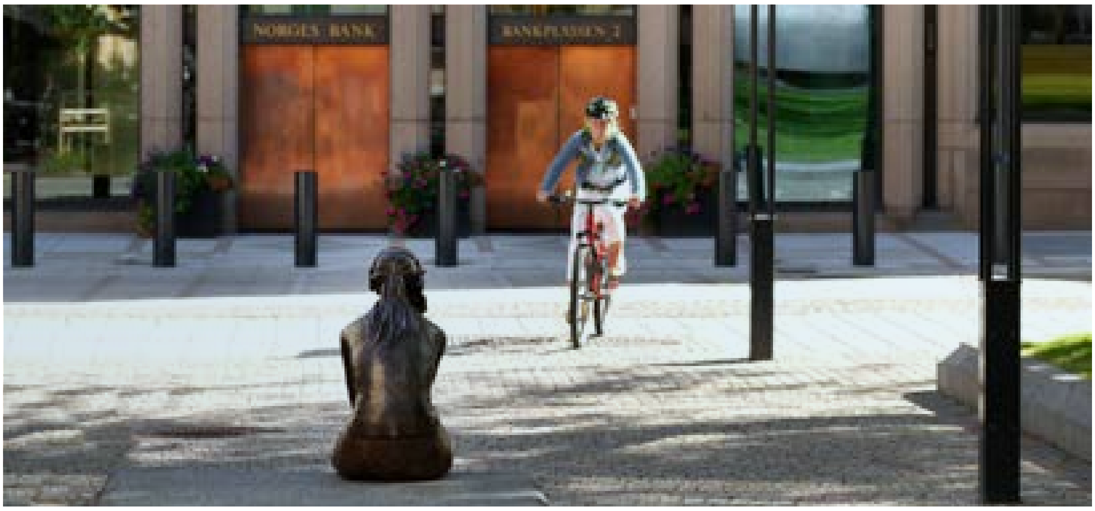
The Executive Board has laid down principles for internal disclosure of wrongdoing (whistleblowing) at Norges Bank. Norges Bank has established an internal whistleblowing procedure whereby an employee can report unethical or unlawful conduct. There is a whistleblowing channel in operation, with Internal Audit as report recipient. Appeals on procedural grounds or related to the processing of a report are filed with the General Counsel. Whistleblowing reports are processed in line with the established case processing rules. In 2017, procedures were put in place allowing employees of Norges Bank's contractors to report wrongdoing in connection with the completion of a contract for Norges Bank.

The ethical rules for employees are regularly reviewed.

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

Direct environmental impact

Norges Bank's own activities have limited direct impact on total greenhouse gas emissions and the environment. The Bank's direct climate and environmental impact is primarily related to normal office operations and official travel.



Norges Bank's head office: Security measures are integrated with considerable emphasis on aesthetics.

The Bank strives continuously to find more environmentally friendly ways of operating, and has been granted financial support to reduce energy consumption from Enova SF (a state-owned enterprise responsible for promotion of environmentally friendly production and consumption of energy). An energy management system was implemented in 2017 to monitor and reduce electricity consumption, and a new central energy control system is now in operation. Preliminary results show a 15% decline in energy consumption. In addition, office waste is recycled and there is extensive re-use of interior structural elements and office furniture. In line with the strategy for 2017–2019, work on an environmental strategy for the Bank's activities was initiated.

The Bank has taken measures to encourage employees to cycle or walk to and from work. The number of outside parking stands for bicycles was increased and there are plans for a three-fold expansion of the indoor bicycle parking area at the expense of car parking spaces. There are also plans to enlarge and upgrade the changing room facilities.

For the environmental impact of properties in the GPFG portfolio, see "Long-term investments".

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

The Norges Bank building is a monumental structure of high cultural and historical value.

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

Responsible procurement and contracting

By adhering to public procurement regulations and using economies of scale, Norges Bank's procurement of goods and services is cost-efficient. This promotes competition for contracts. As a part of the tendering process, bidders must document tax and VAT payments. A certificate of registration and audited accounts are also required. 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 2017, nine controls were carried out and in two cases wages were found to be below the standard rate. Both contractors have corrected the error. Norges Bank accepts no more than two tiers of subcontractors. The Bank sets environmental requirements for procurement where this is relevant.

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

HUMAN RESOURCES AND WORKING ENVIRONMENT

Personnel and expertise

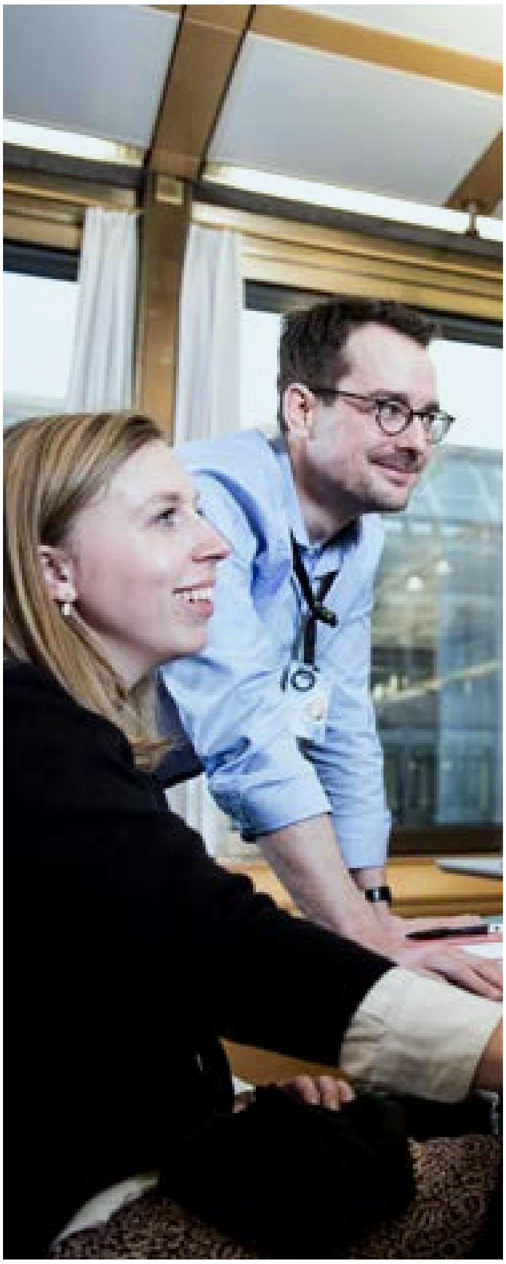
The Bank works systematically to attract and recruit staff with the expertise the Bank needs to perform its tasks. The Bank also promotes professional development by assigning new tasks and through internal mobility, international internships and secondments, and further education. As part of Norges Bank's strategy, a management programme has been initiated to further develop the Bank's collective management expertise and influence.

Norges Bank's ambition is to recruit top candidates from leading national and international institutions. The Bank continues to systematically pursue the goal of strengthening the Bank's reputation as a preferred employer, as this reputation is crucial to the successful achievement of the Bank's other goals. For example, Norges Bank organised a national championship for students of economics, which attracted many entrants. A total of 21 teams from three towns competed for a place in the finals, and several participants have applied for a job at Norges Bank. Norges Bank works actively to promote the Bank on social media and during the universities' career days in Trondheim, Bergen, Oslo and London.

At the end of 2017, there were 922 permanent employees at Norges Bank, compared with 923 at the end of 2016, of which 573 were employed by NBIM, compared with 568 the previous year. The Bank has employees from a total of 34 countries.

Gender equality and diversity

Norges Bank's ethical guidelines state that the Bank is committed to respecting human rights and practising zero tolerance for 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 2017, the gender breakdown of employees at Norges Bank was 67% men and 33% women, unchanged from 2016.

The Executive Board has set a minimum target of 40% for female employees as a long-term goal. Strategic work and action plans are based on this objective. The share of women on the permanent staff of Norges Bank at the end of 2017 was 32% for executive-level employees in NBCBO and 22% for executive-level employees in NBIM. For non-executive employees, the share of women was 43% in NBCBO and 30% in NBIM. These shares are virtually unchanged compared with 2016.

The pay level for women as a percentage of the pay level for men at year-end 2017 was 95% (96%) for executives in NBCBO and 93% (98%) for executives in NBIM. For non-executive employees, it was 88% (88%) for NBCBO and 80% (80%) for NBIM. Numbers in parenthesis are the percentages in 2016.

For the non-executive group, pay for women and men is approximately equal in each of the job categories in this group. Average pay for women as a whole is nevertheless lower than average pay in the specific job categories because of a lower percentage of women in job categories with the highest pay.

Measures to boost the percentage of women include 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. NBIM has established a women's network to attract, retain and develop female employees.

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

Health, safety and the environment

Norges Bank's priority is protecting the lives and health of all those who work in the Bank. In 2017, seven workplace accidents or injuries directly relating to work conducted at Norges Bank's office premises or conference and holiday facilities were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2017. These data do not comprise the health, safety and environment results for properties that are part of the investment portfolio.

The Bank has a safety representative system in accordance with the Working Environmental 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 among those elected as safety representatives. The duty of each safety representative is to safeguard the interests of employees in matters relating to the working environment.

Reconstruction projects at the Bank are based on the principles of universal design and the Bank provides protective equipment as needed. The Bank has well-equipped fitness facilities for employees. 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 climate surveys. According to the reports, job satisfaction is high and working conditions in general are satisfactory. The Bank's Working Environment Committee, comprised of management and employee representatives, assesses the working environment and climate of cooperation at the Bank as positive.

Cooperation with trade unions

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

Sickness absence and an inclusive workplace

Sickness absence at the Bank remained stable at a low level in 2017 at 2.2%, unchanged from 2016. 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.

Main points

Income statement

	2017	2016
NET INCOME from financial instruments	NOK 30bn	NOK 18bn
FOREIGN EXCHANGE GAINS/LOSSES	NOK -1bn	NOK -20bn
OTHER INCOME	NOK 5bn	NOK 4bn
– of which management fee, GPFG	NOK 4.7bn	NOK 3.7bn
OPERATING EXPENSES	NOK -6bn	NOK -5bn
– of which management fee, GPFG	NOK -4.7bn	NOK -3.7bn
TOTAL COMPREHENSIVE INCOME	NOK 28bn	NOK -3bn
TRANSFER TO THE TREASURY	NOK 14bn	NOK 18bn

Net income from financial instruments, before foreign exchange gains/losses, was NOK 30bn, NOK 12bn more than in 2016. Adjusted for losses owing to exchange rate movements, net income from financial instruments was NOK 29bn in 2017, NOK 31bn higher than in 2016.

Other income of NOK 5bn primarily comprises remuneration for the management of the Government Pension Fund Global (GPFG), in addition to NOK 0.1bn in rent and income from services performed for the government and banks in 2017.

Operating expenses amounted to NOK 6bn in 2017, compared with NOK 5bn in 2016. NOK 4.7bn of this is related to management of the GPFG, including custody and settlement services, IT expenses, analytical research services and fees for external managers.

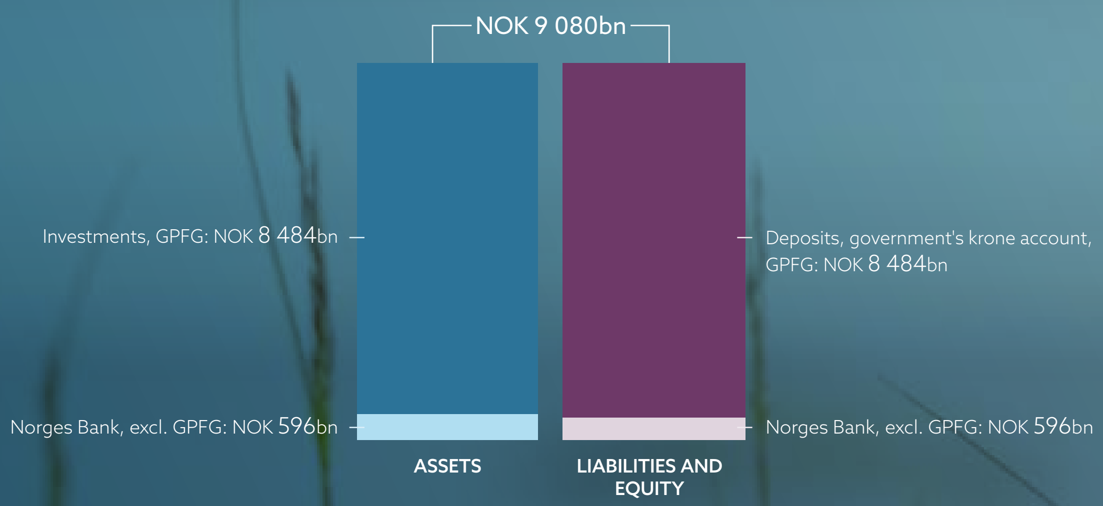
On the basis of the guidelines for allocation and distribution of Norges Bank's profit or coverage of its loss, NOK 14bn will be transferred to the Treasury in 2018.

The GPFG is managed by Norges Bank on behalf of the Ministry of Finance. The Ministry of Finance has deposited funds for investment in an account with Norges Bank and Norges Bank is not exposed to financial risk from its management of the GPFG. The return in 2017, in terms of the GPFG's currency basket, was 13.7%. The return on equity investments was 19.4%, 3.3% on fixed income investments and 7.5% on real estate investments. Remuneration from the Ministry of Finance for the management of the GPFG in 2017 was NOK 4.7bn, compared with NOK 3.7bn in 2016. Management costs correspond to 0.06% of the market value of the GPFG.

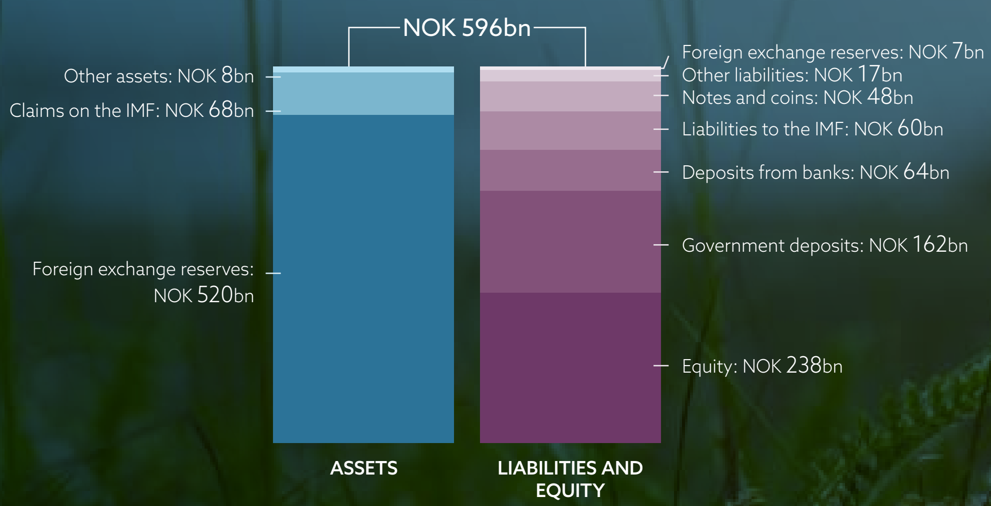
Main points

Balance sheet

NORGES BANK



NORGES BANK EXCL. GOVERNMENT PENSION FUND GLOBAL



In 2016, Norges Bank's balance sheet total, excluding the GPFG, increased by NOK 22bn to NOK 596bn at year-end.

Foreign exchange reserves accounted for 87% of total assets, following an increase of NOK 19bn in 2017. The foreign exchange reserves are invested in bonds (58%), equities (36%) and other assets (8%).

Claims on the IMF comprise loans, IMF quota subscription and holdings of SDRs. These claims total NOK 68bn and account for 11% of Norges Bank's assets at the end of 2017.

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. Equity was NOK 238bn at the end of 2017.

Government deposits were NOK 162bn at the end of 2017, an increase of NOK 15bn compared with 2016. The amount of these deposits varies through the year with inflows and outflows to and from the government's current accounts. At the end of 2017, banks' deposits in their accounts with Norges Bank amounted to NOK 64bn, which comprise sight deposits and F-deposits.

Liabilities to the IMF were NOK 60bn at the end of 2017, a marginal increase compared with 2016.

The value of banknotes and coins in circulation at the end of 2017 was NOK 48bn.

At the end of 2017, the market value of the GPFG, less the management fee, was NOK 8 488bn.The GPFG comprises 66.6% equity investments, 30.8% fixed income investments and 2.6% real estate investments.

Annual financial statements 2017

FINANCIAL STATEMENTS

NOTES

REPORT, RESOLUTION AND STATEMENT

Income statement

Amounts in NOK millions	Note	2017	2016
NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS			
Net income/expense from:			
-Equities	3	29 063	14 726
-Bonds	3	1 618	3 868
-Financial derivatives		-92	18
-Secured lending	9,10	163	120
Interest income and expense from deposits and short-term borrowing		5	-2
Interest income from lending to banks	18	14	91
Interest expense on deposits from banks and the Treasury	18	-496	-444
Net interest income from the IMF	17	33	9
Tax expenses	3	-71	-76
Other financial income/expenses		-10	-4
Net income from financial instruments before foreign exchange gains/losses		**30 227**	**18 306**
Foreign exchange gains/losses	8	-1 488	-20 321
Net income/expense from financial instruments		**28 739**	**-2 015**
MANAGEMENT OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)			
Total comprehensive income, investment portfolio, GPFG	20	1 037 764	136 843
Withdrawn from/Transferred to the krone account of the GPFG	20	-1 037 764	-136 843
Of which management fees, GPFG	13	4 728	3 731
Management of the Government Pension Fund Global		**4 728**	**3 731**
OTHER OPERATING INCOME			
Other operating income	**15**	**124**	**128**
OPERATING EXPENSES			
Personnel expenses	12	-1 908	-1 726
Other operating expenses	15	-3 792	-2 856
Depreciation, amortisation and impairment losses	14	-235	-210
Total operating expenses		**-5 935**	**-4 792**
Profit/loss for the period		**27 656**	**-2 948**
STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the period		27 656	-2 948
Change in actuarial gains/losses	11	-2	-3
Total comprehensive income		**27 654**	**-2 951**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
Financial assets			
Deposits in banks		8 533	22 728
Secured lending	9,10	25 559	26 774
Unsettled trades		2 046	250
Equities	4	173 403	166 958
Equities lent	4,9,10	10 584	10 437
Bonds	4	299 357	272 321
Financial derivatives		2	2
Claims on the IMF	17	67 965	66 315
Lending to banks	18	250	-
Other financial assets	13	5 707	6 263
Total financial assets		593 406	572 048
Investments, GPFG			
Investments, GPFG	20	8 483 727	7 506 763
Non-financial assets			
Non-financial assets	14	2 563	2 563
TOTAL ASSETS		9 079 696	8 081 374

Amounts in NOK millions	Note	31 Dec. 2017	31 Dec. 2016
LIABILITIES AND EQUITY			
Financial liabilities			
Secured borrowing	9,10	286	2 412
Unsettled trades	9,10	6 617	18 542
Financial derivatives		10	-
Other financial liabilities		1 916	1 042
Liabilities to the IMF	17	59 221	58 912
Deposits from banks	18	63 968	52 846
Deposits from the Treasury	18	162 386	147 192
Notes and coins in circulation	16	48 420	50 495
Total financial liabilities		342 824	331 441
Deposits in krone account, GPFG			
Deposits in krone account, GPFG	20	8 483 727	7 506 763
Other liabilities			
Pensions	11	59	130
Other liabilities	19	15 087	18 361
Total other liabilities		15 146	18 491
Total liabilities		8 841 697	7 856 695
Equity		237 999	224 679
TOTAL LIABILITIES AND EQUITY		9 079 696	8 081 374

Oslo, 7 February 2018

Øystein Olsen
(Governor/Chair)

Jon Nicolaisen
(First Deputy Chair)

Egil Matsen
(Second Deputy Chair)

Kristine Ryssdal

Karen Helene Ulltveit-Moe

Kjetil Storesletten

Kathryn M. Baker

Steinar Juel

Arne Hyttnes
(First alternate)

Kristine Landmark
(Second alternate)

Mona Helen Sørensen
(Employee representative)

Kristoffer Haugen
(Employee representative)

Statement of cash flows

Amounts in NOK millions, inflows (+)/outflows (-)	2017	2016
Operating activities		
Receipts of dividend from equities	4 169	4 221
Receipts of interest from bonds	4 981	4 563
Net receipts of interest and fee from secured lending and borrowing	211	166
Receipts of dividend, interest and fee from holdings of equities and bonds	*9 361*	*8 950*
Net cash flow from purchase and sale of equities	16 858	-2 762
Net cash flow from purchase and sale of bonds	-30 898	-16 906
Net cash flow financial derivatives	-227	80
Net cash flow related to interest on deposits in banks and bank overdraft	-5 210	5 241
Net cash flow secured lending and borrowing	-8 656	-6 961
Net cash flow related to other expenses, other assets and other liabilities	-9 385	-5 535
Net cash flow related to other financial assets and other financial liabilities	13 307	-6 378
Net cash flow from the Treasury	15 194	46 598
Of which cash flows between the Treasury and the GPFG	*60 837*	*100 616*
Management fee received from the GPFG	3 731	3 933
Net cash inflow/outflow from operating activities	**4 075**	**26 260**
Investing activities		
Net cash flow related to non-financial assets and liabilities	-237	-327
Net cash inflow/outflow from investing activities	**-237**	**-327**
Financing activities		
Cash flow to the Treasury from the Transfer Fund	-17 726	-26 589
Net cash inflow/outflow from financing activities	**-17 726**	**-26 589**
Net change in cash		
Deposits in banks at 1 January	22 728	23 173
Net increase/decrease of cash in the period	-13 888	-656
Net foreign exchange gains and losses on cash	-307	211
Deposits in banks at 31 December	**8 533**	**22 728**

ACCOUNTING POLICY

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

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

Statement of changes in equity

Amounts in NOK millions	Adjustment Fund	Transfer Fund	Total equity
1 January 2016	192 178	53 178	245 356
Total comprehensive income	-2 951	-	-2 951
Transferred to Other liabilities	-	-17 726	-17 726
31 December 2016	**189 227**	**35 452**	**224 679**
1 January 2017	189 227	35 452	224 679
Total comprehensive income	20 108	7 546	27 654
Transferred to Other liabilities	-	-14 334	-14 334
31 December 2017	**209 335**	**28 664**	**237 999**

ACCOUNTING POLICY

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

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

1. Allocations shall be made from Norges Bank's profit to the Adjustment Fund until the Fund has reached 5% of the Bank's holdings of Norwegian securities[1] *and 40% of the Bank's net foreign exchange reserves, excluding the immunisation portfolio*[2] *and capital managed for the Government Petroleum Fund*[3]*, other claims/liabilities abroad*[4] *or any other commitments that the Executive Board considers to involve a not insignificant foreign exchange risk. The immunisation portfolio is that part of Norges Bank's foreign exchange reserves that is included in a separate portfolio. The return on this portfolio will be credited to/debited from the Treasury in the accounts of the same year. The same applies to the Government Petroleum Fund portfolio. If the size of the Adjustment Fund exceeds the levels specified in point 1, first paragraph, the surplus shall be reversed to profit or loss.*

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

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

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

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

(1) The Bank does not hold any Norwegian securities at 31 December 2017.
(2) The immunisation portfolio is not in use at 31 December 2017.
(3) Government Pension Fund Global (GPFG).
(4) Primarily net claims on/liabilities to the IMF.

Notes

Note 1 General information

1. INTRODUCTION

Norges Bank is Norway's central bank. Norges Bank performs important public tasks and manages substantial assets on behalf of the nation. The aim of central banking operations is to promote stability in the economy. Norges Bank has executive and advisory responsibilities in the area of monetary, credit and foreign exchange policy and is responsible for promoting robust and efficient payment systems and financial markets. The Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues. The Storting (Norwegian Parliament) has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The GPFG is managed by Norges Bank on behalf of the Ministry of Finance, in accordance with Section 2, second paragraph, of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to Norges Bank Investment Management (NBIM).

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

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

Norges Bank is not exposed to financial risk from its management of the GPFG. The return on the portfolio is transferred in its entirety to the krone account and does not affect total comprehensive income or equity in Norges Bank. The investment portfolio under management is equal to the amount on deposit in the krone account at the time in question. The net value of the investment portfolio 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 2017, which include the financial reporting for the GPFG, were approved by the Executive Board on 7 February 2018 and adopted by the Supervisory Council on 22 February 2018.

Note 2 Accounting policies

REFERENCES TO ACCOUNTING POLICIES, SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS

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

EXPLANATION OF SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of the financial statements involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented. Estimates are based on best judgement; however actual results may deviate from estimates.

1. BASIS OF PREPARATION

Pursuant to Section 30, second paragraph, of the Norges Bank Act, the annual financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the regulation concerning annual financial reporting for Norges Bank, laid down by the Ministry of Finance.

The regulation requires that Norges Bank's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, but sets certain specific requirements for the presentation of the GPFG and subsidiaries. Norges Bank's financial statements include the financial reporting for the GPFG (Note 20 *Government Pension Fund Global (GPFG)*).

Pursuant to the regulation concerning annual financial reporting for Norges Bank, the financial reporting for the GPFG shall be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, with the additions and exceptions set out in the regulation.

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

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

The accounting policies applied are consistent with those of the previous financial year. No new and/or amended standards and interpretations and/or amendments to IFRS became effective for accounting periods starting 1 January 2017 that have had a material effect on the financial statements.

3. ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS AS A WHOLE

3.1 Financial assets and liabilities

Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet upon becoming a party to the instrument's contractual provisions, or when the risks and rewards of ownership are transferred, if this occurs at a different point in time. The transaction is recognised at trade date, where the purchase or sale of the instrument involves settlement under normal market conditions.

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

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

Classification

Financial assets and liabilities are measured at fair value on initial recognition, and all financial assets and liabilities are classified depending on the type of instrument, the contractual terms and the purpose of the investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Fair value through profit or loss (fair value option)

Financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis in accordance with a documented investment strategy are designated at *fair value through profit or loss* on initial recognition. This implies that a fair value business model is used for the portfolios comprising these financial assets and liabilities and that the primary objective is to achieve gains over the longer term connected to changes in fair value. The vast majority of financial assets and liabilities are classified as at *fair value through profit or loss*.

Held for trading
Financial assets and liabilities that are financial derivatives are classified as *held for trading* on initial recognition.

Loans and receivables
Financial assets and liabilities other than those classified either as at *fair value through profit or loss* or as *held for trading* are classified as *loans and receivables* on initial recognition.

3.2 Subsidiaries
Subsidiaries are established that exclusively constitute investments as part of the management of the GPFG. These subsidiaries are entities over which the GPFG has control. Key subsidiaries are listed in Note 20.15 *Interests in other entities*.

IFRS 10 *Consolidated Financial Statements* has been applied. IFRS 10 defines an investment entity and introduces a mandatory exemption from consolidation for investment entities.

Subsidiaries that are investment entities are measured at fair value through profit or loss in line with the exemption from consolidation for investment entities. Other subsidiaries that are not investment entities and that provide investment-related services for the GPFG in connection with management of unlisted real estate investments are consolidated in the financial statements of the GPFG.

Subsidiaries measured at fair value through profit or loss
Subsidiaries measured at fair value through profit and loss are presented in the balance sheet as *Unlisted real estate*. The subsidiaries invest, through other entities, exclusively in real estate. See Section 3.1. for further information on accounting policies for financial assets, which are applied to subsidiaries measured at fair value through profit or loss. See Note 20.6 *Unlisted real estate* for other accounting policies specific to unlisted real estate.

Consolidated subsidiaries
Consolidated subsidiaries do not own, directly or indirectly, investments in real estate. Intra-group transactions and intercompany balances are eliminated on consolidation.

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

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

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

4. NEW STANDARDS WITH EFFECT FROM 2018 OR LATER

Issued IFRS standards with application dates from 2018 or later that are deemed relevant for the Bank's financial reporting are described below. Other standards, amendments to standards or interpretations that have been published but have not become effective, are expected to be immaterial or not applicable upon implementation.

IFRS 9 Financial Instruments
IFRS 9 includes requirements for recognition, measurement, impairment, hedge accounting and derecognition of financial instruments. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Under IFRS 9, financial assets with basic loan features shall be measured at amortised cost, unless the business model indicates that they should be measured at fair value. All other financial assets shall be measured at fair value.

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

The standard introduces a new impairment methodology for loans. Under IFRS 9, an entity shall recognise a loss allowance for expected credit losses based on relevant information as from the date of recognition. The change from the current standard is that credit losses will be able to be recognised before a credit event has occurred as defined in IAS 39. These impairment rules will apply to all debt instruments measured at amortised cost and at fair value through other comprehensive income.

IFRS 9 is effective from 1 January 2018. The option for early application will not be exercised. Implementation of IFRS 9 will not entail changes in the classification and measurement of financial instruments for Norges Bank and will therefore not have an implementation effect on the financial statements.

Nor will implementation of the standard entail a change in the loss allowance for Norges Bank based on estimates for recognised debt instruments at 31 December 2017.

IFRS 15 Revenue from Contracts with Customers and *IFRS 16 Leases*
These standards are effective from 1 January 2018 and 1 January 2019, respectively.

The implementation of the standards will not have an impact on Norges Bank's financial statements.

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 shareholders' meeting or comparable responsible party.

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

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

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

Table 3.1 Income/expense from equities

Amounts in NOK millions	2017	2016
Dividends	4 145	4 219
Realised gain/loss	8 708	3 452
Unrealised gain/loss	16 210	7 055
Income/expense from equities before foreign exchange gains/losses	29 063	14 726

Table 3.2 Income/expense from bonds

Amounts in NOK millions	2017	2016
Interest	4 880	4 546
Realised gain/loss	-1 200	-264
Unrealised gain/loss	-2 062	-414
Income/expense from bonds before foreign exchange gains/losses	1 618	3 868

Tax expense

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 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 2017 was NOK 71m, compared with NOK 76m in 2016.

Tax paid in Germany and Japan amounts to NOK 21.3m and NOK 20.1m, 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 designated upon initial recognition as at *fair value through profit or loss* and are carried in the balance sheet at fair value. Earned and accrued dividends and interest are presented in the balance sheet on the same line as the respective financial asset or liability and are specified in Tables 4.1 and 4.2 for *Equities* and *Bonds*, respectively. The balance sheet line *Equities* includes investments in depository receipts and units in listed funds. Lent equities and bonds are presented separately. For more information on lent securities, see Note 9 *Secured lending and borrowing*.

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

Amounts in NOK millions	31 Dec. 2017		31 Dec. 2016	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities	183 987	170	177 395	193
Total equities	183 987	170	177 395	193
Of which equities lent	*10 584*	-	*10 437*	-

Table 4.2 Bonds

Amounts in NOK millions	31 Dec. 2017			31 Dec. 2016		
	Nominal value[1]	Fair value including accrued interest	Accrued interest	Nominal value[1]	Fair value including accrued interest	Accrued interest
Bonds	292 122	299 357	1 559	261 063	272 321	1 659
Total bonds	292 122	299 357	1 559	261 063	272 321	1 659

[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. 2017	31 Dec. 2016
Shares in the BIS	200	200
Share capital in the BIS not paid, not recognised	374	372
Dividend received from the BIS	30	22

Note 5 Foreign exchange reserves

FRAMEWORK FOR THE MANAGEMENT OF NORGES BANK'S FOREIGN EXCHANGE RESERVES

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

The fixed income portfolio may be invested in cash deposits and in Treasury bills and government bonds issued by France, Germany, Japan, the UK and the US.

Permitted instruments shall be denominated in EUR, USD, GBP or JPY. CNY-denominated cash investments are also permitted. 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 equity portfolio may be invested in cash deposits and equities listed on a regulated and recognised exchange. Permitted instruments shall be denominated in EUR, USD, GBP, JPY, CAD, AUD, CHF, SEK and DKK. 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 strategic equity allocation of the total equity and fixed income portfolio is 35%. If the equity allocation accounts for less than 31% or more than 39% on the last trading day of the month, the allocation must be rebalanced to 35% on the last trading day of the subsequent month.

The petroleum buffer portfolio is intended to receive the government's cash flow from petroleum activities in foreign currency and any transfers 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. The petroleum buffer portfolio is invested in short-term fixed income instruments. No benchmark index has been set for the petroleum buffer portfolio.

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

Amounts in NOK millions				2016
		Portfolios[1]		
Income statement	Equities	Fixed Income	Petroleum buffer	Total exchange reserves
Net income/expenses from:				
– Equities	14 705	-	-	14 705
– Bonds	-	3 868	-	3 868
– Financial derivatives	21	-3	-	18
– Secured lending	49	66	5	120
Interest income and expense from deposits and short-term borrowing	2	3	-7	-2
Tax expense	-76	-	-	-76
Other financial income/expenses	-	5	-	5
Net income from financial instruments before foreign exchange gains/losses	14 701	3 939	-2	18 638
Foreign exchange gains/losses	-5 403	-13 545	-906	-19 854
Net income from financial instruments	9 298	-9 606	-908	-1 216

[1] The portfolios were redivided on 1 December 2016. The fixed income portfolio comprises the long-term fixed income investments and the previous money market portfolio.

Table 5.2 Foreign exchange reserves by portfolio

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

Amounts in NOK millions				31 Dec. 2016
	Portfolios[1]			
Balance sheet	Equities	Fixed income	Petroleum buffer	Total exchange reserves
FINANCIAL ASSETS				
Deposits in banks	265	3 359	18 972	22 596
Secured lending	596	16 788	9 390	26 774
Unsettled trades	52	198	-	250
Equities	166 758	-	-	166 758
Equities lent	10 437	-	-	10 437
Bonds	-	272 321	-	272 321
Financial derivatives	2	-	-	2
Other financial assets	1 519	-	437	1 956
Total financial assets	179 629	292 666	28 799	501 094
FINANCIAL LIABILITIES				
Secured borrowing	2 412	-	-	2 412
Unsettled trades	-	9 664	8 878	18 542
Financial derivatives	-	-	-	-
Other financial liabilities	-	-	-	-
Total financial liabilities	2 412	9 664	8 878	20 954
Net foreign exchange reserves	177 217	283 002	19 921	480 140

[1] The portfolios were redivided on 1 December 2016. The fixed income portfolio comprises the long-term fixed income investments and the previous money market portfolio.

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 *Posted and received cash collateral* are held at fair value 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

The fair value of the vast majority of assets and liabilities is based on quoted market prices. If the market for a security or an asset is not active, fair value is established by using a standard valuation technique to estimate fair value. Estimating fair value introduces valuation uncertainty, mostly due to the use of unobservable inputs in valuation models. The valuation environment is followed up by the control environment at Norges Bank, which governs fair value measurement, and is described in Section 5 of this note.

2. VALUATION UNCERTAINTY AND THE FAIR VALUE HIERARCHY

All securities in the foreign exchange reserves are measured at fair value. The securities have been categorised in the three categories of the fair value hierarchy presented in Table 6.1. The level of valuation uncertainty determines the categorisation:

- Level 1 comprises assets that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation uncertainty.
- Assets and liabilities classified as Level 2 are valued using models with observable inputs. Inputs are considered observable if they can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Holdings classified as Level 2 have some valuation uncertainty.
- Assets classified as Level 3 are valued using models with considerable use of unobservable inputs, leading to a high degree of valuation uncertainty.

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

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. The fair values are determined using valuation techniques that use models with unobservable inputs. This implies a high degree of uncertainty regarding the determination of fair value.

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. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Equities	183 183	176 696	603	499	1	-	183 787	177 195
Bonds	299 357	272 321	-	-	-	-	299 357	272 321
Financial derivatives (assets)	2	2	-	-	-	-	2	2
Financial derivatives (liabilities)	(10)	-	-	-	-	-	(10)	-
Other[1]	-	-	29 259	30 622	-	-	29 259	30 622
Total	482 532	449 019	29 862	31 121	1	-	512 395	480 140
Total (percent)	94.2	93.5	5.8	6.5	-	-	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, posted and received cash collateral and other assets and liabilities. These are unlisted instruments are therefore classified as Level 2.

At year-end 2017, the valuation uncertainty for the foreign exchange reserves was generally unchanged compared with year-end 2016. The majority of the total portfolio is associated with low valuation risk and is classified as Level 1. Almost all equity holdings (99.7%) are classified as Level 1. For bonds, all investments are classified as Level 1 and valuation is thus based on quoted market prices.

3. MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

There have been no substantial movements between levels in the fair value hierarchy and the allocation is virtually unchanged from 2016.

4. VALUATION TECHNIQUES

Norges Bank has defined hierarchies for which price sources are to be used for valuation. Holdings in the benchmark indices are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively by other reputable independent external valuation providers. The next section sets out the main valuation techniques used for equities included in Level 2.

Equities (Level 2)

Equities valued on the basis of models using observable inputs from providers are in accordance with the fair value hierarchy classified as Level 2 investments. These holdings are often instruments that are not traded daily or listed equities that have been suspended from trading. The valuation models take into account several types of observable inputs, such as the price of comparable equities, last traded date, volumes and reasons for suspension.

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 valuation providers. They have been chosen on the basis of analyses performed by the Norges Bank units responsible for valuation.

Valuation 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 market conditions. At each month-end, more extensive controls of financial instruments are performed to ensure valuation in accordance with fair value.

In NBIM, a valuation memo and report are prepared at each quarter-end documenting the results of the controls performed and the most important sources of uncertainties in the valuations.

The valuation committee, which comprises 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.

Note 7 Risk

FRAMEWORK

The Executive Board has established principles for risk management in central banking operations, including financial risk. In addition, separate principles have been laid down for the management of Norges Bank's foreign exchange reserves. These are further operationalised through guidelines for management, issued by the governor. The composition of the foreign exchange reserves' portfolios and the associated risk are determined primarily by the benchmark index defined by the Executive Board.

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. In NBIM and in Norges Bank Markets and ICT, the investment area has responsibility for managing the risk in the equity and fixed income portfolios, respectively, in accordance with current principles and guidelines.

Market risk

Norges Bank defines market risk 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.

Credit risk

Norges Bank defines credit risk as the risk of loss due to an issuer being unable to meet its payment obligations.

Counterparty risk

Norges Bank defines counterparty risk as the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. Counterparty risk includes the risk associated with counterparty insolvency, settlement risk and custodial risk. The risk exposure owing to counterparty risk is defined as the cost associated with replacing one or more transactions with a counterparty owing to a default by that counterparty on its obligations.

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

Norges Bank measures both absolute and relative market risk for the portfolios.

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

Concentration risk

The foreign exchange reserves contain substantial investments in sovereign bonds. In addition, the equity portfolio invests in listed companies.

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

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

		Market value in percent by region/ sovereign issuer	Market value in percent by asset class	31 Dec. 2016 Assets minus liabilities, amounts in NOK millions
EQUITY PORTFOLIO				
Equities	Americas	63.6		112 710
	Europe	23.7		42 000
	Asia and Oceania	12.7		22 507
Total equity portfolio			100.0	177 217
FIXED INCOME PORTFOLIO				
Bonds	US	50.2		136 676
	France	18.1		49 333
	Germany	15.7		42 757
	UK	8.1		21 925
	Japan	7.9		21 630
Total bonds			96.2	272 321
Deposits	Americas	46.1		4 923
	Europe	44.4		4 740
	Asia and Oceania	9.5		1 018
Total deposits			3.8	10 681
Total fixed income portfolio			100.0	283 002
PETROLEUM BUFFER PORTFOLIO				
Deposits	Americas	23.9		4 761
	Europe	76.1		15 160
Total petroleum buffer portfolio			100.0	19 921
Total foreign exchange reserves				480 140

Table 7.2 Foreign exchange reserves largest holdings of equities

Amounts in NOK millions		31 Dec. 2017
	Sector	Equities
Apple Inc	Technology	4 268
Microsoft Corp	Technology	3 125
Alphabet Inc	Technology	3 041
Amazon.com Inc	Consumer services	2 132
Facebook Inc	Technology	1 960
JPMorgan Chase & Co	Financials	1 826
Johnson & Johnson	Health care	1 816
Berkshire Hathaway Inc	Financials	1 793
Exxon Mobil Corp	Oil and gas	1 638
Bank of America Corp	Financials	1 388

Amounts in NOK millions		31 Dec. 2016
	Sector	Equities
Apple Inc	Technology	3 459
Microsoft Corp	Technology	2 642
Alphabet Inc	Technology	2 510
Exxon Mobil Corp	Oil and gas	2 067
Johnson & Johnson	Health Care	1 749
JPMorgan Chase & Co	Financials	1 728
Berkshire Hathaway Inc	Financials	1 690
General Electric Co	Industrials	1 597
Amazon.com Inc	Consumer services	1 566
Wells Fargo & Co	Financials	1 548

Volatility and correlation risk

Norges Bank uses models to quantify the risk of value changes associated with the foreign exchange reserves. Volatility is a standard risk measurement technique based on the statistical concept of standard deviation, which takes into account correlations between different instruments in the portfolio. This risk measure provides an estimate of how much one can expect the portfolio value to change or fluctuate in the course of a year. 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. Absolute risk is only for the portfolio, while relative risk is for the portfolio measured against the benchmark index. For the equity portfolio, the model uses equally weighted weekly return data from the past three years and a parametric calculation methodology. The fixed income portfolio also uses a parametric model, but uses daily return data where the most recent observations are given higher weight. Both portfolios use the same model for the portfolios' absolute and relative volatility.

Table 7.3 also contains estimates according to the portfolio structure in place until the end of November 2016. Figures for 2017 have been prepared only for the new portfolio structure.

Table 7.3 Portfolio risk

	Expected volatility, in percent								
	31 Dec. 2017	**Min 2017**	**Max 2017**	**Avg. 2017**	**31 Dec. 2016**	**30 Nov. 2016**	**Min 2016[2]**	**Max 2016[2]**	**Avg. 2016[2]**
Long-term portfolio[1]						9.6	9.6	10.1	9.9
Equities						*14.5*	*13.5*	*14.5*	*14.3*
Bonds						*9.8*	*9.8*	*10.6*	*10.2*
Money market portfolio[1]						8.7	8.7	16.0	11.2
Equity portfolio[1]	14.1	14.1	14.8	14.6	14.5				
Fixed income portfolio[1]	7.1	6.2	9.1	7.2	8.7				

	Expected relative volatility, basis points								
	31 Dec. 2017	**Min 2017**	**Max 2017**	**Avg. 2017**	**31 Dec. 2016**	**30 Nov. 2016**	**Min 2016[2]**	**Max 2016[2]**	**Avg. 2016[2]**
Long-term portfolio[1]						8	5	8	6
Equities						*15*	*11*	*18*	*14*
Bonds						*4*	*2*	*4*	*3*
Money market portfolio[1]						2	2	8	5
Equity portfolio[1]	9	9	36	11	14				
Fixed income portfolio[1]	10	2	11	8	5				

[1] The portfolios were redivided on 1 December 2016. The equity portfolio is directly comparable with previous years. The fixed income portfolio comprises the long-term fixed income investments and the previous money market portfolio.
[2] Estimates for January – November 2016.

At year-end 2017, absolute risk in the equity portfolio was measured at 14.1%. This means that for the portfolio, yearly value fluctuations on the order of NOK 25.9bn can be expected. At year-end 2017, the relative risk for the equity portfolio was 9 basis points, compared with 14 basis points at year-end 2016. The decline in expected relative volatility is due to changes in the investment strategy that resulted in lower exposure to various systematic risk factors. This means, under given assumptions, that the return on the equity portfolio with the composition that the portfolio and benchmark index had at year-end 2017, is expected to vary by less than 9 basis points from the benchmark index return in two out of three years. The highest observed expected relative volatility in 2017 was 36 basis points at the end of 2017 Q1. The reason was large negative cash holdings of around NOK 5bn in connection with the rebalancing between the equity and fixed income portfolios.

At year-end 2017, the absolute risk in the fixed income portfolio was measured at 7.1%, which indicates expected yearly value fluctuations of approximately NOK 21.7bn. The relative risk in the fixed income portfolio was 10 basis points.

Strengths and weaknesses

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

The model-based risk estimates are based on historical relationships and will provide reliable forecast in markets without substantial changes in volatility. Estimates will be less reliable in periods marked by significant changes in volatility and correlation. The calculated risk measures are annualised. Annualisation means that it is assumed that volatility is consistent and independent over time.

Verification of models

Regular testing of the models is performed to validate the model's ability to estimate risk.

CREDIT RISK

Credit risk is the risk of losses resulting from issuers of bonds defaulting on their 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. Investments in bonds are made on the basis of internal assessments of expected return and risk.

Table 7.4 Bonds specified by credit rating

Amounts in NOK millions		31 Dec. 2017		31 Dec. 2016	
	Credit rating[1]				
Bonds	AAA	192 347	64.2 %	179 433	65.9 %
	AA	84 045	28.1 %	71 258	26.2 %
	A	22 965	7.7 %	21 630	7.9 %
Total bonds		299 357	100.0 %	272 321	100 %

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

COUNTERPARTY RISK

The foreign exchange reserves use a large number of counterparties, which are required to ensure efficient liquidity management and efficient trading and management of market and credit risk. Exposure to counterparty risk is related to trading in currency contracts, reverse repurchase agreements, securities lending and securities posted as collateral in derivative trades and securities lending. Unsecured deposits in banks are also defined as counterparty risk. Such counterparty risk also arises in connection with day-to-day liquidity management.

Furthermore, there is exposure to counterparty risk related to counterparties in international settlement and custody systems where transactions settle. This can occur both in currency trades and with purchase and sale of securities. For currency trades there are requirements for counterparty credit rating and several counterparties are used to reduce concentration risk. Changes in counterparty's credit ratings are monitored continuously.

Netting agreements are in place for trades in currency contracts and reverse repurchase agreements, in order to reduce counterparty risk. Further reduction of counterparty risk is achieved through collateral requirements 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 counterparties approved for these types of trades.

Counterparty risk is also reduced by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against set limits.

For securities lending transactions executed through an external agent and securities posted as collateral in derivatives trades, a method is used that adds a premium to the market value to reflect the position's volatility. These positions are also adjusted for netting and actual collateral received and posted when determining net exposure.

At year-end 2017, counterparty risk is regarded as being low. Collateral has been posted in excess of the exposure in the open reverse repurchase agreements and unsecured bank deposits almost exclusively comprise deposits with the Federal Reserve and the BIS. Other positions are insubstantial in size and nature.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in 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.

Table 7.5 Counterparties[1] by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
AAA	2	-	-	-
AA	29	30	11	22
A	49	54	41	40
BBB	6	15	8	11
BB	1	1	5	4
B	-	-	13	13
Total	87	100	78	90

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.

OTHER RISK

Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations at the agreed time. As a central bank, Norges Bank is not exposed to this type of liquidity risk in local currency.

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 the Norwegian krone. Consequently, the value of Norges Bank's investments will change in a positive or negative direction owing to movements in foreign exchange rates and the value of these investments is therefore exposed to foreign exchange rate risk. See Note 8 *Currency* for further information.

Credit risk associated with lending to banks

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

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 have been made to bolster the IMF's general borrowing agreements which follow IMF guidelines. Norges Bank is not directly exposed to risk in the loan portfolio managed by the IMF. The IMF has never realised a loss on its loans under 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.

Note 8 Currency

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

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

ACCOUNTING POLICY

Gains and losses on securities and financial derivatives are based on changes in the price of the security/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. There are a number of methods for allocating total gains and losses in NOK to a security element and a foreign exchange element. These methods will result in different estimates.

Foreign exchange element

Unrealised gains and losses due to changes in foreign exchange rates are calculated based on the 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 from previous periods that have already been recognised in profit or loss are deducted to arrive at the gain or loss for the current period. Accordingly, for realised gains or losses, the foreign exchange rate on the date of sale is used instead of the closing rate at the end of the reporting period, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Security element

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

Table 8.1 Foreign exchange reserves by currency

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

Amounts in NOK millions						31 Dec. 2016
	USD	EUR	GBP	JPY	Other	Total
FINANCIAL ASSETS						
Deposits in banks	1 223	17 371	3 210	777	15	22 596
Secured lending	11 111	15 663	-	-	-	26 774
Unsettled trades	198	-	-	52	-	250
Equities	101 845	19 783	11 649	14 381	19 100	166 758
Equities lent	4 916	1 236	136	3 203	946	10 437
Bonds	136 676	92 090	21 925	21 630	-	272 321
Financial derivatives	-	2	-	-	-	2
Other financial assets	1 509	446	1	-	-	1 956
Total financial assets	257 478	146 591	36 921	40 043	20 061	501 094
FINANCIAL LIABILITIES						
Secured borrowing	2 412	-	-	-	-	2 412
Unsettled trades	1 719	16 823	-	-	-	18 542
Financial derivatives	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Total financial liabilities	4 131	16 823	-	-	-	20 954
Net foreign exchange reserves	253 347	129 768	36 921	40 043	20 061	480 140

Table 8.2 shows the absolute impact on the income statement of a 10% change in the Norwegian krone against other currencies, calculated on the net position in foreign currency at 31 December. The sensitivity analysis does not entail any correlation between currency pairs and other market risk factors. A depreciation of the krone results in a positive impact on the income statement, and an appreciation of the krone has the opposite effect. The table only shows the impact on the balance sheet date, not the effect of a 10% change in exchange rates through the year.

Table 8.2 Sensitivity analysis for foreign exchange

	31 Dec. 2017 +/- 10 %	31 Dec. 2016 +/- 10 %
US dollar	27 635	25 335
Euro	13 150	12 977
Pound sterling	4 097	3 692
Japanese yen	4 308	4 004
Total	49 191	46 008

Table 8.3 Exchange rates

	31 Dec. 2017	31 Dec. 2016	Change[1]
US dollar	8.18	8.61	-5 %
Euro	9.82	9.08	8 %
Pound sterling	11.06	10.64	4 %
Japanese yen (per 100)	7.26	7.38	-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 and equity swaps in combination with the purchase and sale of equities.

The purpose of secured lending and borrowing is to generate additional income from securities and cash holdings.

ACCOUNTING POLICY

Income and expense from secured lending and borrowing transactions

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

Table 9.1 Income/expense from secured lending and borrowing

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Income/expense from secured lending	163	120
Net income/expense from secured lending and borrowing	163	120

ACCOUNTING POLICY

Transferred financial assets

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

Secured lending

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

Secured borrowing

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

Collateral received in the form of securities

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

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

Table 9.2 Lending associated with securities financing transactions

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Secured lending	25 559	26 774
Of which unsettled trades (liability)	*4 403*	*11 576*
Secured lending excluding unsettled trades	21 156	15 198
Associated collateral in the form of securities (off-balance sheet)		
Bonds received as collateral	22 013	15 858
Total security collateral received related to lending	22 013	15 858

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. 2017	31 Dec. 2016
Transferred financial assets		
Equities lent	10 584	10 437
Total transferred financial assets	10 584	10 437
Associated cash collateral, recognised as liability		
Secured borrowing	286	2 412
Secured borrowing excluding unsettled trades	286	2 412
Associated collateral in the form of securities (off-balance sheet)		
Equities received as collateral	8 255	5 858
Bonds received as collateral	3 071	3 013
Total security collateral received related to transferred financial assets	11 326	8 871

Cash collateral received is reinvested in its entirety. No securities received as collateral have been reinvested at year-end 2017 or 2016. Therefore, these securities are not recognised in the balance sheet.

Note 10 Collateral and offsetting

ACCOUNTING POLICY

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

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

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

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

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

Some netting agreements have been found not to be legally enforceable. Transactions under such contracts are shown together with unsettled trades in the column *Unsettled trades and assets/liabilities not subject to enforceable netting agreements*. Unsettled trades can be cancelled if the counterparty defaults before assets involved in the trade are transferred.

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. 2017
ASSETS	Amounts subject to enforceable netting agreements						
	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 and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
Secured lending	21 156	-	-	21 156	-	4 403	25 559
Financial derivatives	-	-	-	-	-	2	2
Total	21 156	-	-	21 156	-	4 405	25 561

Amounts in NOK millions							31 Dec. 2017
LIABILITIES	Amounts subject to enforceable netting agreements						
	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 and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Secured borrowing	286	-	-	286	-	-	286
Financial derivatives	-	-	-		-	10	10
Total	286	-	-	286	-	10	296

Amounts in NOK millions							31 Dec. 2016
ASSETS	Amounts subject to enforceable netting agreements						
	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 and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
Secured lending	15 198	-	36	15 162	-	11 576	26 774
Financial derivatives	-	-	-	-	-	2	2
Total	15 198	-	36	15 162	-	11 578	26 776

Amounts in NOK millions							31 Dec. 2016
LIABILITIES	Amounts subject to enforceable netting agreements						
	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 and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Secured borrowing	2 412	-	36	2 376	-	-	2 412
Financial derivatives	-	-	-	-	-	-	-
Total	2 412	-	36	2 376	-	-	2 412

Note 11 Pension

ACCOUNTING POLICY

Accounting treatment of pension and other benefit obligations is in accordance with IAS 19 *Employee Benefits*. Calculations for fund-based plans through Norges Bank's pension fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the National Insurance basic amount (G). The net benefit obligation is the difference between the present value of the benefit obligation and the fair value of plan assets.

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

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

Norges Bank's funded pension benefit obligations are covered by Norges Bank's own pension fund, which is organised as a separate legal entity. Retirement benefits are equal to two-thirds of the employee's salary at the time of retirement. The period of service for full benefits is 30 years. Employees contribute 2% of their gross annual salary into the pension fund. Norges Bank's contributions are covered by cash payments or the premium fund.

Table 11.1 Number of pension plan members (funded plan)

	31 Dec. 2017	31 Dec. 2016
Members drawing retirement benefits	988	968
Active members (including all those affected by restructuring)	735	713
Members who have left the Bank with vested rights	861	807
Total number of pension plan members	2 584	2 488

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 2017 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. 2017	31 Dec. 2016
Discount rate	2.40%	2.60%
Interest rate on assets	2.40%	2.60%
Rate of compensation increase	2.50%	2.50%
Rate of pension increase	1.50%	1.50%
Increase in social security base amount (G)	2.25%	2.25%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0
Payroll tax/social security tax	19.10%	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. 2017	31 Dec. 2016
Change in defined benefit obligation (DBO) incl. payroll tax		
DBO at beginning of year	4 014	3 847
Service cost	150	132
Interest cost	103	101
Plan amendments	1	-37
Payroll tax on employer contribution	-36	-30
Benefits paid	-144	-148
Remeasurement loss (gain)	222	149
DBO at year-end	4 310	4 014
Change in plan assets		
Fair value of assets at beginning of year	3 885	3 597
Interest income	95	91
Plan amendments	-	-22
Employer contribution incl. payroll tax	223	239
Payroll tax on employer contribution	-36	-30
Benefits paid	-135	-136
Remeasurement (loss) gain	220	146
Fair value of assets at year-end	4 252	3 885
Pension scheme not recognised in the actuarial calculation	1	1
Net amount recognised in the balance sheet	59	130

Table 11.4 Specification of funded and unfunded plans

Amounts in NOK millions	31 Dec. 2017			31 Dec. 2016		
	Funded plan	Unfunded plans	Total	Funded plan	Unfunded plans	Total
Accrued benefit obligations	4 127	184	4 311	3 809	206	4 015
Plan assets	-4 252	-	-4 252	-3 885	-	-3 885
Net benefit obligation	-125	184	59	-76	206	130

Table 11.5 Allocation of plan assets for funded plan

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Bonds	2 254	2 175
Equities	1 488	1 321
Real estate	510	389
Total	4 252	3 885

PENSION EXPENSE FOR EMPLOYEES IN NORWAY

Pension expense has been calculated in accordance with IAS 19 *Employee Benefits* and includes current service cost, interest expense and expected return on plan assets.

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

Expenses relating to employees associated with the operational areas NBIM and Norges Bank Real Estate Management (NBREM) are covered in their entirety by the management fee and amounted to NOK 75.2m for 2017 and NOK 55.7m for 2016.

Table 11.6 Pension expense

Amounts in NOK millions		2017		2016
Service cost and cost of benefit changes		155		122
Service cost incl. interest and payroll tax	150		153	
Administration cost incl. payroll tax	4		4	
Effect of plan amendments incl. payroll tax	1		-35	
Financial cost (income)		3		6
Net interest cost (income) incl. payroll tax	3		6	
Net periodic pension cost (income)		158		128
Other comprehensive income (OCI) in the period				
Remeasurement loss (gain) - change in discount rate		151		51
Remeasurement loss (gain) - change in other economic assumptions		9		-
Remeasurement loss (gain) - experience adjustments, DBO		63		97
Remeasurement loss (gain) - experience adjustments, assets		-245		-168
Investment management cost		24		23
OCI losses (gains) in the period		2		3

PENSION PLANS FOR LOCALLY EMPLOYED STAFF OF FOREIGN OFFICES

Locally employed staff at Norges Bank's offices in London and New York have a defined-contribution pension plan in accordance with local provisions in addition to what has been established by the authorities. As employer, Norges Bank contributes up to 8% of fixed salary for employees in New York, up to 10% of fixed salary for employees in London 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. Recognised expenses for the plans in London, New York, Singapore and Shanghai amounted to NOK 29m in 2017 and NOK 25.5m in 2016.

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. The cost of pension plans for locally employed staff of foreign offices 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. 2017
	Discount rate	General compensation increase	ABO pensioners / DBO other, amounts in NOK millions	Change[1]
Assumptions at 31 Dec. 2017	2.40%	2.50%	4 310	N/A
Discount rate + 0.5%	2.90%	2.50%	3 946	-8.45%
Discount rate - 0.5%	1.90%	2.50%	4 783	10.97%
General compensation increase + 0.5%	2.40%	3.00%	4 439	2.99%
General compensation increase - 0.5%	2.40%	2.00%	4 191	-2.76%

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. Any performance-based pay is earned and calculated on the basis of various performance targets and is disbursed in subsequent years. See separate discussion in the section on the salary system at Norges Bank.

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

SALARY SYSTEM AT NORGES BANK

Norges Bank's Executive Board sets the limits for the Bank's salary and remuneration schemes and monitors how they are put into practice. There are two salary systems at the Bank, which are subject to agreements with the unions representing Bank employees, a system based on individually determined salaries and a system based on salary scales divided into salary grades and salary norms. There is a separate system of individually determined salaries at NBIM and NBREM.

Salary levels at Norges Bank are to be competitive, but not market-leading. NBIM employs external consultants to perform annual comparisons of salary levels at NBIM with other companies. 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 and salary bands for senior executives at NBIM and NBREM. The governor determines annual salary for the CEO of NBIM within the band set by the Executive Board. Salaries for other senior executives at NBIM and the CEO of NBREM are determined by the CEO of NBIM in accordance with the salary bands set by the Executive Board. The CEO of NBREM determines salaries for the other senior executives at NBREM in the same manner.

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

Performance-based pay

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

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

In 2017, 246 of NBIM's employees earned performance-based pay, six of whom were employed by subsidiaries. Their total fixed salaries amounted to NOK 337.2m in 2017, while the total upper limit for performance-based pay was NOK 360.3m. Employees with performance-based pay earned an average of 64% of the total limit for 2017, based on performance over serveral years. For 2017 alone, average earnings were 72% of the limit.

Employees of Central Banking Operations whose work directly involves investment decisions for the foreign exchange reserves may be entitled to performance-based pay. Performance-based pay is calculated on the basis on performance measured against set targets for the management of the foreign exchange reserves. Accrued performance-based pay is paid over several years. The maximum bonus payment per year may not exceed the fixed salary. Two-thirds is paid in the year after it is accrued and the remaining third is held back and paid over the following two years. Employees with performance-based pay earned an average of 19% of the total limit for 2017, based on performance over the past two years.

Table 12.1 Personnel expenses

Amounts in NOK millions	2017	2016
Salary and fees	1 262	1 154
Employer's social security contributions	202	147
Pension expense/(income), see Note 11 *Pension*	158	128
Other personnel expenses	286	297
Personnel expenses	1 908	1 726

Table 12.2 Number of employees/FTEs

	31 Dec. 2017	31 Dec. 2016
Number of employees	922	923
Number of FTEs	918	918

BENEFITS TO GOVERNING BODIES

Supervisory Council

Total remuneration paid in 2017 was NOK 901 000. Of this amount, fixed remuneration was NOK 880 000 and the remaining NOK 21 000 was remuneration of alternates for attending meetings of the Permanent Committee. Total remuneration paid in 2016 was NOK 898 400.

Remuneration rates for 2017 were set by the Storting as from 1 January 2016 (cf. Recommendation 137 S (2015-2016)).

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 2017.

Table 12.3 Remuneration to the Supervisory Council and the Permanent Committee

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

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

Amounts in NOK			2016
	Total remuneration per member	Supervisory Council	The Permanent Committee
Chair	150 000	60 000	90 000
Deputy chair	100 000	40 000	60 000
Three members of the Permanent Committee	90 000	30 000	60 000
10 members of the Supervisory Council	30 000	30 000	-
Two permanent alternates[1]	30 000	30 000	-

[1] From 2016, the arrangement with designated alternates has been replaced by two non-designated alternates who regularly attend Supervisory Council meetings. In addition, alternates to the Permanent Committee received NOK 3 500 for each meeting.

Executive Board – external members
Remuneration to members and alternates of the Executive Board is determined by the Ministry of Finance. Total remuneration to members and alternates of the Executive Board and its committees was NOK 2 213 000 in 2017 compared with NOK 1 828 748 in 2016.

Table 12.4 Remuneration to the Executive Board

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

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

Amounts in NOK						2016
Name	**Total remunera-tion[1]**	**Executive Board**	**Audit Committee**	**Remu-neration Commit-tee**	**Ownership Committee**	**Risk and Investment Committee**
Hilde Myrberg	242 000	218 000	-	24 000	-	-
Kjetil Storesletten	296 000	218 000	-	-	-	78 000
Karen Helene Ulltveit-Moe	368 000	218 000	72 000	-	-	78 000
Kathryn M. Baker[2]	320 000	218 000	60 000	-	42 000	-
Steinar Juel[2]	284 000	218 000	60 000	6 000	-	-
Espen R. Moen (alternate)[3]	31 000	24 000	-	-	7 000	-
Arne Hyttnes (alternate)[4]	151 407	116 864	-	-	34 543	-
Kristine Landmark (alternate)[4]	136 341	116 864	-	19 477	-	-

1 Service on the Executive Board and its committees is remunerated at fixed annual rates.
2 Steinar Juel and Kathryn M. Baker were appointed on 1 January 2016. Steinar Juel became a member of the Remuneration Committee on 1 October 2016. Remuneration is shown from the date their appointment became effective.
3 Espen R. Moen resigned as alternate on 29 February 2016. Remuneration is shown until the date his resignation became effective.
4 Arne Hyttnes and Kristine Landmark were appointed alternates on 4 March 2016. Remuneration is shown from the date their appointment became effective.

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 Central Banking Operations 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 up until September 2017, commuter accommodation and travel home were covered for Deputy Governor Egil Matsen under an agreement with the Ministry of Finance. The Ministry of Finance has established a separate pension plan for the governor and deputy governors. The plan is based on the pension plan for members of the Storting and of the Government. The period of service for full benefit under the pension plan is 30 years, pensionable income is limited to 12 times the National Insurance Scheme basic amount (G) and members do not pay pension contributions. The pension is subject to life expectancy adjustments and is not coordinated with other public sector pension plans. The plan is funded out of the Bank's current income. Governor Øystein Olsen was a member of Norges Bank's pension fund during his first term of office. In addition, Deputy Governor Jon Nicolaisen has entitlements retained from previous employment at Norges Bank. Neither the governor nor the deputy governors receive any performance-based or other variable remuneration.

Table 12.5 Remuneration to the governor and the deputy governors

Amounts in NOK					2017
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 359 061	156 606	356 160	-
Deputy governor	Jon Nicolaisen	1 999 800	8 130	282 628	163 333
Deputy governor	Egil Matsen	1 964 224	13 476	139 780	-

Amounts in NOK					2016
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 227 637	135 869	349 367	-
Deputy governor	Jon Nicolaisen	1 836 000	7 860	327 708	233 333
Deputy governor	Egil Matsen[1]	1 702 803	13 814	218 021	-

[1] Egil Matsen became deputy governor on 18 January 2016. Remuneration is shown from the date the appointment became effective. Earned remuneration for service on the Risk and Investment Committee in 2015 was paid in 2016 and is included in the table above.

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

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

Amounts in NOK					2017
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive director, Financial Stability	Torbjørn Hægeland	1 587 987	7 980	344 248	-
Executive director, Monetary Policy	Ida Wolden Bache	1 653 115	13 476	223 210	-
Executive director, Markets and ICT	Olav Andreas Bø[1]	616 667	2 660	89 015	-
Executive director, Corporate and Shared Services	Jane Kristin Aamodt Haugland[2]	533 333	3 146	106 668	2 091 623
Executive director, General Secretariat	Birger Vikøren[3]	1 496 843	13 477	353 305	-
Director, Internal Audit	Ingunn Valvatne[4]	1 676 354	9 119	362 915	952 928
Director, Communications and External Relations	Runar Malkenes	1 357 884	11 700	482 233	-
General counsel	Marius Ryel	1 709 812	17 990	499 165	-

1 Began in this position on 1 September 2017. Remuneration is shown from the date the appointment became effective.
2 Began in this position on 1 September 2017. Remuneration is shown from the date the appointment became effective.
3 On leave from his position as Executive Director, General Secretariat from 23 November 2017. Remuneration is shown from the date his leave became effective.
4 On leave from her position as Executive Director, Internal Audit, from 23 November 2017. Began in the position of Executive Director, General Secretariat, from the date her leave became effective. Remuneration is shown for the full-year 2017.

Amounts in NOK					2016
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive director, Financial Stability	Torbjørn Hægeland[1]	833 419	5 248	107 680	-
Executive director, Monetary Policy	Ida Wolden Bache	1 590 814	13 356	212 361	-
Executive director, Markets and Banking Services	Kristin Gulbrandsen	1 654 620	6 869	372 658	724 591
Executive director, Corporate and Shared Services	Jannecke Ebbesen	1 595 318	20 769	362 933	-
Executive director, General Secretariat	Birger Vikøren	1 622 283	13 238	358 589	-
Director, Internal Audit	Ingunn Valvatne	1 637 075	21 831	344 708	1 008 583
Director, Communications and External Relations	Runar Malkenes[2]	1 144 455	7 959	272 215	-
General counsel	Marius Ryel	1 669 632	14 769	458 722	-

1 Began in this position on 23 May 2016. Remuneration is shown from the date the appointment became effective.
2 Began in this position on 18 January 2016. Remuneration is shown from the date the appointment became effective.

Table 12.7 Remuneration to senior executives in Norges Bank Investment Management

Amounts in NOK	Name	Gross salary	Performance pay	Value of other benefits	Pension benefits earned	Employee loan 2017
Norges Bank Investment Management						
Chief Executive Officer	Yngve Slyngstad	6 706 974	-	7 980	965 153	-
Deputy CEO and CAO	Trond Grande	4 550 966	-	8 101	331 376	-
Chief Compliance and Control Officer	Stephen A. Hirsch	4 240 267	-	11 259	298 579	-
Chief Investment Officer Equity Strategies	Petter Johnsen[2]	7 452 483	-	86 887	745 248	-
Chief Investment Officer Asset Strategies	Geir Øivind Nygård[1]	4 197 889	1 668 240	8 541	191 101	500 000
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen[1]	4 298 958	402 033	7 980	230 318	-
Chief Risk Officer	Dag Huse[1]	4 629 654	575 879	7 980	550 532	-
Chief Operating Officer	Age Bakker	3 491 971	-	8 202	372 350	-
Norges Bank Real Estate Management						
Chief Executive Officer	Karsten Kallevig	5 322 133	-	8 475	312 655	-
Chief Investment Officer - Europe	Romain Veber[1,2,3]	1 613 562	-	21 546	161 356	-
Chief Investment Officer - USA	Per Løken[1,3]	866 667	-	4 199	55 777	
Chief Administrative Officer	Mie Caroline Holstad[4]	1 393 824	-	13 598	211 126	-
Chief Operating Officer	Nina Kathrine Hammerstad	2 862 004	-	8 070	277 846	-
Chief Risk Officer	Lars Oswald Dahl	3 294 653	-	8 044	378 173	-
Chief Compliance and Control Officer	Jan Thomsen	3 446 713	-	8 844	370 669	-

1 Members of the Norges Bank Investment Management leader group receive only a fixed salary. New members of the leader group previously entitled to performance-based pay are no longer a part of this arrangement, but over the coming years will receive accrued performance-based pay that has been held back. The amounts reported in the table are performance-based pay disbursed during the financial year, but accrued and expensed in earlier periods. Romain Veber became a senior executive in 2017, but has NOK 1 225 845 in accrued performance-based pay in 2017 from his previous position, which will be disbursed in future periods.

2 Receives a salary in GBP. Amounts therefore include the foreign currency translation effect.

3 Began in this position on 1 September 2017. Remuneration is shown as from the date the appointment became effective.

4 Unpaid leave in the period 1 June 2018 to 31 August 2018.

Amounts in NOK	Name	Gross salary	Performance pay	Value of other benefits	Pension benefits earned	Employee loan
						2016
Norges Bank Investment Management						
Chief Executive Officer	Yngve Slyngstad	6 556 722	-	8 299	664 371	-
Deputy CEO and CAO	Trond Grande	4 444 161	-	7 599	314 490	-
Chief Compliance and Control Officer	Stephen A. Hirsch	4 033 333	-	11 400	264 447	-
Chief Investment Officer Equity Strategies	Petter Johnsen[2]	7 785 708	-	85 045	778 571	-
Chief Investment Officer Asset Strategies	Øyvind Gjærevoll Schanke[1,3]	4 571 332	627 046	271 903	291 570	-
Chief Investment Officer Allocation Strategies	Ole Christian Bech-Moen[1]	4 462 860	487 757	79 350	237 569	-
Chief Risk Officer	Dag Huse[1]	4 583 652	751 158	7 860	489 542	-
Chief Operating Officer	Age Bakker	3 430 421	-	7 846	353 003	-
Norges Bank Real Estate Management						
Chief Executive Officer	Karsten Kallevig	5 208 086	-	7 860	298 238	-
Chief Administrative Officer	Mie Caroline Holstad	1 841 928	-	7 860	236 464	-
Chief Operating Officer	Nina Kathrine Hammerstad	2 624 861	-	7 860	312 083	-
Chief Risk Officer	Lars Oswald Dahl	3 310 655	-	7 860	320 245	-
Chief Compliance and Control Officer	Jan Thomsen	3 446 713	-	7 922	352 773	-

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.
2 Receives a salary in GBP. Amounts therefore include the foreign currency translation effect.
3 Resigned from this position on 9 December 2016. Remuneration is shown until the date his resignation became effective. In addition to the remuneration in the table above, Schanke will receive salary and other benefits up until the end of January 2017, estimated at NOK 809 000.

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 2 820 000 and a maximum term of 30 years. Consumer loans are limited to a maximum of four times the employee's monthly salary, though not exceeding NOK 350 000. The loan schemes apply to all employees. The interest rate is linked to the norm rate for loans on favourable terms from an employer. The Ministry of Finance sets the norm rate six times a year. Total loans to employees in 2017 were NOK 337m, compared with NOK 408m in 2016.

Note 13 Management fee, GPFG

ACCOUNTING POLICY

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

Norges Bank's total operating expenses related to the management of the GPFG are reimbursed by the Ministry of Finance as principal. The management fee corresponds to actual costs incurred by Norges Bank, including performance-based fees to external managers. The management fee is recognised in the income statement of the GPFG as an expense, and is recognised in Norges Bank's income statement as income, on the line *Of which management fee, GPFG*. The management fee was NOK 4 728m in 2017 and NOK 3 731m in 2016. See Note 20.11 *Management costs* for a specification and detailed description.

Note 14 Non-financial assets

ACCOUNTING POLICY

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

Gold

Norges Bank has holdings of gold coins and gold bars as part of the Bank's historical collections. The holdings were measured at fair value on the date the gold was reclassified from international reserves to non-current assets.

Art and numismatic collections

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

Impairment testing

An impairment test is performed if there is an indication that an asset is impaired. If the carrying amount exceeds fair value, the carrying amount will be reduced to fair value. In the event the metallic value of gold rises, the holdings of gold are not revalued.

Table 14.1 Non-financial assets

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Non-current assets	2 089	2 088
Gold	291	291
Art and numismatic collections	88	87
Other assets	95	97
Non-financial assets	2 563	2 563

Table 14.2 Non-current assets

Amounts in NOK millions	Intangible assets	Property, plant and equipment			Plant under con-struction	2017
	Software	Buildings	Land	Other		Total
Cost at 1 Jan.	688	2 910	60	230	270	4 158
+ Additions	35	137		68	-	240
- Disposals	58	13	-	1	4	75
-/+ Adjustments	-	-	-	-		
Cost at 31 Dec.	665	3 034	60	298	266	4 323
- Accumulated depreciation and impairment	391	1 633		210		2 234
Carrying amount at 31 Dec.	274	1 402	60	87	266	2 089
Depreciation for the year	93	107	-	35	-	235
Impairment for the year	-	-	-	-	-	-
Depreciation schedule, no. of years	3-6	5-75	none	4-10	none	

Amounts in NOK millions	Intangible assets	Property, plant and equipment			Plant under con-struction	2016
	Software	Buildings	Land	Other		Total
Cost at 1 Jan.	486	2 799	60	202	290	3 837
+ Additions	206	111		28	-	345
- Disposals	4	-	-	-	20	24
-/+ Adjustments	-	-	-	-		
Cost at 31 Dec.	688	2 910	60	230	270	4 158
- Accumulated depreciation and impairment	356	1 538		176		2 070
Carrying amount at 31 Dec.	332	1 372	60	54	270	2 088
Depreciation for the year	79	97	-	34	-	210
Impairment for the year	-	-	-	-	-	-
Depreciation schedule, no. of years	3-6	5-75	none	4-10	none	

BUILDINGS

Bankplassen 4 is being leased to the government for 80 years, beginning in November 1986. The building is fully depreciated and its carrying amount at 31 December 2017 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	2017	2016
Custody costs	425	400
IT services, systems and data	876	871
Research, consulting and legal fees	359	381
Other costs	453	344
Base fees to external managers	755	638
Performance-based fees to external managers	924	222
Total other operating expenses	3 792	2 856

Table 15.2 Fees, external auditor

Amounts in NOK thousands, inclusive VAT	Norges Bank		Subsidiaries[1]	
	2017	2016	2017	2016
Statutory audit	14 718	14 693	5 474	4 622
Other assurance services[2]	3 621	3 184	-	-
Tax advice	-	-	100	155
Other services	-	674	-	25
Total fees, external auditor	18 339	18 551	5 574	4 802

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

[2] In 2017, the external auditor assisted the Office of the Supervisory Council on a number of supervisory reviews. Fees related to this are shown as *Other assurance services*.

OTHER OPERATING INCOME

Table 15.3 Other operating income

Amounts in NOK millions	2017	2016
Services for banks	59	62
Services for government (see Note 19 *Related parties*)	37	38
Rent (see Note 19 *Related parties*)	25	25
Other income	3	3
Total other operating income	124	128

Services for banks

Norges Bank performs settlement services for banks through Norges Bank's settlement system (NBO). 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 in circulation

ACCOUNTING POLICY

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

No withdrawn notes and coins were recognised as income in 2017 or 2016. In 2017, withdrawn notes and coins were redeemed in the amount of NOK 13.6m, compared with NOK 20.2m in 2016.

Note 17 International Monetary Fund (IMF)

ACCOUNTING POLICY

Allocated Special Drawing Rights (SDRs)

Norges Bank's holdings of SDRs are recognised as an asset in the balance sheet, under *Claims on the IMF*. The value of SDRs is calculated (from 1 October 2016) on the basis of a currency basket comprising the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling. The equivalent value of SDR allocations by the IMF shows Norges Bank's total allocations of SDRs and is recognised as a liability, under *Liabilities to the IMF*. Norges Bank's holdings of SDRs and the equivalent value of SDRs are measured at amortised cost.

Reserve tranche position

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

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

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

Pursuant to Section 25 of the Norges Bank Act, Norges Bank administers Norway's financial rights and fulfils the obligations ensuing from participation in the International Monetary Fund (IMF). The IMF works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. The primary activities of the IMF are monitoring economic developments, giving advice to member countries and providing temporary funding in the event of balance of payments problems.

Norway helps to finance the IMF in the following manner:

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

Table 17.1 Claims on and liabilities to the IMF

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

1 Commitments giving the IMF a borrowing facility with Norges Bank up to an agreed amount. Only the portion drawn is recognised in the balance sheet.

2 The net subscription refers to the reserve tranche position and is Norway's quota less Norway's krone liability to the IMF. If necessary, Norges Bank may without condition request to borrow from the IMF an amount equal to Norway's reserve tranche position.

Amounts in NOK millions	Loan resource commitments[1]	Amounts drawn on commitments	Subscription[2]	SDRs	Total amount recognised
					31 Dec. 2016
Financial assets					
IMF subscription (quota)	-	-	43 476	-	**43 476**
Holdings of Special Drawing Rights (SDRs)	-	-	-	15 986	**15 986**
Loans to the IMF - NAB	*22 764*	3 481	-	-	**3 481**
Loans to the IMF - Bilateral borrowing agreement	-	-	-	-	**-**
Loans to the IMF - PRGT	*6 945*	3 373	-	-	**3 373**
Claims on the IMF	*29 709*	6 854	43 476	15 986	66 315
Financial liabilities					
Krone liability to the IMF	-	-	40 814	-	**40 814**
Equivalent value of SDR allocations	-	-	-	18 099	**18 099**
Liabilities to the IMF	-	-	40 814	18 099	58 912
Net positions with the IMF	29 709	6 854	2 662	-2 113	7 403

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 without condition request to borrow 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 2017, SDR 1 was equal to NOK 11.66.

The composition of the SDR is evaluated every five years, and the evaluation conducted in 2015 resulted in the inclusion of the Chinese renminbi in the currency basket from 1 October 2016.

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 primary source of funding for loans. The amount of the subscription reflects the member country's relative size 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 subscription at 31 December 2017 was SDR 3 755m, unchanged from 2016.

Holdings and equivalent value of Special Drawing Rights (SDRs)
SDRs are periodically allocated to IMF member countries, most recently in 2009. *Equivalent value of SDR allocations* shows the amount of SDRs Norway has been allocated since the scheme was established. As at 31 December 2017, a total of SDR 1 563m had been allocated to Norway, unchanged from 2016. Norway's holdings of SDRs have been deposited with the IMF and amounted to SDR 1 605m in 2017, compared with SDR 1 381m in 2016. Holdings of SDRs may be used to pay in quota increases, for other transactions with the IMF or for purchase or sale of SDRs from or to other IMF members. However, SDRs cannot be used for direct purchases of goods and services.

Norges Bank's loans to the IMF
In addition to quota subscriptions, various lending programmes are important sources of IMF financing.

a) New Arrangements to Borrow (NAB)
The New Arrangements to Borrow (NAB) programme is used for loans if the IMF has a need for funds in excess of subscriptions from member countries. Total resource commitments under the NAB are SDR 1 967. Norges Bank's loans to the IMF under the NAB at 31 December 2017 totalled SDR 218m, or NOK 2 539m. The corresponding amount for 2016 was SDR 301m or NOK 3 481m.

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.

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 2017 totalled SDR 246m, or NOK 2 882m. The corresponding amount for 2016 was SDR 291m, or NOK 3 373m.

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 2017, krone deposits from the IMF totalled SDR 3 512m, compared with SDR 3 525m in 2016.

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

Amounts in NOK millions				2016
	Amount drawn on loan resource commitments	Subscription	SDRs	Total
Interest income from the IMF	11	33	12	56
Interest expenses to the IMF	-	-31	-16	-47
Net interest income from the IMF	11	2	-4	9

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 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 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 updated weekly by the IMF.

Note 18 Lending to banks, deposits from banks and deposits from the Treasury

ACCOUNTING POLICY

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

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

Table 18.1 Lending to banks

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Fixed-rate loans to banks	250	-
Total lending to banks	250	-

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

Table 18.2 Deposits from banks

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Sight and reserve deposits from banks	36 478	38 653
Fixed-rate deposits from banks	26 002	14 001
Other deposits	1 488	192
Deposits from banks	63 968	52 846

Table 18.3 Interest income from lending to banks

Amounts in NOK millions	2017	2016
Interest income on Fixed-rate loans to banks	14	91
Total interest income from lending to banks	14	91

Interest terms for loans to banks
Fixed-rate loans (F-loans) are the instrument primarily used to supply liquidity to the banking system. They are issued at a fixed or floating rate and specified maturity against collateral in the form of securities. The maturity on F-loans is determined by Norges Bank and varies depending on the projection of structural liquidity. Average maturity on F-loans to banks was 3.8 days in 2017 and 5 days in 2016.

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.

Overnight loans (D-loans) may be used by banks seeking to borrow from Norges Bank during the day or overnight. D-loans are issued against collateral in the form of securities at 1 percentage point above the key policy rate (sight deposit rate), with interest being charged if the loan is not repaid on the same day as it is extended.

Table 18.4 Interest expense on banks' and Treasury deposits

Amounts in NOK millions	**2017**	**2016**
Interest expense on deposits from the Treasury	-181	-199
Interest expense on sight and reserve deposits from banks	-174	-186
Interest expense on fixed-rate deposits from banks	-137	-54
Interest expense on depots operated by banks	-4	-5
Total interest expense on banks' and Treasury deposits	-496	-444

Interest terms for deposits from banks
Sight deposits: Banks can deposit unlimited reserves in Norges Bank via the standing deposit facility. The interest rate on deposits less than or equal to a bank's quota is equal to the key policy rate (sight deposit rate). 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 key policy rate.

Fixed-rate deposits: Norges Bank reduces the quantity of reserves in the banking system by providing banks with fixed-rate deposits (F-deposits). As in the case of F-loans, the interest rate is normally determined by multi-price auction. The maturity on F-deposits is determined by Norges Bank and varies depending on the projection of structural liquidity. Norges Bank can provide F-deposits at a floating rate, ie the interest rate on the F-deposits depends on the benchmark rate in the money market. Average maturity on F-deposits from banks was 4.8 days in 2017 and 5 days in 2016.

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 deposit rate is calculated on the basis of money market rates weighted between Norwegian and foreign rates in proportion to investments in Norges Bank's balance sheet (excluding *Investments, GPFG* and *Deposits in krone account, GPFG*).

In 2017, interest on Treasury deposits was paid at an annual rate of 0% in Q1 and Q2, and 0.25% in Q3 and Q4. In 2016, interest was paid on these deposits at an annual rate of 0.25% in Q1 and Q2 and 0% in Q3 and Q4.

Note 19 Related parties

ACCOUNTING POLICY

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

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

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

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

Norges Bank charges the Ministry of Finance a management fee relating to management of the GPFG, which amounted to NOK 4 728m in 2017 and NOK 3 731m in 2016. For further information, see Note 20.11 *Management costs*.

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

Other transactions with the government
Under agreements with the Ministry of Finance, Norges Bank performs tasks in connection with:
- Government debt management
- Administering the central government's group account
- Managing commemorative coins

The Ministry of Finance covers Norges Bank's costs related to these tasks, which amounted to NOK 37m for 2017 and NOK 38m for 2016.

However, the remuneration scheme for primary dealers of Norwegian government bonds and Treasury bills is financed by Norges Bank. Remuneration for 2017 amounted to NOK 7m, with a ceiling of NOK 10m.

Pursuant to point 5 of the guidelines for provisions and allocations of Norges Bank's profit or loss, *"In connection with the closing of the books each year, an amount equal to one third of the capital in the Transfer Fund shall be transferred to the Treasury."* This transfer amounted to NOK 14.3bn for 2017 and NOK 17.7bn for 2016.

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

Other related party transactions
Norges Bank has transactions with other government agencies and bodies. These transactions are primarily related to leasing of buildings, and amounted to NOK 25m in 2017 and NOK 25m in 2016.

Note 20 Government Pension Fund Global (GPFG)

Income statement

Amounts in NOK millions	Note	2017	2016
Profit/loss on the portfolio before foreign exchange gains and losses			
Income/expense from:			
- Equities	4	933 501	342 813
- Bonds	4	81 410	100 250
- Unlisted real estate	6	14 237	6 942
- Financial derivatives	4	278	-3 213
- Secured lending	12	3 532	4 013
- Secured borrowing	12	-345	23
Tax expense	9	-4 796	-4 061
Interest income/expense		-16	-54
Other costs		-11	-40
Profit/loss on the portfolio before foreign exchange gains and losses		**1 027 790**	**446 673**
Foreign exchange gains and losses	10	14 701	-306 099
Profit/loss on the portfolio		**1 042 492**	**140 574**
Management fee	11	-4 728	-3 731
Profit/loss for the period and total comprehensive income		**1 037 764**	**136 843**

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
Deposits in banks		11 027	17 759
Secured lending	12,13	185 046	134 338
Cash collateral posted	13	1 894	2 320
Unsettled trades		13 389	13 196
Equities	5	5 250 871	4 373 042
Equities lent	5,12	411 664	340 865
Bonds	5	2 080 061	2 220 286
Bonds lent	5,12	591 277	454 735
Unlisted real estate	6	217 160	188 469
Financial derivatives	5,13	9 025	9 366
Other assets		3 219	1 966
TOTAL ASSETS		8 774 633	7 756 342
LIABILITIES AND OWNER'S CAPITAL			
Liabilities			
Secured borrowing	12,13	260 136	213 520
Cash collateral received	13	5 804	3 688
Unsettled trades		15 905	22 195
Financial derivatives	5,13	3 919	4 501
Other liabilities		415	1 944
Management fee payable	11	4 728	3 731
Total liabilities		**290 907**	**249 579**
Owner's capital		8 483 727	7 506 763
TOTAL LIABILITIES AND OWNER'S CAPITAL		8 774 633	7 756 342

ACCOUNTING POLICY

The statement of cash flows is prepared in accordance with the direct method. Major classes of cash receipts and cash payments are presented separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown on a net basis. Cash comprises *Deposits in banks*.

Cash transfers between the GPFG and the Norwegian government in the form of inflows and withdrawals are classified as financing activities. These transfers have been settled in the period (cash principle). In the *Statement of changes in owner's capital*, accrued inflows/withdrawals are shown.

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 (-)	2017	2016
Operating activities		
Receipts of dividend from equities	128 293	118 517
Receipts of interest from bonds	73 575	74 832
Receipts of interest and dividend from unlisted real estate subsidiaries	3 869	3 657
Net receipts of interest and fee from secured lending and borrowing	3 426	4 097
Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate	*209 163*	*201 103*
Net cash flow from purchase and sale of equities	-141 382	-72 588
Net cash flow from purchase and sale of bonds	17 878	-38 151
Net cash flow to/from investments in unlisted real estate subsidiaries	-17 234	-17 269
Net cash flow financial derivatives	-4 886	84
Net cash flow cash collateral related to derivative transactions	2 754	983
Net cash flow secured lending and borrowing	-21	50 236
Net payment of taxes	-6 786	-3 116
Net cash flow related to interest on deposits in banks and bank overdraft	-84	-
Net cash flow related to other expenses, other assets and other liabilities	-857	-430
Management fee paid to Norges Bank	-3 731	-3 933
Net cash inflow/outflow from operating activities	54 813	116 919
Financing activities		
Inflow from the Norwegian government	-	-
Withdrawal by the Norwegian government	-60 837	-100 616
Net cash inflow/outflow from financing activities	-60 837	-100 616
Net change in cash		
Deposits in banks at 1 January	17 759	2 543
Net increase/decrease of cash in the period	-6 024	16 303
Net foreign exchange gains and losses on cash	-708	-1 087
Deposits in banks at end of period	11 027	17 759

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. *Total 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 2016	3 494 640	3 976 580	7 471 220
Total comprehensive income	-	136 843	136 843
Net inflow/withdrawal during the period[1]	-101 300	-	-101 300
31 December 2016	**3 393 340**	**4 113 423**	**7 506 763**
1 January 2017	3 393 340	4 113 423	7 506 763
Total comprehensive income	-	1 037 764	1 037 764
Net inflow/withdrawal during the period[1]	-60 800	-	-60 800
31 December 2017	**3 332 540**	**5 151 187**	**8 483 727**

1 In 2017 there was a withdrawal from the krone account of NOK 64.5bn. Of this, NOK 3.7bn was used to pay the accrued management fee for 2016. In 2016, there was a withdrawal from the krone account of NOK 105.2bn. Of this, NOK 3.9bn was used to pay the accrued management fee for 2015.

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 per asset class

Table 3.1 Returns per asset class

	2017	2016	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Returns in the fund's currency basket						
Return on equity investments (percent)	19.44	8.72	4.96	4.31	3.37	5.53
Return on fixed-income investments (percent)	3.31	4.32	0.53	0.85	1.12	0.77
Return on unlisted real estate[1] (percent)	7.52	0.78	1.97	2.68	2.05	0.62
Return on fund (percent)	13.66	6.92	3.49	3.15	2.60	3.78
Relative return on fund[2] (percentage points)	0.70	0.15	0.17	0.10	0.28	0.09
Returns in NOK (percent)						
Return on equity investments	19.74	3.67	8.45	0.40	2.92	6.85
Return on fixed-income investments	3.57	-0.53	3.87	-2.93	0.68	2.03
Return on unlisted real estate[1]	7.80	-3.91	5.36	-1.16	1.61	1.88
Return on fund	13.95	1.95	6.92	-0.71	2.15	5.08

1 *Return on unlisted real estate* includes return on listed real estate investments for 2016.
2 *Relative return on fund* includes return on unlisted real estate from 1 January 2017. Relative return on fund prior to 2017 is measured on the aggregated equity and fixed-income investments.

Table 3.1 presents return for the fund and per asset class, measured in the fund's currency basket and in NOK. A time-weighted rate of return methodology is applied in the return calculations. The fair value of holdings is determined at the time of cash flows into and out of the asset classes, and returns are geometrically linked. Returns are calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains. Returns are measured in the fund's currency basket, as well as in NOK, where the currency basket is weighted based on 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 NOK and the return of the currency basket. The fund's relative return is calculated as the arithmetic difference between the fund's return and the return of the fund's benchmark index. The fund's relative return includes return on unlisted real estate from 1 January 2017. The fund's relative return prior to 2017 is measured on the aggregated equity and fixed-income investments. The fund's benchmark index consists of global equity and bond indices determined by the Ministry of Finance. The benchmark return is measured 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. Return on unlisted real estate includes return on listed real estate investments for 2016.

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 as income when the dividends are formally approved by the shareholders' meeting or equivalent responsible party.

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

Realised gain/loss mainly represents amounts realised when assets or liabilities have been derecognised. Realised gain/loss includes transaction costs, which are expensed as incurred. Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in equities and bonds, these normally comprise 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.

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

Table 4.1 Specification Income/expense from equities

Amounts in NOK millions	2017	2016
Dividends	128 846	118 584
Realised gain/loss	233 652	107 005
Unrealised gain/loss	571 003	117 224
Income/expense from equities before foreign exchange gain/loss	933 501	342 813

Table 4.2 Specification Income/expense from bonds

Amounts in NOK millions	2017	2016
Interest	71 811	72 573
Realised gain/loss	9 283	30 861
Unrealised gain/loss	316	-3 184
Income/expense from bonds before foreign exchange gain/loss	81 410	100 250

Table 4.3 Specification Income/expense from financial derivatives

Amounts in NOK millions	2017	2016
Dividends	140	102
Interest	-1 933	-2 113
Realised gain/loss	128	-3 251
Unrealised gain/loss	1 943	2 049
Income/expense from financial derivatives before foreign exchange gain/loss	278	-3 213

GPFG Note 5 Holdings of equities, bonds and financial derivatives

ACCOUNTING POLICY

Investments in equities and bonds are designated at initial recognition as at *fair value through profit or loss* and are measured in the balance sheet at fair value. Earned and accrued dividends and interest are presented in the balance sheet on the same line as the respective financial asset or liability 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 classified as *held for trading* and are measured in the balance sheet at fair value. Variation margin for exchange traded futures is considered to be settlement, and amounts are presented as *Deposits in banks*. Norges Bank does not engage in hedge accounting, and therefore no financial instruments are designated as hedging instruments.

For further information on fair value measurement of equities, bonds and financial derivatives, see Note 7 *Fair value measurement*. Changes in fair value for the period 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. 2017		31 Dec. 2016	
Amounts in NOK millions	**Fair value including dividends**	**Accrued dividends**	**Fair value including dividends**	**Accrued dividends**
Equities	5 662 535	6 111	4 713 907	5 557
Total equities	5 662 535	6 111	4 713 907	5 557
Of which equities lent	*411 664*		*340 865*	

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

Table 5.2 Bonds

Amounts in NOK millions	31 Dec. 2017 Nominal value	31 Dec. 2017 Fair value including accrued interest	31 Dec. 2017 Accrued interest	31 Dec. 2016 Nominal value	31 Dec. 2016 Fair value including accrued interest	31 Dec. 2016 Accrued interest
Government bonds						
Government bonds issued in the government's local currency	1 304 201	1 458 828	10 712	1 290 977	1 461 360	11 356
Total government bonds	1 304 201	1 458 828	10 712	1 290 977	1 461 360	11 356
Government-related bonds						
Sovereign bonds	7 477	8 094	119	11 625	12 408	211
Bonds issued by local authorities	94 610	101 287	615	92 164	98 677	668
Bonds issued by supranational bodies	54 476	57 374	472	54 791	58 474	511
Bonds issued by federal agencies	148 622	150 032	732	161 022	164 578	1 000
Total government-related bonds	305 185	316 787	1 938	319 602	334 137	2 390
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	112 513	131 125	375	114 916	140 814	547
Total inflation-linked bonds	112 513	131 125	375	114 916	140 814	547
Corporate bonds						
Bonds issued by utilities	42 780	46 599	522	40 653	43 602	531
Bonds issued by financial institutions	244 859	248 894	2 322	225 022	227 803	2 264
Bonds issued by industrial companies	322 378	336 464	3 116	308 074	319 741	3 197
Total corporate bonds	610 017	631 957	5 960	573 749	591 146	5 992
Securitised bonds						
Covered bonds	138 447	132 642	1 013	140 209	147 237	1 477
Commercial mortgage-backed securities	828	-	-	1 357	327	1
Total securitised bonds	139 275	132 642	1 013	141 566	147 564	1 478
Total bonds	2 471 191	2 671 338	19 999	2 440 810	2 675 021	21 763
Of which bonds lent		*591 277*			*454 735*	

Financial derivatives, such as futures, interest rate derivatives and foreign exchange derivatives are used in asset management to adjust the exposure in various portfolios, as a cost efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities or bonds. Furthermore, foreign exchange derivatives are used in the financing of securities investment management. Equity derivatives with an option component are often a result of corporate actions and these can be converted to equities or be sold. Participatory notes are used as an alternative to direct equity investments in certain markets.

Table 5.3 gives a specification of financial derivative holdings. Notional amounts (the nominal values of the underlying) are the basis for calculating any cash flows and gains/losses for the contracts. This provides information regarding the extent to which different types of financial derivatives are used.

Table 5.3 Financial derivatives

	31 Dec. 2017			31 Dec. 2016		
		Fair value			Fair value	
Amounts in NOK millions	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Foreign exchange derivatives	252 601	770	2 687	321 580	4 586	1 995
Interest rate derivatives	34 225	1 304	1 232	31 284	528	2 506
Equity derivatives	7 379	6 951	-	6 645	4 252	-
Total financial derivatives	294 205	9 025	3 919	359 509	9 366	4 501

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. Typically, one party pays a floating rate of interest and the other pays a fixed rate.

Equity derivatives

Equity derivatives are derivatives with exposure to an underlying equity. Equity derivatives include instruments with an option component such as warrants and rights. These instruments grant the owner the right to purchase an equity at an agreed price within a certain time frame. Equity derivatives also include participatory notes which is an instrument that provides exposure to an underlying equity.

EXCHANGE-TRADED FUTURES CONTRACTS

Futures contracts are listed contracts to buy or sell a specified asset (security, index, interest rate or other) at an agreed price at a future point in time. Settlement is normally made in cash, with initial and daily margin settlement of gains and losses.

GPFG Note 6 Unlisted real estate

ACCOUNTING POLICY

Investments in unlisted real estate are made through subsidiaries of Norges Bank, which exclusively constitute investments as part of the management of the GPFG. Subsidiaries are financed through equity and long-term debt financing. Subsidiaries presented as *Unlisted real estate* are designated upon initial recognition as financial instruments 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 on fair value measurement of unlisted real estate investments, see Note 7 *Fair value measurement*.

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

Income generated in the real estate subsidiaries may be distributed to the GPFG in the form of interest and dividends as well as repayment of equity and long-term loan financing provided from the GPFG to the subsidiary. There are no significant restrictions on distribution of dividends and interest from subsidiaries to the GPFG.

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

Dividends are recognised as income when the dividends are formally approved by the shareholders' meeting/equivalent responsible party, or as a consequence of the company's articles of association.

Interest income is recognised when the interest is earned. Dividends and interest are presented in Table 6.1 based on the cash principle.

Unrealised gain/loss represents the change in fair value for the balance sheet line *Unlisted real estate*, which is not attributable to dividends and interest paid.

Table 6.1 provides a specification of the income statement line *Income/Expense from unlisted real estate*, before foreign exchange gains and losses.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK millions	2017	2016
Dividend	2 057	2 167
Interest income	1 812	1 490
Unrealised gain/loss	10 368	3 285
Income/expense from unlisted real estate before foreign exchange gain/loss	14 237	6 942

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

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Unlisted real estate, opening balance for the period	188 469	180 021
Payments to new investments[1]	14 771	19 147
Payments to existing investments[1]	5 167	2 808
Payments from existing investments[1]	-2 704	-4 686
Unrealised gain/loss	10 368	3 285
Foreign currency translation effect	1 089	-12 106
Unlisted real estate, closing balance for the period	217 160	188 469

1 This represents the net 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, in order to fund investments in real estate assets, primarily properties. Net income generated in the subsidiaries may be distributed to the GPFG through repayment of equity and long-term loan financing.

UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. For a list of principal entities, see Note 15 *Interests in other entities*.

A further specification of *Unlisted real estate* is provided in Tables 6.3 and 6.4. Table 6.3 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 6.4 specifies the GPFG's share of assets and liabilities in the underlying real estate companies, which comprise the closing balance for *Unlisted real estate* as presented in Table 6.2.

PRINCIPLES FOR MEASUREMENT AND PRESENTATION

The following policies apply for the respective income and expense elements presented in Table 6.3:

Rental income is recognised as income 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.

Unrealised gain/loss presented in Table 6.1 includes undistributed profits and will therefore not reconcile with fair value changes for properties, debt and other assets and liabilities presented in Table 6.3.

Transaction costs are incurred as a one-time cost when purchasing or selling properties. Transaction costs include stamp duty, registration fees, due diligence costs (fees to advisors, such as lawyers and valuation experts) and insurance. Transaction costs are expensed as incurred.

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.

Table 6.3 Income from underlying real estate companies

Amounts in NOK millions	2017	2016
Net rental income	8 579	7 645
Realised gain/loss	199	109
Fair value changes - properties	8 375	1 416
Fair value changes - debt	-420	-191
Fair value changes - other assets and liabilities	-461	-174
Transaction costs	-324	-411
Interest expense external debt	-626	-622
Tax expense payable	-140	-151
External asset management - fixed fees	-482	-454
External asset management - variable fees	-248	-39
Internal asset management - fixed fees[1]	-32	-
Operating costs within the limit from the Ministry of Finance[2]	-97	-81
Other costs	-88	-105
Net income underlying real estate companies	14 237	6 942

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 operating costs that are measured against the management fee limit from the Ministry of Finance.

Table 6.4 Assets and liabilities underlying real estate companies

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Properties	235 507	204 635
External debt	-17 694	-15 727
Net other assets and liabilities[1]	-653	-439
Total assets and liabilities underlying real estate companies	217 160	188 469

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

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 held at fair value 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

The fair value of the vast majority of assets and liabilities is based on quoted market prices. If the market for a security or an asset is not active, fair value is established by using standard valuation techniques. Estimating fair value introduces valuation uncertainty, mostly due to the use of unobservable inputs used in valuation models. This valuation risk is addressed by the management and control framework in Norges Bank Investment Management, which governs fair value measurement, and is described in Section 6 of this note.

2. VALUATION UNCERTAINTY AND THE FAIR VALUE HIERARCHY

All assets and liabilities measured at fair value are categorised in the three categories in the fair value hierarchy presented in Table 7.1. The level of valuation uncertainty determines the categorisation:

- Level 1 comprises assets that are valued on the basis of unadjusted quoted prices in active markets and are considered to have very limited valuation uncertainty.
- Assets and liabilities classified as Level 2 are valued using models with observable inputs. Inputs are considered observable if they can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Holdings classified as Level 2 have some valuation uncertainty.
- Assets classified as Level 3 are valued using models with considerable use of unobservable inputs, leading to a high degree of valuation uncertainty.

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

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments held at fair value that are not traded or quoted in active markets. Fair value is therefore determined using valuation techniques that use models with unobservable inputs. The resulting values are particularly uncertain estimates, due to the significant use of unobservable inputs.

Table 7.1 classifies investments by level of valuation uncertainty into the fair value hierarchy and includes all balance sheet items measured at fair value.

Table 7.1 Investments by level of valuation uncertainty

	Level 1		Level 2		Level 3		Total	
Amounts in NOK millions	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
Equities	5 616 897	4 673 199	34 265	28 845	11 373	11 863	5 662 535	4 713 907
Government bonds	1 417 376	1 369 188	41 452	92 172	-	-	1 458 828	1 461 360
Government-related bonds	271 415	279 772	43 151	53 463	2 221	902	316 787	334 137
Inflation-linked bonds	126 023	124 646	5 102	16 168	-	-	131 125	140 814
Corporate bonds	597 276	538 692	34 572	52 293	109	161	631 957	591 146
Securitised bonds	113 337	136 088	18 863	11 149	442	327	132 642	147 564
Total bonds	2 525 427	2 448 386	143 140	225 245	2 772	1 390	2 671 338	2 675 021
Financial derivatives (assets)	120	291	8 905	9 075	-	-	9 025	9 366
Financial derivatives (liabilities)	-	-	-3 919	-4 501	-	-	-3 919	-4 501
Total financial derivatives	120	291	4 986	4 574	-	-	5 106	4 865
Unlisted real estate	-	-	-	-	217 160	188 469	217 160	188 469
Other[1]	-	-	-67 685	-71 768	-	-	-67 685	-71 768
Total	8 142 444	7 121 876	114 706	186 896	231 305	201 722	8 488 454	7 510 494
Total (percent)	95.9	94.8	1.4	2.5	2.7	2.7	100.0	100.0

1 *Other* consists of non-investment assets and liabilities limited to money-market instruments such as secured lending and borrowing positions, deposits in banks, unsettled trades, posted and received cash collateral and other assets and liabilities.

Valuation uncertainty for the GPFG as a whole at the end of 2017 is virtually unchanged compared to the end of 2016. The majority of the total portfolio has low valuation uncertainty. At the end of 2017, 97.3% was classified as Level 1 or 2, which is unchanged compared to year-end 2016. 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 (99.2%) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.6 %) are classified as Level 2. These are mainly equities for which trading has recently been suspended, or illiquid securities that are not traded daily. A few securities (0.2%) that are not listed, or where trading has been suspended over a longer period, have high uncertainty related to fair value and are classified as Level 3. Almost 90% of the value of equities classified as Level 3 is attributable to one shareholding with a lock-in period, which was received as compensation following the merger of two companies in 2016. Due to the lock-in period, there has been significant use of unobservable inputs in the valuation of these shares, resulting in Level 3 classification.

Bonds
The majority of bonds (94.5%) have observable, executable market quotes and are classified as Level 1. A minority of bonds (5.4%) are classified as Level 2. These securities do not have a sufficient number of observable quotes or they are priced based on comparable liquid bonds. A few bonds (0.1%) that do not have observable quotes are classified as Level 3.

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. Other derivatives are classified as Level 2, as the valuation of these is based on standard models using observable market inputs.

Other assets and liabilities are classified as Level 2.

3. MOVEMENTS BETWEEN LEVELS OF VALUATION UNCERTAINTY

Reclassifications between Level 1 and Level 2
The relative share of equities classified as Level 1 has increased marginally by 0.1 percentage point compared to year-end 2016.

Bonds classified as Level 1 have increased by 3 percentage points in 2017. This is mainly due to reclassifications from Level 2 to Level 1 and purchases during the year. The reclassified bonds consist mainly of corporate bonds denominated in USD and government bonds in emerging markets. Price and currency gains also added to the increase in Level 1 bond holdings.

Table 7.2 Specification of changes in Level 3 holdings

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

Amounts in NOK millions	1 Jan. 2016	Purchases	Sales	Settlements	Net gain/ loss	Transferred into Level 3	Transferred out of Level 3	Foreign exchange gains and losses	31 Dec. 2016
Equities	3 607	9 956	-455	-41	-533	257	-842	-86	11 863
Bonds	2 731	-	-1 011	-163	-33	6	-91	-49	1 390
Unlisted real estate[1]	180 021	17 269	-	-	3 285	-	-	-12 106	188 469
Total	186 359	27 225	-1 466	-204	2 719	263	-933	-12 241	201 722

1 *Purchases* represent the net cash flow in the period from the GPFG to subsidiaries presented as *Unlisted real estate*.

The GPFG's aggregate exposure that is considered particularly uncertain with respect to valuation (Level 3) increased by NOK 29 583m in 2017, to an exposure at the end of the year of NOK 231 305m.

The relative share of equities classified as Level 3 has decreased by 0.1 percentage point compared to 2016. The marginal decrease is primarily due to price depreciation of the largest Level 3 holding, combined with a general price appreciation of equities within Level 1 and Level 2 during the year.

There is no change in the relative share of bonds classified as Level 3, compared to 2016.

All unlisted real estate investments are classified as Level 3, and the increase of NOK 28 691m in 2017 is mainly due to new investments and value increases.

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

Unlisted real estate (Level 3)

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

Valuation of commercial real estate in the European and American markets is based on variations of discounted cash flow models.

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

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

Equities (Level 2 and 3)

Equities that are valued based on models with observable inputs provided by vendors according to the pricing hierarchy, are classified as Level 2. These holdings are often not traded daily, or are listed shares of companies where trading has been suspended. The valuation models take into account various observable market inputs such as comparable equity quotes, last traded date, volumes and reasons for suspension.

Some holdings in Level 3 are illiquid because of lock-in periods. Valuation models for these holdings take into account both observable inputs, such as comparable equity quotes and unobservable inputs such as historic volatility.

Other holdings of Level 3 equities where trading has been suspended for a prolonged period, are valued either based on the last market price using regression analysis or based on comparable companies.

Bonds (Level 2 and 3)

Bonds that are valued based on indicative quotes, or liquid comparable issues with executable quotes for those that are less liquid, are classified as Level 2. These holdings usually consist of less liquid bonds than those actively traded on the market.

Bonds valued by external price vendors, based on models with extensive use of unobservable inputs, are classified as Level 3. Such inputs include probability of future cash flows, outdated indirect quotes on comparable issues and spreads to reference curves. These holdings include defaulted and highly illiquid bonds.

Financial derivatives (Level 2)

Foreign exchange derivatives consist mainly of foreign exchange forward contracts, and are valued using industry standard models with predominantly observable market data inputs such as forward rate yields.

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

Equity derivatives, such as rights and warrants, are mainly valued based on prices provided by vendors according to the pricing hierarchy. In some cases where an equity derivative is not traded, observable inputs such as conversion factors, subscription price and strike price are utilised to value the instruments. Participatory certificates are valued using the underlying price of the quoted equity, adjusted for observable inputs related to credit and liquidity risk.

5. SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification Level 3 and sensitivities

Amounts in NOK millions	Specification of Level 3 holdings 31 Dec. 2017	Sensitivities 31 Dec. 2017 Unfavourable changes	Sensitivities 31 Dec. 2017 Favourable changes	Specification of Level 3 holdings 31 Dec. 2016	Sensitivities 31 Dec. 2016 Unfavourable changes	Sensitivities 31 Dec. 2016 Favourable changes
Equities	11 373	-2 409	2 409	11 863	-2 638	2 606
Government-related bonds	2 221	-222	222	902	-90	90
Corporate bonds	109	-11	11	161	-16	16
Securitised bonds	442	-44	44	327	-33	33
Total bonds	2 772	-277	277	1 390	-139	139
Unlisted real estate	217 160	-12 969	14 988	188 469	-9 678	10 711
Total	231 305	-15 655	17 674	201 722	-12 455	13 456

There is uncertainty associated with the fair value of investments classified as Level 3 and the downside valuation uncertainty is estimated at NOK 15 655m at year-end 2017, an increase of NOK 3 200m from 2016. Upside valuation uncertainty has increased by NOK 4 218m and is estimated at NOK 17 674m at the end of 2017. The increase in valuation uncertainty compared to 2016 is mainly due to new real estate investments.

Unlisted real estate

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

Real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an unfavourable outcome, an increase of 0.2 percentage point in the yield, and a reduction of 2% in future market rents will result in a decrease in value of the real estate portfolio of approximately 6.0% (5.1% in 2016) or NOK 12 969m. In a favourable outcome, a reduction in the yield of 0.2 percentage point and an increase in future market rents of 2% will increase the value of the real estate portfolio by 6.9% (5.7% in 2016) or NOK 14 988m. The slight change in sensitivity compared to 2016 is mainly due to increased size and changes in the composition of the unlisted real estate portfolio.

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 slightly for the equity portfolio, in line with the holdings classified as Level 3. The small reduction in relative sensitivity for the equity portfolio compared to 2016 is caused by the removal of several holdings with lock-in periods that are now classified as Level 1 as the trading restrictions are no longer applicable, in addition to the aforementioned decrease in Level 3 holdings.

Bonds

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

The sensitivity in fair value for bonds is somewhat lower than for equities, particularly for bonds with shorter maturities. The increase in sensitivity in 2017 in absolute value is in line with the increase in the holdings classified as Level 3.

6. CONTROL ENVIRONMENT

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

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

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

Valuation 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 unobservable inputs are used in some cases, due to illiquid markets.

The valuation process is subject to numerous daily controls by the valuation departments. The controls are based on defined thresholds and sensitivities, which are monitored and adjusted in accordance with prevailing market conditions. At each month-end for financial instruments and at the end of each quarter for unlisted real estate investments, more extensive controls are performed to ensure valuation is in accordance with fair value. As part of this review, particular attention is paid to illiquid financial instruments and unlisted real estate investments, i.e. investments deemed to pose valuation challenges. Illiquid instruments are identified using sector and currency classifications, credit rating indicators, bid/ask spreads, and market activity.

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

The valuation committee, which includes several members of 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 Risk

MANAGEMENT MANDATE FOR THE GPFG

See Note 1 for a description of the framework for management of the GPFG.

The GPFG shall seek to obtain the highest possible return after costs measured in the currency basket of the benchmark, within the set management limits. The strategic benchmark index set by the Ministry of Finance is divided into two asset classes, equities and bonds, with an allocation of 62.5% to equities, and 37.5% to bonds. The Ministry of Finance has further determined a plan to increase the strategic equity share to 70% .

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

From January 2017, investments in real estate are no longer defined by the fund's benchmark index. The fund's allocation to unlisted real estate is regulated in the investment mandate. It is up to Norges Bank to determine the allocation to real estate and how it shall be financed.

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

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.

GOVERNANCE STRUCTURE

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

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

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

FRAMEWORK FOR INVESTMENT RISK

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

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

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

Risk management is defined as management of market risk, credit risk, counterparty risk, operational risk and risk related to environmental, social and governance factors. The first three items listed are defined as investment risk. Within Norges Bank Investment Management, the investment area 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, asset classes and other levels within the portfolio that reflect the investment process. Risk analyses are required in advance of investments in unlisted real estate.

Investment risk – market risk

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

Investment risk – credit risk

Norges Bank Investment Management defines credit risk as the risk of loss due to an issuer not meeting its payment obligations. Credit risk is measured both in relation to single issuers, where the probability of default and loss given default are taken into account, and portfolio credit risk, where credit risk takes into account the correlation of credit losses between instruments and issuers. Credit risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – counterparty risk

Norges Bank Investment Management defines counterparty risk as the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. Counterparties are necessary to ensure effective liquidity management and effective trading and management of market and credit risk. Counterparty risk also arises in connection with securities lending and with the management of the equity and bond portfolios, as well as the 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 accepted risk management systems and processes are complemented by internally developed measurement methodologies and processes.

MARKET RISK

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

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

Asset class by country and currency

The portfolio is invested across several asset classes, countries and currencies as shown in Table 8.1.

Table 8.1 Allocation by asset class, country and currency

Asset class	Market	Market value in percent by country and currency[1] 31 Dec. 2017	Market	Market value in percent by country and currency[1] 31 Dec. 2016	Market value in percent by asset class 31 Dec. 2017	Market value in percent by asset class 31 Dec. 2016	Assets minus liabilities excluding management fee 31 Dec. 2017	Assets minus liabilities excluding management fee 31 Dec. 2016
Equities	**Developed**	**89.0**	**Developed**	**90.5**				
	US	35.4	US	37.6				
	UK	9.7	UK	9.8				
	Japan	9.1	Japan	9.0				
	Germany	6.1	Germany	5.4				
	France	5.1	France	5.2				
	Total other	23.6	Total other	23.5				
	Emerging	**11.0**	**Emerging**	**9.5**				
	China	3.6	China	2.7				
	Taiwan	1.6	Taiwan	1.5				
	India	1.2	India	1.0				
	Brazil	0.9	Brazil	0.8				
	South Africa	0.7	South Africa	0.6				
	Total other	3.0	Total other	2.9				
Total equities					**66.60**	**62.47**	**5 653 440**	**4 691 863**
Fixed income	**Developed**	**90.5**	**Developed**	**87.6**				
	US dollar	44.9	US dollar	43.7				
	Euro	25.8	Euro	25.3				
	Japanese yen	6.7	Japanese yen	5.9				
	Pound sterling	4.6	Pound sterling	4.6				
	Canadian dollar	3.2	Canadian dollar	3.0				
	Total other	5.3	Total other	5.1				
	Emerging	**9.5**	**Emerging**	**12.4**				
	Mexican peso	1.6	Mexican peso	1.9				
	South Korean won	1.4	South Korean won	1.7				
	Indonesian rupee	0.9	Indian rupee	0.9				
	Indian rupee	0.7	Polish zloty	0.8				
	Brazilian real	0.7	Brazilian real	0.8				
	Total other	4.1	Total other	6.3				
Total fixed income					**30.82**	**34.31**	**2 616 372**	**2 576 875**
Unlisted real estate	US	46.2	US	46.0				
	UK	23.5	UK	23.0				
	France	16.6	France	14.6				
	Switzerland	3.9	Germany	7.6				
	Germany	3.5	Switzerland	3.6				
	Total other	6.3	Total other	5.2				
Total unlisted real estate[2]					**2.58**	**3.22**	**218 643**	**241 756**

1 *Market value in percent per country and currency* includes derivatives and cash.
2 Listed real estate investments are presented as *Equities* from 1 January 2017. These were previously included in the asset class *Real estate*. Comparative amounts are not restated.

At the end of the year, the share of equities in the fund was 66.6% . This is an increase of 4.1 percentage points compared to year-end 2016. The share of the bond portfolio in the fund decreased to 30.8% at year-end 2017, a reduction of 3.5 percentage points from year-end 2016. This change in asset class allocation in 2017 was mainly a result of stronger returns for equities than bonds. The unlisted real estate portfolio's share of the fund was 2.6% at year-end 2017. In 2016, the real estate asset class constituted 3.2% of the fund. The reduction of 0.6 percentage point is mainly due to listed equities now being reported as part of the equity share, following a change in the management mandate issued by the Ministry of Finance. The share of unlisted real estate in the fund increased by 0.1 percentage point compared to year-end 2016.

Concentration risk

The GPFG has substantial investments in government-issued bonds.

Table 8.2 shows the largest holdings in bonds issued by governments. These include government bonds issued in local currency, sovereign bonds and inflation-linked bonds issued in local currency.

Table 8.2 Largest holdings within the segment government bonds

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

Amounts in NOK millions	Market value 31 Dec. 2016
US	579 357
Japan	161 544
Germany	137 231
UK	88 983
Mexico	54 214
South Korea	51 995
France	49 121
Italy	43 339
Spain	34 926
India	30 695

The portfolio is also invested in companies which issue both equities and bonds. Table 8.3 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 8.3 Largest holdings excluding sovereigns, both bonds and equities

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

Amounts in NOK millions, 31 Dec. 2016	Sector	Equities	Bonds	Total
Nestlé SA	Consumer goods	50 985	710	51 696
Apple Inc	Technology	44 965	4 648	49 613
Royal Dutch Shell Plc	Oil and gas	46 153	3 287	49 440
Bank of America Corp	Finance	18 153	20 291	38 444
JPMorgan Chase & Co	Finance	23 211	14 998	38 209
Microsoft Corp	Technology	34 665	2 947	37 612
Alphabet Inc	Technology	36 566	955	37 521
Novartis AG	Health care	32 349	2 675	35 024
Roche Holding AG	Health care	32 896	2 110	35 005
Kreditanstalt für Wiederaufbau	Government-related	-	34 529	34 529

Table 8.4 shows the composition of the unlisted real estate asset class per sector. Following a change in the management mandate issued by the Ministry of Finance, listed real estate investments are now included in equity investments.

Table 8.4 Distribution of unlisted real estate investments per sector, percent

Sector	31 Dec. 2017	31 Dec. 2016
Office	58.2	63.6
Retail	19.4	12.0
Logistics	21.2	22.2
Other	1.1	2.2
Total	100.0	100.0

Volatility and correlation risk

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

The management mandate issued by the Ministry of Finance was changed from 1 January 2017. All of the fund's investments, including investments in unlisted real estate, are now included in the calculations for relative volatility and are measured against the fund's benchmark index consisting of global equity and bond indices. The limit for the fund's expected relative volatility, now including unlisted real estate, is still 1.25 percentage points.

The Barra Private Real Estate 2 (PRE2) model from MSCI is used to calculate the market risk for the fund's investments in unlisted real estate. As a general modelling issue there are few, if any, available historical prices for any specific property. 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 specific to location and type of property, and constructs synthetic time series of risk factor returns on a 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 8.5 and 8.6 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 8.5 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31 Dec. 2017	Min 2017	Max 2017	Average 2017	31 Dec. 2016	Min 2016	Max 2016	Average 2016
Portfolio	10.8	10.7	11.2	11.0	10.6	10.2	10.7	10.5
Equities	13.6	13.6	14.1	14.0	14.0	12.9	14.1	13.7
Fixed income	9.4	9.4	9.8	9.7	9.7	9.6	10.3	10.0
Unlisted real estate[1]	12.0	11.9	12.7	12.5				

1 Risk for the fund's investments in unlisted real estate is calculated separately from 2017.

Table 8.6 Relative risk measured against the fund's reference indices, expected relative volatility, in basis points

	Expected relative volatility							
	31 Dec. 2017	Min 2017	Max 2017	Average 2017	31 Dec. 2016	Min 2016	Max 2016	Average 2016
Portfolio[1]	33	31	35	33	34			
Equity and fixed-income portfolio					28	26	29	28

1 Real estate is included in the framework for relative volatility in the new investment management mandate from 2017. Prior to 2017, the framework in the management mandate was based on the aggregated equity and fixed-income portfolio.

Risk measured as expected volatility indicates an expected annual value fluctuation in the fund of 10.8% , or approximately NOK 920bn at the end of 2017, compared to 10.6% at the end of 2016. Expected volatility for the equity portfolio was 13.6% at year-end, down from 14.0% at the end of 2016, while expected volatility for the bond portfolio was 9.4% , down from 9.7% at year-end 2016. The increase in expected volatility for the fund in 2017 is mainly due to the increased share of equities in the portfolio.

The mandate for the GPFG specifies that expected relative volatility for the fund, including unlisted real estate, shall not exceed a limit of 1.25 percentage points. The measurement of risk and follow-up of the limit is performed based on the risk model described above. Expected relative volatility has increased to 33 basis points at the end of the year, from 28 basis points at year-end 2016, mainly due to the inclusion of unlisted real estate in the volatility calculations.

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

Expected shortfall is a tail risk measure that measures the expected loss of a portfolio in extreme market situations. The expected shortfall measure provides an estimate of the annual expected loss for a given confidence level. Using historical simulations, relative returns of the current portfolio and benchmark are measured on a weekly basis over a sampling period of ten years. 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.

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 of ten years, so that the measure can capture extreme market movements. A confidence level of 97.5% is used for the calculations.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall does not exceed 3.75 percentage points. Expected shortfall is measured and monitored based on the risk model described above. At the end of the year, expected shortfall was 1.49 percentage points, compared to 0.87 percentage point at year-end 2016. The increase is mainly due to unlisted real estate being included in the risk measurement from 1 January 2017.

Strengths and weaknesses

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

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

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

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

Table 8.7 Bond portfolio specified by credit rating

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

Amounts in NOK millions, 31 Dec. 2016	AAA	AA	A	BBB	Lower rating	Total
Government bonds	716 767	260 859	271 238	173 321	39 176	1 461 360
Government-related bonds	143 279	136 550	36 316	15 579	2 413	334 137
Inflation-linked bonds	109 025	9 493	3 662	12 459	6 175	140 814
Corporate bonds	5 290	59 469	219 333	297 198	9 856	591 146
Securitised bonds	126 001	16 054	2 010	3 499	-	147 564
Total bonds	1 100 361	482 424	532 559	502 058	57 620	2 675 021

During 2017, the share of holdings in government-related bonds and securitised bonds was reduced, while holdings in European and American corporate bonds increased. Government and government-related bonds, including inflation-linked bonds, amounted to 71.4% of the bond portfolio compared to 72.4% at year-end 2016, while corporate bonds increased to 23.7% of the bond portfolio at the end of 2017 from 22.1% at year-end 2016.

The share of bonds grouped under *Lower rating* increased to 2.5% of the bond portfolio at year-end 2017, compared to 2.2% at year-end 2016. This was mainly due to the downgrade of South Africa to this category as a result of lower growth forecasts and deterioration of fiscal policy.

Holdings of AAA bonds were relatively stable through the year and amounted to 41.1% of the bond portfolio at year-end 2017, unchanged from year-end 2016. AA bonds decreased to 15.4% at the end of 2017, compared to 18.0% at year-end 2016. Holdings of A bonds increased to 21.9% at year-end 2017 from 19.9% at year-end 2016. Defaulted bonds had a market value of NOK 109m at year-end 2017, down from NOK 164m at year-end 2016. The nominal size of defaulted bonds was NOK 14.9bn at the end of 2017, compared to NOK 15.2bn at year-end 2016. Defaulted bonds are grouped under *Lower rating*. The total bond portfolio's credit quality decreased slightly during the year.

Table 8.8 Bond portfolio by credit rating and currency, in percent

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

31 Dec. 2016	AAA	AA	A	BBB	Lower rating	Total
US Dollar	23.8	2.8	6.6	8.6	0.3	42.1
Euro	11.0	6.2	2.2	5.1	0.2	24.7
Japanese Yen	-	-	6.6	-	-	6.6
British Pound	0.3	3.7	0.4	0.7	-	5.1
Canadian Dollar	1.6	1.1	0.3	0.3	-	3.3
Other currencies	4.4	4.2	3.8	4.1	1.6	18.1
Total	41.1	18.0	19.9	18.8	2.2	100.0

There were no credit derivatives in the portfolio at year-end 2017.

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

Counterparty risk

Counterparties are necessary to trade in the markets and to ensure effective management of liquidity, market and credit risk. Exposure to counterparty risk is related to trading in OTC derivatives and currency contracts, cleared OTC and listed derivatives, repurchase and reverse repurchase agreements, securities lending, securities posted as collateral in derivatives trades and participatory certificates. Unsecured deposits in banks are also defined as having counterparty risk. Such counterparty risk arises partly in connection with the daily cash management of the fund and 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 long settlement period are also defined as counterparty risk.

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

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

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

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

The methods used to calculate counterparty risk are in accordance with internationally recognised standards. Generally, the Basel regulations for banks are used for measuring counterparty risk, with certain adjustments based on internal analyses. The risk models calculate the expected counterparty exposure in the event of a counterparty default. For OTC derivatives and currency contracts, the current exposure method in the Basel regulations is applied. For each contract, the market value and a rate for potential future exposure is calculated. Netting agreements and collateral are taken into account in the calculation of net exposure.

For repurchase agreements, securities lending transactions executed through an external agent and securities posted as collateral in derivative trades, a method is used that adds a premium to the market value to reflect the position's volatility. These positions are also adjusted for netting and actual collateral received and posted when determining net exposure.

Exposure to counterparty risk is related to counterparties in the settlement and custody systems, both for currency trades and for the purchase and sale of securities. Settlement risk for most currency trades is low. Settlement risk is reduced using the currency settlement system CLS (Continuous Linked Settlement), or by trading directly with custodians. In a few currencies, Norges Bank is exposed to settlement risk when the sold currency is delivered to the counterparty before the receipt of currency is confirmed. This type of exposure is included on the line *OTC derivatives including foreign exchange contracts* in Table 8.9.

Norges Bank Investment Management also invests in Saudi Arabian participatory certificates, which are instruments issued by registered foreign institutional investors to international investors. This instrument creates counterparty risk against the issuer of the note.

In Table 8.9, exposure is broken down by type of activity/instrument associated with counterparty risk.

Total counterparty risk measured in terms of gross and net exposure has increased in 2017. Net risk exposure increased by NOK 4.9bn to NOK 118.0bn, and gross exposure increased by NOK 3.5bn to NOK 123.8bn.

The increase is mainly related to increased exposure from securities lending and Saudi Arabian participatory certificates, as well as reverse repurchase and repurchase agreements. Net risk exposure from securities lending increased to NOK 71.2bn at year-end 2017 from NOK 64.0bn at year-end 2016 and now comprises 60.3% of the fund's total net exposure. Both bonds and equities are lent through the securities lending programme, of which the bond share was 51% at year-end. The exposure from unsecured bank deposits was reduced by NOK 6.6bn to NOK 14.0bn at year-end 2017.

Table 8.9 Counterparty risk by type of position

Amounts in NOK millions, 31 Dec. 2017	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Securities lending	72 275	-	1 125	71 150
Unsecured bank deposits[1]	14 008	-	-	14 008
OTC derivatives including foreign exchange contracts	16 937	5 254	-1 293	12 976
Cleared OTC and listed derivatives[2]	9 856	1 443	140	8 272
Participatory certificates	6 802	-	-	6 802
Repurchase and reverse repurchase agreements	3 802	428	-1 288	4 662
Settlement risk towards broker and long settlement transactions	119	-	-	119
Total	123 799	7 126	-1 316	117 989

Amounts in NOK millions, 31 Dec. 2016	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Securities lending	64 908	-	868	64 040
Unsecured bank deposits[1]	20 570	-	-	20 570
OTC derivatives including foreign exchange contracts	19 347	3 667	2 608	13 071
Cleared OTC and listed derivatives[2]	8 003	1 183	-1 685	8 505
Participatory certificates	3 934	-	-	3 934
Repurchase and reverse repurchase agreements	3 523	492	149	2 882
Settlement risk towards broker and long settlement transactions	50	-	-	50
Total	120 335	5 342	1 940	113 054

1 Includes bank deposits in non-consolidated real estate subsidiaries.
2 Relates to futures trades and interest rate swaps cleared by a central clearing counterparty.

The line *OTC derivatives including foreign exchange contracts* in the table comprises foreign exchange derivatives, equity derivatives (excluding participatory certificates) and interest rate swaps.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. An internal credit evaluation can only be used as the basis for counterparty approval in instances when the counterparty risk is considered low. Credit ratings for counterparties are monitored and complemented by alternative credit risk indicators.

Table 8.10 shows approved counterparties classified according to their credit rating category at year-end 2017. The table also includes brokers that are used when purchasing and selling securities.

Table 8.10 Counterparties by credit rating[1]

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
AAA	-	-	-	-
AA	30	30	30	28
A	63	58	77	72
BBB	11	15	16	24
BB	1	1	16	11
B	-	-	15	18
Total	105	104	154	153

1 The table counts legal entities and the same legal entity can be included in both *brokers* and *counterparties*.

The number of counterparties has remained stable during the year. There were 105 counterparties at year-end 2017, compared to 104 at year-end 2016. The number of brokers increased to 154 at year-end 2017 from 153 at year-end 2016. There was an improvement in the credit distribution of brokers and counterparties during the year.

LEVERAGE

Leverage may be used to ensure effective management of the investments within the equity and bond portfolios, but not with the aim of increasing the economic exposure to risky assets. The use of leverage is regulated both in the management mandate issued by the Ministry of Finance and in the investment mandate issued by the Executive Board of Norges Bank to Norges Bank Investment Management. 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 underlying exposure. When the exposure is greater than market value, the portfolio is leveraged.

The GPFG's leverage was 0.7% for the aggregated equity and bond portfolio at the end of 2017, compared to 0.9% at the end of 2016. For the real estate portfolio, requirements are set in the investment mandate from the Executive Board in Norges Bank, limiting the maximum leverage of the portfolio to 35% . The real estate portfolio had a leverage of 7.1% at the end of 2017.

SALE OF SECURITIES NORGES BANK DOES NOT OWN

Sale of securities not owned by Norges Bank (short sales) can only be carried out if there are established borrowing agreements to cover a negative position. Such transactions are rarely undertaken, and no securities had been sold in this manner at year-end 2017.

GPFG Note 9 Tax

ACCOUNTING POLICY

Norges Bank is exempt from income tax on its operations in Norway, but is subject to taxes in a number of foreign jurisdictions. *Tax expense* in the income statement represents income taxes that are not reimbursed through local tax laws or treaties, and consists of taxes on dividends, interest income and capital gains related to investments in *Equities* and *Bonds*, as well as tax on fee income from *Secured lending*. The majority of these taxes are collected at source.

Withholding taxes, net of deductions for refundable amounts, are recognised at the same time as the related dividend or interest income. See the accounting policy in Note 4 *Income/expense from equities, bonds and financial derivatives*. Refundable withholding taxes are recognised in the balance sheet as a receivable within *Other assets*.

Other income tax, not collected at source, is recognised in the income statement in the period the related income or gains arise and is presented in the balance sheet as a payable within *Other liabilities*, until it has been settled.

Tax incurred within subsidiaries presented in the balance sheet line *Unlisted real estate* is recognised in the income statement as *Income/expense from unlisted real estate*. Only the tax expense in consolidated subsidiaries is included in the income statement line Tax expense. This is specified in Table 9.1 in the line *Other*.

All uncertain tax positions, such as disputed refundable amounts for withholding taxes as well as tax payable positions in a limited number of jurisdictions, are assessed each reporting period. The best estimate of the probable amount for collection or payment is recognised in the balance sheet.

Table 9.1 shows tax expenses per type of investment and type of tax.

Table 9.1 Specification tax expense

Amounts in NOK millions, 2017	Gross income before taxes	Income tax on dividend, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities	933 501	-4 512	-153	-	-4 665	928 836
Bonds	81 410	-52	-16	-	-68	81 342
Secured lending	3 532	-55	-	-	-55	3 477
Other	-	-	-	-8	-8	
Tax expense		-4 619	-169	-8	-4 796	

Amounts in NOK millions, 2016	Gross income before taxes	Income tax on dividend, interest and fees	Capital gains tax	Other	Tax expense	Net income after taxes
Income/expense from:						
Equities	342 813	-3 887	-18	-	-3 905	338 908
Bonds	100 250	-62	-27	-	-89	100 161
Secured lending	4 013	-67	-	-	-67	3 946
Other	-	-	-	-	-	-
Tax expense		-4 016	-45	-	-4 061	

At the end of 2017, a receivable of NOK 2 589m was recognised in the balance sheet related to refundable withholding tax, an increase from NOK 600m at year-end 2016. The GPFG did not have any liability relating to tax payable at the end of 2017 or 2016.

GPFG Note 10 Foreign exchange gains and losses

The fund invests in international securities in foreign currencies. The functional currency is the Norwegian krone (NOK). Transactions in foreign currency are recognised in the financial statements at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are translated into NOK using the exchange rate at the balance sheet date.

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

SIGNIFICANT ESTIMATE

Gains and losses on securities and financial derivatives are based on changes in the price of the security/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 of allocating total gains and losses in NOK to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations.

Foreign exchange element

Unrealised gains and losses due to changes in foreign exchange rates are calculated based on the cost of the holding in local 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 previous period, previously recognised gains and losses are deducted to arrive at the gain or loss for the current period. Similarly, for realised gains or losses, the exchange rate on the date of sale is used instead of the exchange rate at the balance sheet date, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

Security element

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

The market value of the fund in NOK is impacted by changes in foreign exchange rates. See Table 8.1 in Note 8 *Risk* for an overview of the allocation of the GPFG's investments per asset class, country and currency. The change in the market value of the fund due to changes in foreign exchange rates is presented in Table 10.1.

Table 10.1 Specification foreign exchange gains and losses

Amounts in NOK millions	2017	2016
Foreign exchange gains and losses - USD/NOK	-126 868	-17 535
Foreign exchange gains and losses - EUR/NOK	111 425	-76 762
Foreign exchange gains and losses - JPY/NOK	-8 367	2 459
Foreign exchange gains and losses - GBP/NOK	20 745	-114 266
Foreign exchange gains and losses - other	17 766	-99 995
Foreign exchange gains and losses	14 701	-306 099

Table 10.2 gives an overview of exchange rates at the balance sheet date for the main currencies the GPFG is exposed to.

Table 10.2 Exchange rates

	31 Dec. 2017	31 Dec. 2016	Percent change
US dollar	8.18	8.61	-5 %
Euro	9.82	9.08	8 %
Japanese yen	0.07	0.07	-2 %
Pound sterling	11.06	10.64	4 %

The fund's return is primarily measured 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 market value of the fund in NOK is impacted by changes in exchange rates, but this has no bearing on the fund's international purchasing power.

GPFG Note 11 Management costs

ACCOUNTING POLICY

Management fee is recognised in the GPFG's income statement as an expense when incurred, but is cash settled in the following year. Management fee payable is a financial liability classified as a loan and 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 change in best estimate in the period is recognised in profit or loss.

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, as well as in subsidiaries of Norges Bank exclusively established as part of the management of the GPFG's investments in unlisted real estate.

MANAGEMENT COSTS IN NORGES BANK

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in Table 11.1.

Table 11.1 Management fee

Amounts in NOK millions	2017	Basis points	2016	Basis points
Salary, social security and other personnel-related costs	1 325		1 177	
Custody costs	404		379	
IT services, systems, data and information	657		649	
Research, consulting and legal fees	252		261	
Other costs	251		244	
Allocated costs Norges Bank	161		161	
Base fees to external managers	755		638	
Management fee excluding performance-based fees	3 804	4.8	3 509	4.9
Performance-based fees to external managers	924		222	
Total management fee	4 728	6.0	3 731	5.2

MANAGEMENT COSTS IN SUBSIDIARIES

Management costs incurred in subsidiaries consist of operating 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 costs*, respectively. These costs are specified in Table 11.2.

Table 11.2 Management costs, real estate subsidiaries

Amounts in NOK millions	2017	2016
Salary, social security and other personnel-related costs	33	27
IT services, systems, data and information	42	36
Research, consulting and legal fees	23	19
Other costs	17	18
Total management costs, real estate subsidiaries	116	100
Of which management costs non-consolidated subsidiaries	*97*	*81*
Of which management costs consolidated subsidiaries	*19*	*19*

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs and Norges Bank is only reimbursed for costs incurred within this limit. Performance-based fees to external managers are reimbursed in addition to this limit.

For 2017, the sum of total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, is limited to 7.5 basis points of average assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in NOK at the start of each month in the calendar year.

Total management costs measured against the upper limit amount to NOK 3 920m in 2017. This consists of management costs in Norges Bank of NOK 3 804m, excluding performance-based fees to external managers, and management costs in subsidiaries of NOK 116m. This corresponds to 5.0 basis points of assets under management on an annual basis.

Total management costs including performance-based fees to external managers amount to NOK 4 844m in 2017. This corresponds to 6.2 basis points of assets under management on an annual basis.

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 cost limit.

Other operating costs incurred in non-consolidated companies are presented in the income statement line *Income/expense from unlisted real estate*. See Table 6.3 in Note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other costs*.

GPFG Note 12 Secured lending and borrowing

Secured lending and borrowing are collateralised (secured) transactions, where the GPFG posts or receives securities or cash from a counterparty, with collateral in the form of other securities or cash. These transactions take place under various agreements such as securities lending agreements, (reverse-) repurchase agreements and equity swaps in combination with purchases or sales of equities.

The objective of secured lending and borrowing is to provide an incremental return on the securities and cash holdings of the GPFG. These transactions are also used in connection with financing of the asset management.

ACCOUNTING POLICY

Income and expense from secured lending and borrowing transactions

Income or expense, comprising mainly interest and net fees, is recognised on a straight-line basis over the term of the agreement and presented in the income statement as *Income/expense from secured lending or Income/expense from secured borrowing*.

Table 12.1 specifies income and expense from secured lending and borrowing.

Table 12.1 Income/expense from secured lending and borrowing

Amounts in NOK millions	2017	2016
Income/expense from secured lending	3 532	4 013
Income/expense from secured borrowing	-345	23
Net income/expense from secured lending and borrowing	3 187	4 036

ACCOUNTING POLICY

Transferred financial assets
Securities lent 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. As the counterparty has the right to sell or pledge the security, the security is considered transferred. Lent securities are therefore presented on separate lines in the balance sheet, *Equities lent* and *Bonds lent*. During the lending period, the underlying securities are accounting for in accordance with accounting policies for the relevant securities.

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 designated at initial recognition as a financial asset measured at *fair value through profit or loss*.

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 designated at initial recognition as a financial liability measured at *fair value through profit or loss*.

Collateral received in the form of securities
Collateral in the form of securities, received through secured lending and borrowing transactions, 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. 2017	31 Dec. 2016
Secured lending	185 046	134 338
Total secured lending	**185 046**	**134 338**
Associated collateral in the form of securities (off balance sheet)		
Equities received as collateral	52 413	31 983
Bonds received as collateral	134 430	106 400
Total security collateral received related to lending	**186 843**	**138 383**

Table 12.3 shows transferred securities with the associated liability presented as *Secured borrowing*, and the collateral received in the form of securities or guarantees.

Table 12.3 Transferred financial assets and secured borrowing

Amounts in NOK millions	31 Dec. 2017	31 Dec. 2016
Transferred financial assets		
Equities lent	411 664	340 865
Bonds lent	591 277	454 735
Total transferred financial assets	1 002 941	795 600
Associated cash collateral, recognised as liability		
Secured borrowing	260 136	213 520
Total secured borrowing	260 136	213 520
Associated collateral in the form of securities or guarantees (off balance sheet)		
Equities received as collateral	573 127	388 340
Bonds received as collateral	232 465	236 471
Guarantees	12 537	9 701
Total collateral received in the form of securities or guarantees related to transferred financial assets	818 129	634 512

Certain amounts for the comparable years have been restated to conform to current year presentation in the tables above. This has no impact on the amounts recognised in the financial statements.

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 designated at initial recognition as financial assets/liabilities measured at *fair value through profit or loss*.

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 more 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 are considered to be potentially not legally enforceable. Transactions under such contracts are shown together with unsettled trades in the column *Unsettled trades and assets/liabilities not subject to enforceable netting agreements*. Unsettled trades can be cancelled if the counterparty defaults before assets involved in the trade are transferred.

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 Norges Bank's foreign exchange reserves. Such cross nettings will be settled between these portfolios and are therefore not adjusted for in the table.

Table 13.1 Assets and liabilities subject to netting agreements

Amounts in NOK millions, 31 Dec. 2017	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recog-nised as liability)	Security collateral received (not recog-nised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforcea-ble netting agreements	Gross financial assets recog-nised in the balance sheet
EIENDELER							
Utlån med sikkerhetsstillelse	120 952	-	91 571	29 382	-	64 094	185 046
Avgitt kontantsikkerhet	1 894	1 878	-	-	16	-	1 894
Finansielle derivater	2 074	1 875	141	-	58	6 951	9 025
Totalt	124 920	3 753	91 712	29 382	74	71 045	195 965

Amounts in NOK millions, 31 Dec. 2017	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not derec-ognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforce-able netting agreements	Gross financial liabilities recog-nised in the balance sheet
GJELD							
Innlån med sikkerhetsstillelse	202 291	-	91 571	110 337	383	57 845	260 136
Mottatt kontantsikkerhet	740	740	-	-	-	5 064	5 804
Finansielle derivater	3 919	1 875	1 342	-	701	-	3 919
Totalt	206 950	2 615	92 913	110 337	1 084	62 909	269 859

Amounts in NOK millions, 31 Dec. 2016	Amounts subject to enforceable master netting agreements						
Description	Assets in the balance sheet subject to netting	Financial liabilities related to same counter-party	Cash collateral received (recog-nised as liability)	Security collateral received (not recog-nised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforcea-ble netting agreements	Gross financial assets recog-nised in the balance sheet
EIENDELER							
Utlån med sikkerhetsstillelse	121 263	-	106 368	14 895	-	13 075	134 338
Avgitt kontantsikkerhet	2 320	2 320	-	-	-	-	2 320
Finansielle derivater	5 114	2 519	2 573	-	22	4 252	9 366
Totalt	128 697	4 839	108 941	14 895	22	17 327	146 024

Amounts in NOK millions, 31 Dec. 2016	Amounts subject to enforceable master netting agreements						
Description	Liabilities in the balance sheet subject to netting	Financial assets related to same counter-party	Cash collateral posted (recognised as asset)	Security collateral posted (not derecog-nised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforce-able netting agreements	Gross financial liabilities recog-nised in the balance sheet
GJELD							
Innlån med sikkerhetsstillelse	193 462	-	106 368	87 094	-	20 058	213 520
Mottatt kontantsikkerhet	2 755	2 573	-	-	182	933	3 688
Finansielle derivater	4 501	2 519	1 982	-	-	-	4 501
Totalt	200 718	5 092	108 350	87 094	182	20 991	221 709

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. In accordance with the management mandate for the GPFG, 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 2017, NOK 3.7bn was deducted from the krone account to pay the accrued management fee for 2016 to Norges Bank.

Internal trades between the GPFG and Norges Bank's foreign exchange reserves are presented as a net balance between the two reporting entities in the balance sheet lines *Other assets* and *Other liabilities*. At year-end 2017, the net balance between the portfolios represented an asset for the GPFG of NOK 292m. 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 principal companies, see Note 15 *Interests in other entities*. For more 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 mandate from the Ministry of Finance. The key criteria when deciding the ownership structure are legal protection, governance and operational efficiency. Tax expense may represent a significant cost for the unlisted real estate investments. Expected tax cost for the fund is therefore one of the factors considered when determining the ownership structure.

Table 15.1 shows the principal 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	Recog-nised from
Non-consolidated companies					
United Kingdom					
NBIM George Partners LP[1]	London	London	100.00	25.00	2011
MSC Property Intermediate Holdings Limited	London	Sheffield	50.00	50.00	2012
NBIM Charlotte Partners LP	London	London	100.00	57.75	2014
NBIM Edward Partners LP	London	London	100.00	100.00	2014
NBIM Caroline Partners LP	London	London	100.00	100.00	2015
NBIM James Partners LP	London	London	100.00	100.00	2015
NBIM Henry Partners LP	London	London	100.00	100.00	2016
NBIM Elizabeth Partners LP	London	London	100.00	100.00	2016
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
Germany					
Die Welle 1 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	50.00	2012
Die Welle 3 Frankfurt Immobilien GmbH & Co. KG	Cologne	Frankfurt	50.00	50.00	2012
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Cologne	Berlin	50.00	50.00	2012
Tower SZ Munich GmbH & Co. KG	Hamburg	Munich	50.00	50.00	2013
STEG LBG 2 S.C.S	Luxembourg	Munich	94.90	94.90	2014
STEG LBG 3 S.C.S	Luxembourg	Munich	94.90	94.90	2014
Switzerland					
NBIM Antoine CHF S.à r.l.	Luxembourg	Zürich	100.00	100.00	2012
Europe					
Prologis European Logistics Partners S.à r.l.	Luxembourg	Multiple European cities	50.00	50.00	2013

1 One property, 20 Air Street, has from 1 September 2017 an ownership share of 50% .

Company	Business address	Property address	Ownership share and voting right in percent	Effective ownership share of underlying properties in percent	Recog-nised from
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 470 Park Avenue South Venture LLC	Wilmington, DE	New York	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
Japan					
TMK Tokyo TN1	Tokyo	Tokyo	70.00	70.00	2017
Consolidated subsidiaries					
Singapore					
NBRE Management Singapore Pte. Ltd.	Singapore	N/A	100.00	N/A	2015
Japan					
NBRE Management Japan Advisors K.K.	Tokyo	N/A	100.00	N/A	2015
United Kingdom					
NBRE Management Europe Limited	London	N/A	100.00	N/A	2016

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 Japanese property investments.

Deloitte.

Translation from the original Norwegian version

To the Supervisory Council of Norges Bank

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Norges Bank which comprise the balance sheet as at 31 December 2017, income statement, statement of comprehensive income, 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 at true and fair view of the financial position of Norges Bank as at 31 December 2017, 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 endorsed 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, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Norges Bank as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MANAGEMENT OF THE EQUITY AND FIXED-INCOME PORTFOLIOS IN THE FOREIGN EXCHANGE RESERVES AND THE GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Processes and control activities in the equity and fixed-income management related to amongst others trading, secured lending and borrowing, interest income and dividends, valuation, calculation of gains and losses, foreign currency translation and performance- and risk measurement are largely automated. Deviations in the automated processes are analysed and followed up. Norges Bank's IT systems are based on standard systems with varying degrees of customisation and modifications. The technical operation of the IT systems is largely outsourced to various service providers. IT systems used in portfolio management are essential for accounting and reporting. For a more detailed description of the development, management and operation of IT systems in Norges Bank, see the Annual Report of the Executive board. Effective internal controls in the automated portfolio management processes as well as in handling deviations is vital to ensure accurate, complete and reliable financial reporting and is therefore a key audit matter.	Norges Bank has established overall governance models and control activities for evaluation of the equity and fixedincome management. We assessed those elements of the overall governance models that are relevant to financial reporting. We assessed and tested the design of selected control activities related to IT operations, change management and information security. We tested that a sample of these control activities had operated effectively in the reporting period. We assessed 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 various third party confirmations (ISAE 3402 reports) received from 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). The first two denominations in Norway's eight banknote series, the 100-krone and 200-krone banknotes, were put into circulation on Tuesday 30 May 2017. See note 16 for a description of the accounting policy for notes and coins and a description of the criteria for when notes and coins are recognized and derecognized from Norges Bank's balance sheet. A secure management of 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 and the registration of destruction. For a sample of these controls, we have tested if they operated effectively in the reporting period. For a sample cash depots we obtained reports from the inventory counts conducted by external third parties. For a random cash depot we conducted a re-count of parts of the depot. We participated on a count of a depot run by Norges Bank and conducted a re-count of parts of the depository. We compared the reports of the external third parties and the result of our re-count with information from Norges Bank on the balances for the depots. We also assessed whether the disclosures on notes and coins in circulation in notes 1 and 16 were adequate.

VALUATION OF INVESTMENTS IN UNLISTED REAL ESTATE, GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
The Government Pension Fund Global has invested in unlisted real estate through subsidiaries of Norges Bank. Investments in subsidiaries presented as unlisted real estate in the balance sheet are measured at fair value. See note 20, GPFG notes 6 and 7 for a description of the investments, accounting policies and valuation methods. The valuation of unlisted real estate investments involves uncertainty and is based on information about each individual property type and location, as well as a number of assumptions and estimates. The assumptions and estimates are essential for the valuation, and the valuation of unlisted real estate is therefore a key audit matter.	Norges Bank has established various control activities for monitoring of the valuations conducted by external valuation specialists. We have assessed and tested the design of selected control activities related to key assumptions and estimates, including future revenue streams, expenses and applicable discount rates. For a sample of properties, we have tested if these control activities have operated effectively in the reporting period. For a sample of commercial properties in France and USA, we received the external valuation reports from Norges Bank throughout the year and tested that the applied valuation methods were in accordance with generally accepted valuation standards and practices. We tested a sample of rental income against budget and assessed the reasonableness of the estimates for future rental income and discount rates with external sources. We assessed the valuer's independence, qualifications and experience. We used our own experts in the review of the valuation reports. We reconciled the fair value in the financial reporting with the valuation reports. We assessed whether the disclosures in note 20, GPFG note 6 and 7 regarding valuation of unlisted real estate was adequate.

RISK AND RETURN DISCLOSURES, GOVERNMENT PENSION FUND GLOBAL

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Returns are measured in Norwegian kroner and in foreign currency based on a weighted composition of currencies in the benchmark indices for equity and fixed-income investments. In the management mandate for the Government Pension Fund Global, there are several limits and restrictions for the management of the fund. The management mandate issued by the Ministry of Finance was changed from 1 January 2017. All of the Government Pension Fund Global's investments, including investments in unlisted real estate are now included in the calculations for relative volatility and are measured against the Government Pension Fund Global's reference index consisting of global equity and bond indicies. 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 per asset class. Information regarding risk is presented in note 20, GPFG note 8 Risk. Measurement of absolute and relative returns and information regarding market risk, presented in note 20, GPFG note 8, tables 8.5 and 8.6 and in the section on volatility and correlation risk, is important information about the performance of, and risk associated with, management of the Government Pension Fund Global and is therefore a key audit matter.	Norges Bank has established various control activities related to the calculation of returns and market risk. We assessed and tested selected control activities related to the application of formulas in the calculations of returns, the consistency between accounting and performance measurement, and that external sources of information were accurate and correctly applied in the calculations. 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. For information regarding market risk in note 20, GPFG note 8, tables 8.5 and 8.6, and in the section on volatility and correlation risk, we assessed whether the calculations were conducted in accordance with the calculation methods and assumptions as described in note 20, GPFG note 8. In addition, we assessed and tested the design of selected controls established by Norges Bank to monitor the service provider. We tested that a sample of these control activities had operated effectively in the reporting period. We collected and compared the reports from the service providers regarding market risk with the disclosures in note 20, GPFG note 8, tables 8.5 and 8.6, and the disclosures regarding expected shortfall in the section on volatility and correlation risk. We assessed whether the disclosures on returns in note 20, GPFG note 3 and the disclosures on market risk in note 20, GPFG note 8, tables 8.5 and 8.6, and in the section on volatility and correlation risk were adequate.

Other information
Management is responsible for the other information. The other information comprises the Annual report for 2017, but does not include 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 and 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 endorsed 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, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Norges Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board and the Governor.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We report to the Executive Board about our compliance with relevant ethical requirements, and about our communication to them about all relationships that reasonably could be considered to influence our independence, and, where relevant, about measures taken.

From the matters communicated with the Executive Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Executive Board's report
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Executive Board's report and in statements on Corporate Social Responsibility concerning the financial statements, and the allocation of the comprehensive income is consistent with the financial statements and complies with the instructions 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 management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 7 February 2018
Deloitte AS

Henrik Woxholt
State Authorised Public Accountant

Translation has been made for information purposes only

RESOLUTION OF THE SUPERVISORY COUNCIL ON THE FINANCIAL STATEMENTS FOR 2017

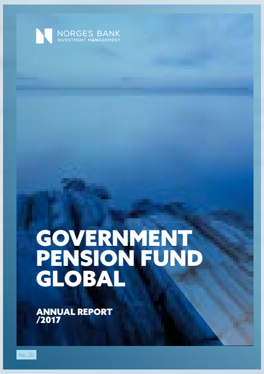
The Supervisory Council adopted the following decision at its meeting on 22 February 2018:

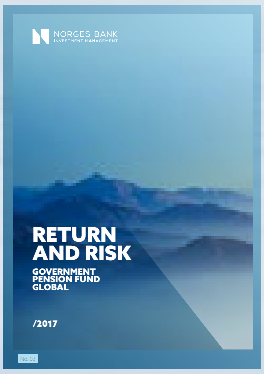
- The Supervisory Council takes note of the Annual Report of the Executive Board for 2017.
- The Supervisory Council takes note of the auditor's report for Norges Bank for 2017 and adopts Norges Bank's financial statements for 2017.
- In accordance with the guidelines, the net gain of NOK 27.7bn is transferred with NOK 20.1bn to the Adjustment Fund and NOK 7.6bn to the Transfer Fund. From the Transfer Fund, one-third, or NOK 14.3bn, 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 2017 will be adopted by the Supervisory Council on 15 March 2018 and published upon submission to the Storting.

DETAILED INFORMATION ABOUT NORGES BANK'S WORK IN 2017 CAN BE FOUND IN THE FOLLOWING REPORTS:





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