



NORGES BANK

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NORGES BANK

ANNUAL REPORT

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Annual Report of the Executive Board

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

Introduction

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

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

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

The Executive Board was expanded from five to six external members. The Governor and the two Deputy Governors are the internal members of the Board, bringing the total to



nine. Two board members elected by and from among Norges Bank's employees also participate when administrative matters are discussed. The Governor chairs the Executive Board. The arrangement with alternates was discontinued.

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

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

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

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



Governor Øystein Olsen launching the new 1000-krone banknote in Bergen, together with Sissel Rogne, CEO of the Institute of Marine Research

unlisted real estate and a strategy to integrate listed and unlisted real estate investments, it was decided to discontinue Norges Bank Real Estate Management (NBREM) as a separate organisational unit and integrate NBREM into NBIM.

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

Monetary policy

The operational target of monetary policy is annual consumer price inflation of close to 2% over time. Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances.

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

In 2019, average wage growth in the US and Europe was slightly higher than in 2018. Inflation among several of Norway's main trading partners edged down, partly owing to

lower food prices. Core inflation remained fairly stable and was below target in many countries.

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

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

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

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



Governor Øystein Olsen sets the policy rate

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

The upturn in the Norwegian economy, which started in 2016, continued in 2019. Solid global growth, low interest rates and improved cost-competitiveness helped lift activity in Norway. After falling for several years, strong growth in petroleum investment contributed to sustaining growth in the mainland economy in 2019. Growth in business investment was also

solid, particularly in manufacturing. Growth in housing investment rose in the first half of 2019 and then remained at a moderate level through autumn. A weak krone exchange rate and strong demand from the global petroleum industry contributed to strong export growth. GDP growth slowed somewhat towards the end of the year. According to the Bank's Regional Network contacts, the decline was particularly pronounced in retail trade and construction. Oil service contacts also reported lower growth.

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

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

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

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

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

The Executive Board's assessment was that a policy rate that is low over time could increase pressures in the economy, triggering an acceleration in price and wage inflation and a build-up of financial imbalances. This could increase the risk of a sharp economic downturn further out. A higher policy rate could mitigate the risk of a renewed

acceleration in debt growth and house price inflation. The Executive Board also gave weight to the considerable uncertainty surrounding the global growth outlook.

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

Financial stability

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

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



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

and solvency and continue to have ample access to funding.

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

collateralised loans to enable banks and loan applicants to easily obtain the full picture of a loan applicant's debt situation.

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

Banks' capacity to absorb losses in an economic downturn is important for financial stability. Banks' capital and liquidity

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

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

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

assessments and communicate relevant information and by ensuring adequate capital to support all risks.

Payment system

Norges Bank settles interbank payments in banks' accounts at Norges Bank and supplies society with banknotes and coins in a manner that promotes payment system efficiency. The Bank supervises and oversees key systems in the financial infrastructure and promotes change that could make the payment system more efficient.

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

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

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

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

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

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

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

The payment system in Norway is undergoing changes. To keep the payment system operating efficiently, improvements are needed. Global tech giants have entered the

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

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

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



Analyses of the economic situation

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

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

Management of the Government Pension Fund Global

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

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

The work to integrate responsible investment into the management of the GPFPG is described in "Corporate Social Responsibility" on page 20.

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

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

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

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

In 2019, the return on the GPFPG before management costs was 0.23 percentage point higher than that on the benchmark index. The contributions from the various investment strategies show that fund allocation

contributed negatively to the relative return, while security selection and asset management both contributed positively.

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

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

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

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

period 1998–2019 as a whole, actual relative volatility was 0.67 percentage point.

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

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

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

The Executive Board is satisfied that return has been good in 2019 and over time, and higher than the return on the benchmark index, against which the return is measured.

Foreign exchange reserves

The foreign exchange reserves are the Bank's contingency funds in international currencies and are to be available for use in foreign exchange market transactions as part of the conduct of monetary policy, with a view to promoting financial stability and meeting Norges Bank's international commitments. The importance of investing the reserves in liquid assets is given considerable weight.

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

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

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

The Executive Board annually assesses the strategy and framework for the management of the foreign exchange reserves. Over the past 10 years, a number of changes have been made to the foreign exchange reserves strategy. The investment universe has been gradually changed in the direction of narrower benchmark indexes to reduce complexity and increase the liquidity of the reserves. The changes include limiting the fixed income portfolio's benchmark index to government bonds with maturities of up to 10 years, and limiting the equity portfolio's benchmark index to medium and large-sized companies. The most recent change was the reduction of the strategic equity allocation from 35% to 20% in the course of autumn 2018.

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

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

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

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

Personnel

At the end of 2019, there were 940 permanent employees at Norges Bank, compared with 953 at the end of 2018, of which 540 in Norges Bank Investment Management (NBIM), compared with 601 the previous year. In Norges Bank Central Banking Operations (NBCBO), there were 244 employees, compared with 345 the previous year. In addition, there were seven employees at the Office of the Supervisory Council. At the end

of 2019, 37 employees from NBIM and 112 employees from NBCBO were transferred to the newly established area Norges Bank Administration. The Bank has employees from a total of 38 countries.

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

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

The Executive Board has set a minimum target of 40% for female employees as a long-term goal. This objective is integrated into strategic work and action plans and is given emphasis in the planning and execution of recruitment processes. The share of women¹ on the permanent staff of Norges Bank at the end of 2019 was 32%. It is challenging to increase the share of female employees in certain job categories. Norges Bank has prioritised initiatives in the areas of recruitment and reputation management, career development, and an inclusive working environment. The initiatives are integrated into relevant

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

processes as a natural part of the Bank's work processes and culture. Norges Bank will continue this important work and further measures will be developed.

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

Norges Bank's priority is protecting the health and safety of all those who work in the Bank. In 2019, five incidents/injuries directly relating to work conducted at Norges Bank's premises were reported. None of the workplace accidents or injuries was serious and no occupational injuries were reported to the Norwegian Labour Inspection Authority in 2019. Sickness absence remained stable in 2019 at a low level of 2.0%.

Corporate governance, risk management and internal control

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

Norges Bank's use of resources is to be cost-efficient and prudent, with a cost level that is reasonable compared with that of similar organisations. The Executive Board uses external comparisons of the Bank's use of resources with that of other similar organisations, "benchmarking", as a corporate

governance tool. During 2019, several cost comparisons were completed: for expenses related to the management of the GPFG and the use of resources in NBCBO. The Executive Board is satisfied with the Bank's favourable results in these comparisons. In 2019, the Executive Board focused in particular on cost-efficiency. The Executive Board followed up the budgeting process closely, and planning and the budget for 2020 were discussed at several Executive Board meetings in the second half of 2019.

The calculation of the GPFG's performance results is verified by an independent third party in compliance with the Global Investment Performance Standards (GIPS). The GIPS verification report is in compliance with the GIPS standards. The Bank's auditor, Deloitte AS, has performed an independent review of the information presented in the section "Responsible investment management of the GPFG" on page 21 up until "Responsible real estate investment of the GPFG" on page 25.

Norges Bank complies with the regulation on risk management and internal control at Norges Bank issued by the Ministry of Finance. In addition, the Ministry of Finance lays down a number of guidelines for the management of the GPFG, which include asset allocation and a benchmark index. The Executive Board sets similar limits for the management of the foreign exchange reserves. There were no breaches of the limits for the management of the GPFG or the foreign exchange reserves in 2019.

The reporting and follow-up of incidents constitute an important part of the measures to improve operation and internal control.



Visit to Nomek AS, a mechanical engineering company in Stryn

Significant risks are followed up through regular reporting and the follow up of the Executive Board's measures. For NBIM, the Executive Board has decided that over a 12-month period the probability that operational risk factors will result in a gross loss of NOK 750m or more must not exceed 20%. This limit is referred to as the Board's risk tolerance. In 2019, operational risk exposure was within the Board's risk tolerance.

Norges Bank's operations are IT- and information-intensive. The transaction processes on which financial reporting is based are highly automated. The Bank's IT systems are largely standard systems adapted to the Bank's needs and are supplied and

operated by third parties. The portfolio of IT systems for investment management has been consolidated and simplified in recent years, including through the use of cloud services. A number of tasks have been insourced to increase the efficiency of the operational model.

As it is important to ensure that Norges Bank's IT systems support secure and cost-efficient operations at the Bank, there is a major focus on strategic IT sourcing and IT security in both operational areas. Investment management completed its modernisation project in 2019 with a new model for the delivery of IT services. A similar project will be carried out in central banking operations in the coming years.

The Executive Board maintains a high level of IT and information security awareness, including monitoring outsourced IT functions. The Executive Board continuously monitors operational and financial risk related to the use of IT systems through its assessment of operational risk and internal control.

Based on reporting by the administration and Internal Audit, the Executive Board submits an annual assessment of the risk situation to the Supervisory Council. No material deficiencies in the risk management and control regime were identified in 2019, and the Executive Board assesses the control environment and control systems at Norges Bank as satisfactory.

Balance sheet composition and financial risk

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

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

The Ministry of Finance has placed a portion of the government's assets in a separate account in Norges Bank (the GPFG's krone account). The Bank reinvests these funds, in its own name, in accordance with a management mandate from the Ministry of Finance. The investment portfolio is composed of equities, fixed income investments and real estate investments. The mandate also permits

investments in unlisted renewable energy infrastructure. The net value of the investment portfolio is presented on a separate line as an asset in Norges Bank's balance sheet, and the GPFG's krone account is presented as a liability in the same amount to the Ministry of Finance. The value of the krone account will always equal the value of the investment portfolio less accrued management fee. Detailed financial reporting for the investment portfolio of the GPFG is presented in Note 20 to the financial statements. In addition, an annual report on the management of the GPFG is produced, which includes the financial statements of the investment portfolio. Norges Bank, in its role as asset manager, bears no financial risk associated with the management of the GPFG.

Excluding the GPFG, the Bank's foreign exchange reserves are the largest balance sheet asset. The foreign exchange reserves are primarily invested in equities, fixed income instruments and cash. Net foreign exchange reserves amounted to NOK 546.3bn at year-end 2019 compared with NOK 511.8bn at year-end 2018. See the relevant sections in this *Report* for more details on the management of the GPFG and the foreign exchange reserves.

All of the government's funds are held in the government's group account with Norges Bank. At year-end 2019, deposits amounted to NOK 187.7bn. This is thus the largest liability item in the balance sheet, except for the GPFG krone account. This item fluctuates considerably through the year owing to substantial incoming and outgoing payments over the government's accounts. The average amount on deposit was around NOK 190bn in 2019. Banknotes and coins in circulation are a liability item for Norges Bank. This amount is

driven by the public's demand for cash. Over the past few years, the lower demand for cash has reduced this liability item. At year-end 2019, banknotes and coins in circulation amounted to NOK 41.6bn, compared with NOK 44.8bn at year-end 2018. Deposits from banks, which comprise sight deposits, reserve deposits and F-deposits, are managed by Norges Bank through its liquidity management policy. At 31 December 2019, these deposits amounted to NOK 58.9bn, compared with NOK 40.4bn at year-end 2018.

Norges Bank administers Norway's financial obligations and rights ensuing from participation in the International Monetary Fund (IMF). Norges Bank therefore has both claims on and liabilities to the IMF. See Note 17 in the notes to the financial statements for more details. At year-end 2019, net positions with the IMF amounted to a claim of NOK 11.8bn, compared with NOK 9.3bn at year-end 2018.

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

Norges Bank attaches considerable weight to managing and controlling financial risk. The Executive Board has issued principles for risk management, which are further defined in rules and guidelines for the operational areas. Investment risk includes market risk, credit risk and counterparty risk. The Bank employs several measurement techniques, processes and systems to control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurement techniques and processes. Valuations, performance measurement, management and control of risk in investment management are required to comply with internationally recognised standards and techniques. See the notes to the financial statements for more details.

Income statement

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

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



Discussions and collaboration

Norges Bank have been deducted, is transferred in its entirety to the krone account and thus does not affect Norges Bank's total comprehensive income or equity.

In accordance with the GPFG's management mandate, Norges Bank is reimbursed by the Ministry of Finance for its expenses related to the management of the GPFG within an upper limit. The Bank was reimbursed in the amount of NOK 4.3bn in 2019, compared with NOK 4.5bn in 2018. Norges Bank also earns income from services provided to banks and the government and rent from external

tenants. Income other than the reimbursement for the management of the GPFG totalled NOK 139m in 2019, compared with NOK 125m in 2018.

Operating expenses amounted to NOK 5.4bn in 2019, compared with NOK 5.7bn in 2018. The decrease in expenses is primarily the result of a NOK 495m reduction in fees for external managers owing to a lower excess return on the GPFG and a lower share of capital allocated to external managers. Personnel expenses rose by NOK 202m, primarily owing to foreign currency effects, strong returns in

2019 that resulted in higher performance-based pay and ordinary wage growth. In addition, expenses associated with the procurement of banknotes were reduced by NOK 36m. Furthermore, use of consultant services, primarily in connection with the introduction of a new model for the delivery of IT services and maintenance and development of the system portfolio and higher office costs, has increased. NOK 4.3bn of the expenses in 2019 is related to management of the GPFG, including personnel costs, custody and settlement services, IT expenses, analytical research services and fees for external managers. The internal operating expenses (excluding fees for external managers) for the management of the GPFG are in accordance with Norges Bank's maximum target for internal operating expenses of five basis points. Changes in the threat landscape with rising cyber risk may lead to higher operating expenses in the period ahead.

Equity

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

Distribution of total comprehensive income

The distribution of Norges Bank's total comprehensive income follows guidelines laid down by the Council of State on 7 February 1986, most recently amended by Royal Decree

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

In accordance with the guidelines, the following transfers and allocations will be made: Norges Bank's total comprehensive income of NOK 48.3bn is to be transferred as follows: NOK 14.3m to the Adjustment Fund and NOK 29.5bn to the Transfer Fund. NOK 19.7bn will be transferred from the Transfer Fund to the Treasury.

Corporate social responsibility

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

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

A transparent central bank

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

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

Norges Bank publishes the Executive Board's assessments and analyses in the Bank's Monetary Policy Report, Financial Stability Report and Financial Infrastructure Report, as well as in the quarterly reports of the Government Pension Fund Global (GPFG). As regards the GPFG, more detailed information is also published on the GPFG's return and risk, real estate investments and responsible investment. Transparency with regard to the management of the GPFG helps to affirm the fund's legitimacy as a financial investor and underpins the confidence of its owner, the general public and the Bank's investee companies and markets.

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

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

Responsible investment management of the GPFG

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

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

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

ACCOUNTING ACT, CORPORATE SOCIAL RESPONSIBILITY REPORTING REQUIREMENTS (SECTION 3-3C)

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

This report gives an account of Norges Bank's approach to its mission in the context of corporate social responsibility (CSR):

- The most important element of Norges Bank's CSR strategy is its mission to promote economic stability in Norway and ensure efficiency and reliability in investment management.
- In addition, the Bank's influence on human rights, labour rights, gender equality and non-discrimination, social conditions, the external environment and anti-corruption is mainly exerted through its responsible investment activities.
- Norges Bank's CSR strategy also includes transparent and clear communication, research and knowledge-sharing, ethical business conduct and facilitating gender equality and a sound working environment.



Deputy Governor Egil Matsen opening Norges Bank's Financial Workshop

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

Setting standards

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

The Bank contributes to the further development of standards. In 2019, the Bank

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

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

Exercising ownership

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

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

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

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

Norges Bank carried out 1 500 assessments of companies' reporting on climate change, 500 on children's rights and human rights, respectively, 493 on water management, 250 on anti-corruption, 249 on deforestation and ocean sustainability, respectively, and 200 on tax. The companies assessed accounted for 76.3% of the equity portfolio's market value at year-end 2019.

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

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

Investing responsibly

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

The Bank supports the recommendations of the Task Force on Climate-related Financial Disclosures established by the G20's Financial Stability Board and is working with companies to ensure that they are well-positioned for the transition to a society with lower emissions. The Bank invests in climate solutions in particular, adjusting the portfolio through divestments and taking climate risk into account in investment decisions. In addition, greenhouse gas emissions from companies in the GPFG's portfolio and different climate scenarios are analysed. In 2019, carbon emissions from companies in the GPFG's equity portfolio totalled 108m tonnes of CO₂ equivalents.

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

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

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

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



Markets are closely monitored

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

Responsible real estate investment of the GPFG

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

The environmental performance of the Bank's real estate portfolio is measured against the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis. The GPFG's real

estate portfolio scored 80 out of a possible 100 points in 2019, an increase from 76 points in 2018. In 2019, 79% of the GPFG's portfolio of office and retail buildings were green-certified, up from 66% the previous year. In addition, 34 logistics properties were green-certified for sustainable design and construction.

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



Interdisciplinary meeting in Norges Bank

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

Ethical conduct for Norges Bank's Executive Board and employees

The Executive Board and the Bank's employees are to conduct themselves with ethical awareness and loyalty to Norges Bank as their employer. The Executive Board has laid down ethical principles for employees to promote a uniform attitude to ethical issues at

Norges Bank. These principles reflect the Bank's commitment to maintaining high ethical standards, respecting human rights, acting in a socially responsible manner and complying with current legislation. Ethical rules include employees' own-account trading, activities outside the Bank, gifts and loyalty to the Bank in general. Norges Bank does not accept any form of discrimination or corruption. Anti-corruption programmes have been established for all areas of the Bank. The main elements are published on the Bank's website. The ethical rules for employees are regularly reviewed.

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

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

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

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

consequences of non-compliance. Compliance with the rules is monitored and non-compliance is reported.

Norges Bank's direct environmental impact

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

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

The Bank's environmental strategy is a general document, with no time horizon, and sets out general environmental objectives and measures. The strategy focuses both on the development of environmental competence within the Bank's core activities and the Bank's environmental impact. As part of this, an

action plan was introduced for following up the strategy.

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

The Bank strives continuously to find more environmentally friendly ways of operating and is currently involved in a programme to implement energy-reducing measures in collaboration with Enova SF (a state-owned enterprise responsible for the promotion of environmentally friendly energy production and consumption). Office waste is recycled and in 2019 several new recycling stations were deployed. All disposable packaging in connection with the serving of food and drink at the Bank is biodegradable. There is extensive re-use of the Bank's interior structural elements and office furniture.

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

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

The Norges Bank building is a monumental structure of high cultural and historical value. Both the older and newer parts of the building and the surrounding area are maintained in close dialogue with the Directorate for Cultural

Heritage. Norges Bank actively promotes safe and attractive urban spaces in the Kvadraturen district through its membership on the board of the Kvadraturen property owners' association. Security features have been integrated with considerable emphasis on aesthetics.

Responsible procurement and contracting

By adhering to public procurement regulations and using economies of scale, Norges Bank's procures goods and services in a cost-efficient and transparent manner. This promotes competition for contracts. To counteract social dumping, contracts include standard terms and conditions for wages and working conditions where relevant. Contractors in selected sectors must have this documented and confirmed annually by an auditor. In 2019, seven controls were carried out. No violations of the provisions on wage and working conditions were found. Norges Bank accepts no more than two tiers of subcontractors. The Bank sets environmental requirements for procurement where relevant.

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

Research and knowledge-sharing

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



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

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

Norges Bank's researchers act as a link between the Bank and academia. In 2019, the

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

The Bank supports research on the effects of climate change on investment management through the Norwegian Finance Initiative (NFI). Norges Bank supports and initiates research projects to understand and contribute to improving market standards. In 2019, the Bank provided support for two research projects, one at New York University Stern School of Business and the other at Columbia University, both of which examined the financial impacts of climate change. Norges Bank participates in the network, "Ut av klasserommet" [Out of the classroom]. The purpose of the network is to strengthen and provide a platform for the educational activities offered beyond the classroom and to share experience in this area. In 2019, the network had a joint stand at Scandinavian Educational Technology Transformation (SETT), which is Scandinavia's largest exhibition and conference within innovative and modern learning. Norges Bank also cooperates closely with the academic community and organisations such as Finance Norway, Aksje Norge, Ungt Entreprenørskap and the Norwegian Association of Economists.

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

Human resources and working environment

Personnel and expertise

Norges Bank's ambition is to recruit top candidates from leading national and international institutions. The Bank works systematically to attract and recruit staff with the expertise the Bank needs to perform its tasks. The Bank continues to systematically pursue the goal of strengthening its reputation as a preferred employer, as this reputation is crucial to the successful achievement of the Bank's other goals.

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

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

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



Sorting banknotes stored in the vault at Norges Bank

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

Gender equality and diversity

Norges Bank respects human rights and practises a zero tolerance approach to discrimination. Women and men at Norges Bank must be given the same opportunities with regard to salary, promotion and professional and personal development.

According to the recruitment guidelines, the best qualified candidates are hired regardless of gender, age, ethnicity or disability. In 2019, the gender breakdown of employees at Norges Bank was 68% men and 32% women, virtually unchanged from 2018.

The Executive Board has set a minimum target of 40% for female employees as an overall long-term goal. This objective is integrated into strategic work and action plans and is given emphasis in the planning and execution of recruitment processes. The share of women¹ on the staff of Norges Bank was 31% for executive-level employees in NBCBO and 22% for executive-level employees in NBIM. For non-executive employees, the share of women was 42% in NBCBO and 30% in NBIM, virtually unchanged compared with 2018.

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

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

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

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

The pay level for women as a percentage of the pay level for men at year-end 2019² was 94% for executives in NBCBO, (unchanged from 2018), and 82% for executives in NBIM, compared with 88% in 2018. For non-executive employees, the figure was 89% for NBCBO, and 82% for NBIM, unchanged from 2018.

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

Health and safety

Norges Bank's priority is protecting the health and safety of all those who work in the Bank. In 2019, five workplace accidents or injuries directly related to work conducted at Norges Bank's premises were reported. No workplace accidents or injuries were reported as occupational injuries to the Norwegian Labour Inspection Authority in 2019. These data do

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

not include the health and safety results for properties in the investment portfolio.

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

Reconstruction projects at the Bank are based on universal design, and the Bank provides protective equipment as needed. The Bank has well-equipped fitness facilities for employees. An indoor climate report has also been completed, describing measures to further improve the indoor climate and increase flexibility.

The Bank receives feedback on the physical and psycho-social working environment through annual individual employee health appraisal interviews conducted by the Bank's health service and through the Bank's annual working environment surveys. According to the reports, job satisfaction is high and working conditions are primarily satisfactory. Upgrading of the building is in progress, and more work stations are being established to improve the indoor climate and the use of space. The Bank's Working Environment Committee, comprised of management and employee representatives, assesses the working environment and climate of collaboration at the Bank as positive.

Collaboration with trade unions

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

Sickness absence and inclusion in the workplace

Sickness absence at the Bank remained stable at a low level of 2.0% in 2019, unchanged from 2018. As an inclusive workplace enterprise, the Bank is committed to working systematically and with a long-term perspective to maintain sickness absence at a low level. The Bank accommodates employees needing special adaptations and enables older employees to extend their professional careers in line with national objectives.

Oslo, 5 February 2020



Øystein Olsen
(Governor/Chair)



Jon Nicolaisen
(First Deputy Chair)



Egil Matsen
(Second Deputy Chair)



Karen Helene Ulltveit-Moe



Kristine Ryssdal



Arne Hyttnes



Hans Aasnæs



Nina Udnes Tronstad



Mona Helen Sørensen
(Employee representative)



Kjersti-Gro Lindquist
(Employee representative)

Income statement

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

Balance sheet

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

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

Oslo, 5 February 2020



Øystein Olsen
(Governor/Chair)



Jon Nicolaisen
(First Deputy Chair)



Egil Matsen
(Second Deputy Chair)



Karen Helene Ulltveit-Moe



Kristine Ryssdal



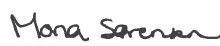
Arne Hyttnes



Hans Aasnæs



Nina Udnes Tronstad



Mona Helen Sørensen
(Employee representative)



Kjersti-Gro Lindquist
(Employee representative)

Statement of cash flows

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

Statement of changes in equity

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



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