



NORGES BANK

Norges Bank Annual Report 2021



I am very proud of the way Norges Bank has fulfilled its mission under difficult conditions.

A handwritten signature of Øystein Olsen in white ink on a dark blue background.

Øystein Olsen
Governor



Annual address 2021
Øystein Olsen prepares to give an all digital annual address without a physically present audience.

Another extraordinary year

Norges Bank has once again worked its way through an extraordinary year, a year that both started and ended in our offices at home. Despite steadily improving vaccination coverage in 2021, new virus variants and rising infection rates continued to create a confusing landscape that was difficult to navigate. I am very proud of the way Norges Bank has fulfilled its mission to serve the public interest under difficult conditions.

Norges Bank implemented a wide range of extraordinary measures in 2020 to calm financial markets and mitigate the economic downturn that arose as a result of the pandemic. Yet even though the pandemic continued in 2021, the year was for Norges Bank mainly a matter of making our way back to a normal situation.

Extraordinary F-loans for banks were discontinued, and the loans have been repaid. After a period with the policy rate at zero percent, the Monetary Policy and Financial Stability Committee started to gradually increase the policy rate. And the countercyclical capital buffer rate was raised from 1% to 2%. The latest buffer rate decision was made by Norges Bank in December, after the Bank was given responsibility for setting this rate.

Within the Bank's other areas of activity, 2021 has largely centred on implementing important change projects and launching significant new initiatives. In autumn, the Executive Board decided to start negotiations with the European Central Bank on participation in TARGET Instant Payment Settlement (TIPS), the Eurosystem's instant payment settlement service. In addition, Norges Bank continues to explore central bank digital currency. Another important milestone was the establishment of a new framework to test the cyber resilience of Norway's financial sector (TIBER-NO). The Differentiated IT portfolio (DiffIT), a large-scale IT project for Norges Bank's central banking operations, was also completed in 2021. The settlement system for banks and business-critical IT systems, PCs and networks were migrated to new platforms.

The infrastructure needed for remote working was already in place as we entered 2021. Nevertheless, adaptable and competent IT departments, together with Norges Bank

Administration, the department providing the Bank's shared support functions, were crucial to the efficient operation of the organisation in 2021 and provided invaluable support to the entire Bank, across its operational areas.

The pandemic also had a substantial impact on the management of the Government Pension Fund Global (GPF) in 2021. However, 2021 proved to be a particularly good year in the markets. The GPF posted an overall return of 14.5 percent in 2021, equivalent to NOK 1 580bn. Norges Bank Investment Management (NBIM) achieved a positive excess return of 0.74 percentage point over the GPF's benchmark index.

The Executive Board approved a revised strategy plan (2021–2022) for NBIM in 2021, emphasising strategies to achieve a higher return, provide staff with opportunities for further development and promote transparent communication. The objective of Norges Bank's management of the GPF is to achieve the highest possible return after costs, with acceptable risk and based on set limits for responsible investment.

Particular attention was paid to the management of climate risk in the GPF in 2021. In a letter to the Ministry of Finance, Norges Bank supported the introduction of a long-term responsible investment goal of net zero emissions for the companies in which the GPF is invested.

As I sign this Annual Report, I recognise that this will be for the last time. I am in the "home stretch" of my tenure as Governor, a tenure that has been both exciting and rewarding. With so many highly skilled employees, the Bank is well equipped to meet new challenges and fulfil its important mission in a sound manner.

Annual Report of the Executive Board for 2021

The Covid-19 pandemic continued throughout 2021. The pandemic has had an impact on Norges Bank's work, both because of its effect on the Norwegian economy and the global economy and because the Bank's offices in Norway and abroad have been partially closed. Despite this, the Bank's staff put in considerable effort, maintaining consistently high performance and high professional standards in their work throughout the year.

Norges Bank manages the Government Pension Fund Global (GPFG). Despite the uncertainty surrounding the pandemic, the GPFG's investments in global financial markets generated a solid return in 2021, particularly owing to the sharp rise in equity indexes. Investment management at Norges Bank outperformed the GPFG's benchmark index by 0.74 percentage point. At year-end 2021, the market value of the GPFG was NOK 12 340bn.

In spring 2021, the Executive Board approved a revised strategy for Norges Bank Investment Management (NBIM), which sets out the Board's primary objectives for the organisation. The strategy emphasises a high return, responsible investment and transparency as key priorities for the GPFG ahead. The revised strategy also describes goals related to process optimisation, technology and staff development.

The payment system is evolving rapidly. The general public is continually being offered new methods, new means of payment are being launched and the payments market has opened up to new operators. The Executive Board made a number of decisions related to the payment system in 2021: to develop real-time payments, to further explore and test central bank digital currency (CBDC) and to introduce a framework for testing the cyber resilience of the financial system.

Norges Bank was assigned new tasks in 2021. The Government gave Norges Bank the responsibility for setting the countercyclical capital buffer rate for banks. Until 2021, Norges Bank provided advice to the Ministry of Finance regarding this buffer rate on a quarterly basis. The Bank has

also been assigned responsibility for advising the Ministry on the level of the systemic risk buffer.

The Bank's executive management underwent changes in 2021. On 28 May, the Government appointed Øystein Børsum as Deputy Governor with particular responsibility for following up on the management of the GPFG.

The Annual Report of the Executive Board also includes the section on sustainability and corporate social responsibility (forthcoming).

Management of the GPFG

Norges Bank manages the GPFG with a view to achieving the highest possible long-term return within the constraints laid down in the mandate from the Ministry of Finance.

Management of the GPFG in 2021

At year-end 2021, the market value of the GPFG was NOK 12 340bn. The GPFG's market value is affected by returns, capital inflows and withdrawals and exchange rate movements.

The return in 2021 was equivalent to NOK 1 580bn. Movements in the krone exchange rate reduced the market value of the GPFG by NOK 25bn, but this has no bearing on the GPFG's international purchasing power. Withdrawals by the Norwegian government came to NOK 129bn after payment of management fees.

The return on the GPFG before management costs was 14.5% measured in terms of the GPFG's currency basket. Equities returned 20.8% and bonds -1.9%. The return on

bonds was the weakest in the history of the GPFG. Investments in unlisted real estate returned 13.6% and the return on investments in unlisted renewable energy infrastructure was 4.2%. Management costs amounted to 0.04% of assets under management.

Norges Bank achieved an overall return before management costs that was 0.74 percentage point higher than the return on the GPFG's benchmark index.

The year 2021 was marked by the pandemic. Bank staff put considerable effort into managing the GPFG during partial closures of the Bank's offices in Norway and abroad.

The Bank pursues a variety of investment strategies, and since 2013 these strategies have been grouped into three main categories: asset management, security selection and fund allocation. All three categories made a positive contribution to the excess return in 2021.

The contributions to the relative return from equity, fixed income and real asset management show that equity management contributed most to the GPFG's relative return. After the poor performance of the real estate sector in 2020, real estate management made a solid contribution to the excess return on the GPFG in 2021.

Norges Bank manages the GPFG close to the benchmark, but all the investment strategies also have active components. Norges Bank has reported contributions to the relative return from the same three categories of strategies throughout the period 2013–2021. The management within each main category has, however, been subject to change.

Norges Bank's Executive Board adopted a revised strategy plan for the Bank's management of the GPFG in early 2021. The plan builds on the previously adopted strategy but has less emphasis on overall allocation. In keeping with this, the strategies within fund allocation were adjusted in 2021 to reduce exposure to strategies for systematic risk factors and investments in certain segments outside the benchmark index. However, investments in unlisted real estate, unlisted renewable energy infrastructure and emerging-market debt remain part of the strategy.

When it comes to asset management, the Executive Board has put emphasis on further developing the Bank's

strategies for achieving the desired market exposure efficiently. Within security selection, the plan is to expand the number of companies the Bank follows closely and increase the use of external managers with deep insight into specific companies and markets. Knowledge about the GPFG's company investments helps achieve the objective of the highest possible return. It could also improve risk management and strengthen work on responsible investment.

In April, Norges Bank announced the GPFG's first investment in unlisted renewable energy infrastructure. The Bank will gradually build up this portfolio, primarily through investments in wind and solar power.

Performance measured over time

In the period from 1998 to 2021, the annual return on the GPFG was 6.6%. The annual net real return, after deductions for inflation and management costs, was 4.6% in the same period.

Over the past five years, the annual net real return has been 7.7%. The strong return in recent years serves as a reminder that the market value of the GPFG could fluctuate considerably in the future.

The Executive Board emphasises the importance of assessing the performance of the GPFG over time. Viewed over the full period 1998–2021, the annual return before management costs has been 0.27 percentage point higher than the return on the benchmark index defined by the Ministry of Finance. In the period since 2013, during which the strategies have been grouped into asset management, security selection and fund allocation, the annual excess return before management costs has been 0.25 percentage point. The contributions from the three groups of strategies show that the strategies employed by the Bank within fund allocation have made a negative contribution to the relative return, while asset management and security selection have both made a positive contribution.

The objective of Norges Bank's management of the GPFG is the highest possible return after costs. This is to be achieved with acceptable risk. Risk is measured, analysed and followed up using a broad set of measures and analyses. One key provision in the mandate from the Ministry of Finance requires the Bank to manage the GPFG with a view to ensuring that expected relative volatility

(tracking error) does not exceed 1.25 percentage points. Expected relative volatility was 0.50 percentage point at the end of 2021, compared with 0.56 percentage point a year earlier.

Measured over the full period since 1998, realised relative volatility has been 0.64 percentage point.

The management of the GPFG is to be cost-effective. Cost-effective management supports the objective of the highest possible return after costs. In the period 2013–2021, annual management costs averaged 0.05% of assets under management. In 2021, total management costs amounted to NOK 4.6bn, or 0.04% of assets under management.

The Executive Board is satisfied with the return, which both in 2021 and over time has been higher than the return on the benchmark index, against which the return is measured.

Further development of investment management

One important part of the Executive Board's work on the GPFG is advising on the further development of the GPFG's investment strategy. The Executive Board responded to a number of enquiries from the Ministry of Finance and issued advice, including on the composition of the GPFG's benchmark index for equities. The Executive Board also submitted a review of the Bank's management of the GPFG. The Ministry of Finance regularly requests reviews of this kind, at the beginning of each parliamentary term.

Responsible investment and active ownership are an integral part of the management of the GPFG. The Executive Board has noted that this work was strengthened further through 2021. Among other things, the Bank began publishing its voting intentions five days ahead of general meetings and introduced pre-screening of companies being added to the GPFG's benchmark index. Norges Bank also responded to a number of enquiries from the Ministry of Finance regarding responsible investment, including the management of climate risk in the GPFG and the possible introduction of a long-term responsible investment goal of net zero emissions for the companies in which the GPFG is invested.

For more information on the management of the GPFG, see the *Government Pension Fund Global Annual Report for 2021*.

Management of the foreign exchange reserves

Norges Bank manages Norway's foreign exchange reserves. The foreign exchange reserves are held for the purpose of crisis management and are to be used as part of the conduct of monetary policy, to promote financial stability and to meet Norges Bank's international commitments. Considerable weight is given to the importance of investing the reserves in liquid assets. The foreign exchange reserves are managed with the aim of achieving the highest possible return within the management framework.

The foreign exchange reserves are divided between a fixed income portfolio and an equity portfolio. An additional portfolio, the petroleum buffer portfolio, receives the government's cash flow from petroleum activities in foreign currency. The purpose of the petroleum buffer portfolio is to provide for an appropriate management of the government's need for converting foreign currency into NOK and vice versa and to conduct transfers to and from the GPFG.

The principles for the management of Norges Bank's foreign exchange reserves are laid down by the Bank's Executive Board. The Executive Board has delegated responsibility for issuing supplementary guidelines to the governor of Norges Bank and has authorised the governor to depart from the principles if warranted by security considerations.

Management of the foreign exchange reserves in 2021

The market value of the foreign exchange reserves was NOK 643bn at year-end 2021. The total for the equity portfolio was NOK 122bn, for the fixed income portfolio NOK 478bn and for the petroleum buffer portfolio NOK 43bn. The value of the reserves increased by NOK 47bn in the course of 2021. Return in international currency terms increased the value of the reserves by NOK 22bn, while the depreciation of the krone increased the value of the reserves by NOK 1bn. Net inflows increased the reserves by NOK 24bn.

The foreign exchange reserves are held for the purpose of crisis management. Changes in value measured in NOK are thus of secondary importance. Movements in the krone exchange rate primarily affect Norges Bank's equity and not its ability to meet its commitments in foreign currency. The return on the reserves will be measured in international currency in the remainder of this section.



The return on the foreign exchange reserves was 3.8% in 2021. Equity investments returned 25.1%, while fixed income investments returned -1.5%. Equity investments amounted to 20.3% of the equity and fixed income portfolio combined at year-end 2021.

In accordance with the Executive Board's principles, rebalancing is required if the equity allocation deviates from the strategic equity allocation by more than 4 percentage points. Following strong growth in the value of the equity portfolio, rebalancing was implemented in November by transferring NOK 27.7 bn from the equity portfolio to the fixed income portfolio.

Investments denominated in Chinese yuan renminbi (CNY) were included in the reserves fixed income portfolio for the first time in 2021. The CNY currency was gradually phased in during 2021 Q1, and investments in Chinese government bonds account for 2% of the market value of the portfolio.

The Executive Board amended the principles for the management of the foreign exchange reserves in 2021 to clarify the responsible investment requirements for the management of the equity portfolio.

In the Executive Board's assessment, the foreign exchange reserves are managed efficiently, and the Board is satisfied with the solid return posted by the reserves both in 2021 and over time.

For more information on the management of the Bank's foreign exchange reserves, see the report [Management of Norges Bank's foreign exchange reserves](#).

Government debt management

Norges Bank provides services in connection with government borrowing on behalf of the Ministry of Finance. The mandate is to meet the government's borrowing requirement at the lowest possible cost within established limits. Government borrowing is also intended to promote well-functioning and efficient financial markets in Norway. Each year, the Ministry of Finance sets an upper limit for gross borrowing volume and a minimum average time to refinancing. Norges Bank's Executive Board approves the annual strategy and borrowing programme.

The government's borrowing requirement is primarily met through long-term borrowing in the market (government bonds) at a fixed interest rate. The government also borrows short-term by selling Treasury bills, which are debt instruments with a maturity of one year or less so that government securities with different maturities are offered in the market. The government borrows exclusively in NOK. Government securities are issued through auctions. Government bonds may also be issued by syndication.

Government debt management in 2021

At year-end 2021, government debt totalled NOK 522bn, with NOK 466bn in government bonds and NOK 56bn in Treasury bills. Of this amount, the government's own

holdings amounted to NOK 54bn in bonds and NOK 24bn in Treasury bills.

A new 10-year government bond was issued in 2021 via syndication, in the amount of NOK 20bn. Existing bonds were also reopened in the amount of NOK 45bn at 19 auctions. NOK 6bn was issued to the government's own stock in the course of the year.

Treasury bills worth NOK 54bn were issued to the market at 19 auctions. NOK 24bn was issued to the government's own stock in the course of the year.

In 2021, the average auction premium at bond issuance was 4.4 basis points compared with 3.5 basis points in 2020. Corrected for a very poor auction in June, the auction premium was 2.1 basis points. The average yield for bonds issued in 2021 was 1.24%, compared with 0.89% in 2020, which was the result of a general rise in interest rates.

The Executive Board is satisfied that government bond issuance was carried out in accordance with the approved borrowing programme. An annual report is published on government debt management.



Ida Wolden Bache
Norges Bank's annual "Finansiell fagdag"
conference in 2021.

Payment system

Norges Bank is tasked with promoting an efficient, secure and attractive payment system. Norges Bank is the ultimate settlement system for interbank payments in Norway and issues banknotes and coins. Norges Bank oversees the payment system and other financial infrastructure and contributes to contingency arrangements. Under the Payment Systems Act, Norges Bank is the supervisory authority for interbank systems.

The operation of the financial infrastructure in Norway was stable in 2021. The Executive Board considers the operation of the Norwegian financial infrastructure to be secure and efficient.

Norges Bank's settlement system

Payment settlement between banks and other financial sector undertakings with an account at Norges Bank takes place in Norges Bank's settlement system (NBO). Thus, most payments in NOK are ultimately settled in NBO. With the exception of one brief disruption, the operation of NBO was stable through 2021. NBO handled a daily average of approximately NOK 301bn in payment transactions. At year-end 2021, banks' sight deposits and reserves on deposit with Norges Bank totalled NOK 23bn.

Further development of the infrastructure for fast payments

A well-functioning solution for real-time payments is an important part of an efficient payment system. These are payments where the money is made available on the payee's account seconds after payment is initiated. The share of payments settled in real time will likely increase in the coming years.

In their responses to a public consultation, banks expressed support for the initiation by Norges Bank of negotiations with the European Central Bank (ECB) on participation in TARGET Instant Payment Settlement (TIPS), the Eurosystem's infrastructure for real-time payments. Participation would imply settlement of real-time payments in NOK in the TIPS system on behalf of Norges Bank. The Executive Board decided in October 2021 to start such negotiations. A final decision on participation will be made after negotiations on a participation agreement have been completed and an evaluation of the conclusions has been made.

Cash

The public's access to central bank money in the form of cash is a key feature of the payment system. Cash usage in Norway has declined over many years and the decline accelerated during the pandemic. In Norges Bank's opinion, it is important to ensure that cash remains available and easy to use so that it can fulfil its functions in the payment system.

Central bank digital currency (CBDC)

The structural changes in the payment system raise questions about whether there is a need for Norges Bank to implement measures to ensure that payments can continue to be made efficiently and securely in NOK in the future. One key question is whether Norges Bank should provide central bank money to the public in digital as well as physical form. Norges Bank is in the process of exploring this issue, motivated by both declining cash usage and a desire to be prepared to introduce a CBDC if necessary for the Norwegian payment system to develop in a desirable manner.

In spring 2021, the Executive Board decided that the Bank would continue its research into CBDC. Over the next two years, experimental testing of different technical CBDC solutions will be carried out, and the Bank will continue its work on analysing the purposes and consequences of introducing a CBDC. The research will provide a basis for a decision on whether the Bank will test a preferred solution that could be introduced.

Cyber resilience of the financial system

Cyber attacks are a potential threat to financial stability.

Extensive digitalisation and interconnectedness make the financial system vulnerable. In September, Norges Bank's Executive Board approved the introduction of a framework for testing entities' capabilities in detecting and responding to cyber attacks (TIBER-NO). TIBER-NO has been prepared in collaboration with Finanstilsynet (Financial Supervisory Authority of Norway). This will help strengthen the cyber resilience of the financial sector and enhance our knowledge about the potential impact of cyber attacks on the financial system.

For more information on the payment system, see the 2021 [Financial Infrastructure Report](#).



The Executive Board is impressed by the way Bank staff have performed their duties under challenging conditions in 2021.

Staff

Norges Bank's staff are central to the Bank's operations. The Bank's working environment must be one of mutual respect, where it is safe to share and challenge each other's views, and where there are equal opportunities for all. The Executive Board is impressed by the way Bank staff have performed their duties under the difficult and challenging conditions arising from the pandemic in 2021.

Norges Bank works systematically to attract and recruit top candidates from leading national and international academic institutions. The Bank promotes continuous career development, for example by offering targeted courses and study programmes. To further develop as an organisation, the Bank aims for gender balance and to actively make use of the advantages provided by a high degree of diversity in the workforce.

At year-end 2021, Norges Bank had 940 permanent members of staff, of which 519 were in Norges Bank Investment Management (NBIM), 264 in Norges Bank Central Banking Operations (NBCBO) and 150 in Norges Bank Administration (NBA). In addition, there were seven employees at the Office of the Supervisory Council.

The Bank has employees from a total of 33 countries and offices in Oslo, London, New York, Shanghai and Singapore. Norges Bank works systematically to achieve gender balance and to bring the share of each gender to at least 40% in the Bank as a whole. The share of women on the permanent staff of Norges Bank at year-end 2021 was 34%, with percentages varying across areas of the Bank from 27% in NBIM to 34% in NBCBO and 58% in NBA.

Employer branding and recruiting initiatives increased substantially through 2021. In spring, the Bank became a signatory of the Women in Finance initiative, and an action plan was drawn up. The Executive Board is nevertheless not satisfied with the overall gender balance and will prioritise following up the initiatives for achieving the target ahead.

Norges Bank's priority is to protect the health and safety of all those who work in the Bank. Seven workplace accidents or injuries directly relating to work conducted at Norges Bank's premises were reported in 2021, none of which were severe or reported as occupational injuries to the Norwegian

Labour Inspection Authority. Sickness absence at the Bank remained stable at a low level of 1.7% in 2021.

The Bank's management has constructive and regular dialogue with the trade unions. The Bank engages in negotiations and discussions to create the basis for a positive work environment. Collaboration with the trade unions was particularly important in 2021 when Bank staff were working under challenging conditions. In 2021, an agreement was reached to harmonise common working hours across operational areas.

Corporate governance

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

Norges Bank's use of resources is required to be cost-efficient and prudent, with a cost level that is reasonable compared with that of similar organisations. The Executive Board uses benchmarking, ie external comparisons of the Bank's use of resources with that of other similar organisations, as a corporate governance tool. During 2021, comparisons were conducted of management costs for the GPFG and the use of resources in NBCBO, in NBA and in Norges Bank as a whole. The Executive Board is satisfied with the Bank's favourable results in these comparisons.

The Executive Board followed up the budgeting process closely, and planning and the budget for 2022 were discussed at several Executive Board meetings in the latter half of 2021.

Norges Bank attaches considerable weight to managing and controlling financial risk. Norges Bank complies with the regulation on risk management and internal control at Norges Bank issued by the Ministry of Finance. The Executive Board has issued principles for risk management. In addition, the Ministry of Finance defines limits for the management of the GPFG, including allocation of asset classes and the 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 2021. Valuations, performance measurement,

management and control of risk in investment management comply with internationally recognised standards and methods. See the notes to the financial statements.

Reporting and following up risks and incidents constitute an important part of the measures to improve operations and internal control. Significant risks are followed up through regular reporting and follow-up of Executive Board measures. The Executive Board has set a 12-month risk tolerance limit for NBIM specifying that the probability that operational risk factors will result in a gross loss of NOK 750m or more must be less than 20%. In 2021, operational risk exposure was within the Board's risk tolerance limit. Liability insurance has not been specifically

provided for the members of the Executive Board or the chair of the Board, ie the governor, in his role as general manager of Norges Bank.

Information security and IT systems

Stable IT systems are essential for Norges Bank to fulfil its mission. Norges Bank works systematically to ensure a high level of operational stability and has sound disruption management and change management processes in place.

A multi-year NBCBO project to modernise the IT platform was completed in autumn 2021. Mission-critical and business-critical systems were separated and are operated on two different platforms to improve security. The new



platforms facilitate further development of the system portfolio.

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. The Executive Board submits an annual risk assessment to the Supervisory Council based on reporting by the administration and Internal Audit.

No material deficiencies in the risk management and control regime were identified in 2021 and the Executive Board assesses the control environment and control systems at Norges Bank as satisfactory.

Security

Norges Bank faces a complex threat landscape. The Bank's assets, threats and vulnerabilities are continuously assessed and tracked. Risk reduction measures are continuously identified and implemented. A range of training activities are conducted, such as phishing drills and e-learning modules, to boost security awareness among staff. Relevant controls are performed based on frameworks and standards for best practice. Norges Bank uses the US National Institute of Standards and Technology Cyber Security Framework (NIST CSF) for its management of information and IT security risks.

The Covid-19 pandemic has led to extensive use of remote working and video conferencing. There has been a particular focus on security related to remote working. The number of cyber attacks rose during the pandemic. However, thanks to effective controls, none of these attacks had serious consequences.

There were no security incidents with serious consequences in 2021.

Balance sheet composition and financial outlook

Norges Bank's balance sheet

Norges Bank's balance sheet contains a number of items directly related to the Bank's mission. The balance sheet total at year-end 2021 was NOK 13 172bn. The majority of balance sheet items are related to the GPFG and the Bank's foreign exchange reserves, while deposits from the government and banks, banknotes and coins in circulation and claims on and liabilities to the IMF are other significant items.

Norges Bank is responsible for the operational management of the GPFG. The Ministry of Finance has therefore placed a portion of the government's assets in a separate account in Norges Bank (the GPFG's krone account), presented as a liability to the Ministry of Finance. The Bank reinvests these funds, in its own name, in accordance with the GPFG's management mandate issued by the Ministry of Finance. The net value of the investment portfolio and the GPFG's krone account are presented on separate lines in Norges Bank's balance sheet. The value of the krone account will always equal the value of the investment portfolio less accrued management fees.

At year-end 2021, the market value of the GPFG's investments was NOK 12 340bn.

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 that also includes the financial statements for 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 foreign exchange reserves are the Bank's 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 643bn at year-end 2021, compared with NOK 596bn at year-end 2020.

For more details on the management of the GPFG and the foreign exchange reserves, see pages 4 and 6.

Under the government's consolidated account system, all government liquidity is collected in government accounts at Norges Bank. At year-end 2021, deposits amounted to NOK 344bn. Except for the GPFG krone account, this is the largest liability item on the balance sheet. However, this item fluctuates considerably through the year owing to substantial incoming and outgoing payments over the government's accounts and transfers to and withdrawals from the GPFG. The average amount on deposit was around NOK 259bn in 2021, compared with NOK 260bn in 2020.

Banknotes and coins in circulation are a liability item for Norges Bank as they are a claim on the Bank. Norges Bank guarantees the value of this money. The amount of cash in circulation is driven by public demand. In recent years, lower demand for cash has reduced the amount in circulation. At year-end 2021, banknotes and coins in circulation amounted to NOK 40bn, compared with NOK 41bn at year-end 2020.

Deposits from banks, comprising sight deposits, reserve deposits and F-deposits, are managed by Norges Bank through its liquidity management policy. At 31 December 2021, these deposits amounted to NOK 23bn, compared with NOK 53bn at year-end 2020.

Norges Bank administers Norway's financial obligations and rights ensuing from participation in the International Monetary Fund (IMF). Norges Bank has therefore both claims on and liabilities to the IMF. See Note 17 in the notes to the financial statements for more details. At year-end 2021, Norway's net position with the IMF amounted to a claim of NOK 19bn, compared with NOK 17bn at year-end 2020.

This balance sheet composition is normally expected to generate a 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.

Given the Bank's balance sheet composition, income will to a large degree be affected by developments in global fixed income, equity and foreign exchange markets. Considerable volatility in income should be expected from year to year. Future increases in the value of the GPFG will be affected by, among other things, transfers to/from the GPFG.

Income statement

Total comprehensive income

Norges Bank's total comprehensive income for 2021 shows a profit of NOK 23bn, compared with a profit of NOK 29bn in 2020. Net income from financial instruments was NOK 24bn in 2021, compared with NOK 30bn in 2020. Equity investments posted a gain of NOK 31bn, while fixed income investments posted a loss of NOK 7bn. Net income from financial instruments also includes a loss of NOK 0.3bn as

a result of foreign currency effects owing to a weaker krone. Foreign currency effects in 2020 resulted in a loss of NOK 0.5bn.

The GPFG's total comprehensive income amounted to NOK 1 551bn, comprising a gain on the portfolio of NOK 1 555bn net of management costs of NOK 4.6bn. Total comprehensive income was recognised against the GPFG's krone account at 31 December 2021. The return on the portfolio, after management costs reimbursed to Norges Bank have been deducted, is transferred directly 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 up to a limit. The Bank was reimbursed in the amount of NOK 4.6bn in 2021, compared with NOK 5.3bn in 2020. 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 120m in 2021, compared with NOK 121m in 2020.

Operating expenses

Operating expenses amounted to NOK 5.9bn in 2021, compared with NOK 6.5bn in 2020.

The decrease in expenses is primarily the result of a decrease in fees for external asset managers of the GPFG (NOK 0.3bn) and lower personnel expenses (NOK 0.3bn). Reduced fees for external asset managers reflect a lower excess return from external management and currency effects. Developments in personnel expenses primarily reflect lower expenses for performance pay. This is primarily related to a one-off effect resulting from a change in the accrual accounting method for performance pay. The change does not affect employee's earnings or payments.

NOK 4.6bn of the expenses in 2021 is related to the management of the GPFG, including personnel costs, custody and settlement services, IT expenses, analytical research services and fees for external asset managers.

Equity

Norges Bank's equity at 31 December 2021 was NOK 289bn, compared with NOK 277bn at 31 December 2020. The Bank's equity consists of the Adjustment Fund and the Transfer Fund. At year-end 2021, the Adjustment Fund stood at NOK 267bn and the Transfer Fund at NOK 22bn. Norges Bank's equity was 34.7% of the balance sheet total, excluding the GPF's krone account, compared with 35.9% in 2020. The Executive Board deems that the Bank's equity is sufficient to fulfil the Bank's purpose (cf Section 3-11, Subsection 1, of the Central Bank Act).

Distribution of total comprehensive income

The distribution of total comprehensive income follows the guidelines on the reserves and on the allocation of Norges Bank's profit, laid down by Royal Decree of 13 December

2019 pursuant to Section 3-11, Subsection 2, of the Central Bank Act.

Total comprehensive income shall 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 23bn is to be transferred as follows: NOK 20bn to the Adjustment Fund and NOK 3bn to the Transfer Fund. NOK 11bn will be transferred from the Transfer Fund to the Treasury.

Norges Bank's Executive Board Oslo, 9 February 2022



Øystein Olsen
Governor / Chair of the Executive Board



Ida Wolden Bache
First Deputy Chair



Øystein Børsum
Second Deputy Chair



Karen Helene Ulltveit-Moe



Kristine Ryssdal



Arne Hyttnes



Hans Aasnæs



Nina Udnes Tronstad



Egil Herman Sjørusen



Mona Helen Sørensen
Employee representative



Truls Oppedal
Employee representative

Annual Report of the Monetary Policy and Financial Stability Committee for 2021

Conditions in the Norwegian economy started to return to normal in the course of 2021, and the Monetary Policy and Financial Stability Committee decided in autumn 2021 to raise the policy rate gradually. The Committee was given decision-making responsibility for the countercyclical capital buffer (CCyB) and also adopted a monetary policy strategy.

The Monetary Policy and Financial Stability Committee is responsible for the conduct of monetary policy and is tasked with promoting financial stability.

The Committee reduced the policy rate to 0% in spring 2020. The aim was to dampen the economic downturn caused by the Covid-19 pandemic. In the course of 2021, conditions in the Norwegian economy started to normalise, and from autumn 2021, the policy rate was gradually raised again, first to 0.25% in September and then to 0.5% in December.

The Committee adopted a monetary policy strategy in December 2021. The strategy describes how the Committee interprets the monetary policy mandate and sets a framework for the Committee's assessments of how monetary policy will respond to various shocks.

The CCyB rate was reduced from 2.5% to 1% early in the pandemic in 2020. On the advice of the Committee in June 2021, the Ministry of Finance decided to increase the CCyB rate to 1.5%, effective from 30 June 2022. On 10 September 2021, Norges Bank was given decision-making responsibility for the CCyB and formal advisory responsibility for the systemic risk buffer. Norges Bank took the first decision to change the CCyB rate under the new regime in December 2021. The rate was set at 2%, effective from 31 December 2022.

Monetary policy

Global economy

Global economic growth stalled in winter 2020/2021 in the wake of rising infection rates and tighter Covid-related restrictions in many countries through autumn 2020. The pace of vaccination picked up through spring 2021, and Norway's main trading partners gradually eased restrictions. Together with lower infection rates, this contributed to high GDP growth. Growth was particularly strong in household purchases of goods and services.

The rise in trading partner economic activity continued through summer. Low infection rates in many European countries contributed to strong growth in 2021 Q3, and aggregate trading partner GDP was above the pre-Covid level. In autumn, infection rates increased to record-high levels in several European countries and tighter restrictions were introduced. Towards the end of the year, the new Omicron variant created considerable uncertainty about the economic outlook.

Goods demand has risen sharply during the pandemic. At the same time, the pandemic and Covid-related restrictions have led to production and distribution delays. In combination, the result has been long delivery times, higher freight rates and substantial price rises for some goods and services. Together with higher prices for energy, raw materials and electronic components, this has weighed on trading partner economic growth and has contributed to a sharp rise in headline consumer price inflation in several key

trading partners. Towards the end of 2021, the 12-month rise in the consumer price index (CPI) moved up to over 7% in the US and 5% in the euro area. Underlying inflation also picked up considerably.

The rise in inflation and prospects that it would remain elevated ahead pushed up policy rate expectations among Norway's trading partners through 2021. During autumn, several central banks announced or started tapering asset purchase programmes introduced in 2020. The Bank of England raised Bank Rate in December. Towards the end of 2021, market rates implied expectations that Norway's main trading partners would raise their policy rates in the course of 2022. Long-term government bond yields also rose somewhat in 2021, from very low levels.

The upswing in economic activity contributed to a marked rise in equity indexes through the year. At the end of 2021, trading partner equity indexes were at an appreciably higher level than before the pandemic. Risk premiums in money and bond markets declined through winter and spring 2021 and remained close to historically low levels thereafter.

Global oil consumption rose in pace with the global economic recovery, and oil prices rose sharply at the start of 2021. Oil spot prices were close to USD 70 per barrel in March, about the same as before the pandemic. OPEC+ decided to continue their production restrictions, which pushed up oil prices. Oil prices rose further through 2021 and peaked at just above USD 80. After news emerged of the Omicron variant, oil prices fell markedly at the end of November and were about USD 75 per barrel at end-2021. Oil futures prices suggested slightly lower oil prices in the years ahead.

The economic recovery pushed up gas prices considerably in the course of 2021. In addition, weather conditions resulted in high demand and lower electricity production. Gas supplies were also reduced by limited gas imports from Russia to Europe.

Financial conditions in Norway

The krone exchange rate fluctuated considerably through 2021, but for the year as a whole, changes as measured by the import-weighted index I-44 were relatively small. Generally, the exchange rate appreciated when oil prices rose and uncertainty about the world economic outlook receded and depreciated when oil prices fell and uncertainty, for example related to infection rates, increased.

In 2020, Norges Bank implemented a range of measures to improve liquidity in the money and foreign exchange markets. Tighter Covid-related restrictions at the start of the year did not lead to materially increased bond and money market risk premiums. As market conditions improved, Norges Bank's extraordinary liquidity measures were gradually phased out. No extraordinary F-loans were offered to banks through 2021. The last extraordinary F-loans outstanding matured in August. The relaxation of the collateral requirements for banks' loans from Norges Bank was also discontinued. The risk premium in three-month Nibor declined in the period to summer 2021, before rising somewhat through autumn in line with lower structural liquidity in the banking system. Bond risk premiums declined gradually through the year as a result of the reopening of society and declining risk premiums in other countries.

Norwegian economy

The Covid-19 outbreak and the measures to contain it led to a severe downturn in the Norwegian economy in 2020. To dampen the downturn, the Monetary Policy and Financial Stability Committee reduced the policy rate from 1.5% to 0% in spring 2020, and Norges Bank implemented a range of measures to improve liquidity in money and foreign exchange markets.

The Norwegian economy started to recover further out in 2020 and mainland GDP growth picked up. After the turn of the year 2020/2021, higher infection rates and tighter restrictions dragged on activity, and the decline in unemployment came to a halt. In 2021 Q1, mainland GDP fell. The decline was most pronounced in services particularly

affected by Covid-related restrictions, such as cultural events, hotels, restaurants, transport and some retail trade segments.

Infection rates slowed in Norway as spring progressed, and the pace of vaccination accelerated. The authorities gradually eased Covid-related restrictions through spring, summer and autumn. In pace with reopening, activity picked up considerably, particularly in the service industry segments that were most affected by the restrictions. In June, mainland GDP returned to its pre-pandemic level. Activity continued to pick up through autumn, before higher infection rates and the reintroduction of restrictions put a brake on the recovery towards the end of the year.

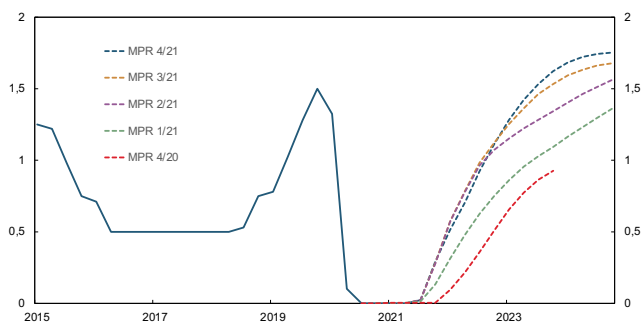
As activity picked up, many furloughed workers returned to work and unemployment fell sharply. The improvement in the labour market continued until the end of 2021, when unemployment was close to pre-pandemic levels. A number of Regional Network contacts reported a sharp rise in capacity utilisation and production constraints due to labour shortages and disruptions in global supply chains. Towards

the end of 2021, new restrictions contributed to a considerable rise in the number of furlough notices, indicating that unemployment would increase somewhat ahead.

The Committee's assessment was that capacity utilisation in the economy increased through 2021 and reached a normal level in autumn. Towards the end of the year, the output gap was estimated to be positive, but the Committee's assessment of the outlook implied that the output gap would narrow somewhat in the short term.

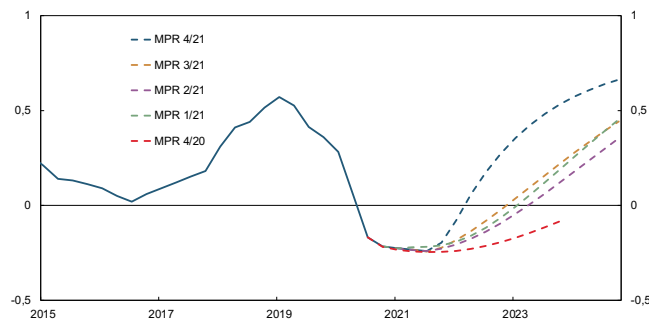
Forceful fiscal measures were introduced during the pandemic to dampen the consequences of Covid-19 and the measures to contain it. As economic conditions normalised in 2021, most of the support measures were gradually phased out. When restrictions were reintroduced at end-2021, additional fiscal support measures were also implemented. The Government's wage support scheme for firms affected by the restrictions was expected to curb the rise in unemployment somewhat.

Chart 1 Policy rate. Projections at different times. Percent. 2015 Q1 – 2024 Q4



Source: Norges Bank

Chart 2 International money market rates among trading partners. 2015 Q1 – 2024 Q4



Sources: Refinitiv Datastream and Norges Bank

Housing market activity was high through 2021. At the start of the year, high demand and limited housing supply pushed up house price inflation considerably, reflecting low residential mortgage rates and homebuyers' preference for spending a higher share of income on housing. From spring onwards, house price inflation was more moderate, partly owing to expectations of higher lending rates.

Higher energy prices led to a substantial increase in 12-month CPI inflation towards the end of 2020 and into 2021. After inflation declined through spring, a renewed rise in energy prices pushed up 12-month CPI inflation again. Electricity prices increased markedly during autumn and contributed to a further rise in inflation. In December, 12-month CPI inflation was 5.3%. Annual CPI inflation for 2021 was 3.5%, which considerably reduced real disposable income. Electricity and fuel futures prices indicated that 12-month energy price inflation would moderate after the turn of the year and that CPI inflation could be somewhat lower into 2022. Longer-term inflation expectations appear to remain anchored close to the 2% target.

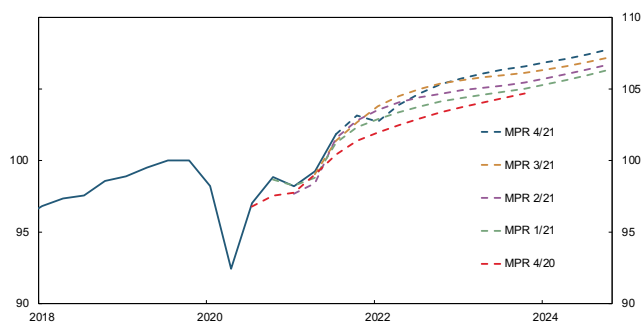
Underlying inflation, as measured by the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE), slowed gradually from summer 2020. In summer and autumn 2021, 12-month CPI-ATE inflation was about 1%. Towards the end of the year, the rise in prices picked up for both imported goods and domestic goods and services. In December, 12-month CPI-ATE inflation was 1.8%. The 12-month rise in other indicators of underlying inflation in the last months of 2021 was somewhat higher than CPI-ATE inflation. Annual CPI-ATE inflation was 1.7% in 2021.

According to Statistics Norway, annual wage growth was 3.5% in 2021, which is somewhat higher than the estimate given at the end of the year.

Monetary policy trade-offs

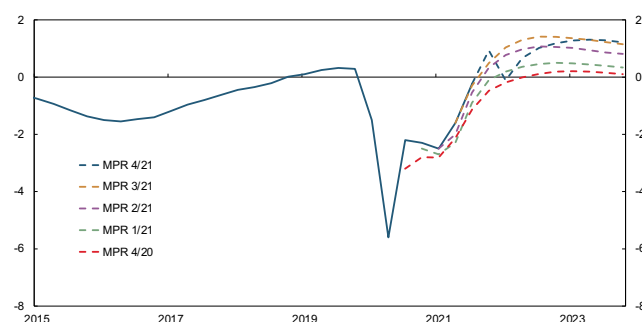
The operational target of monetary policy is annual consumer price inflation of close to 2% over time. Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment and to counteracting the build-up of financial imbalances.

Chart 3 GDP for mainland Norway. Index. 2019 Q4 = 100. 2018 Q1 – 2024 Q4



Sources: Statistics Norway and Norges Bank

Chart 4 Estimated output gap. Percent. 2015 Q1 – 2024 Q4



Source: Norges Bank

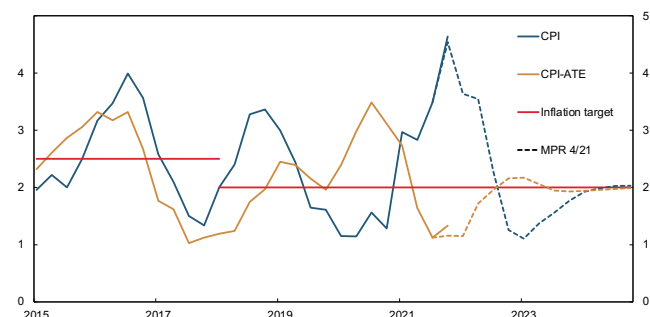
The policy rate was reduced to 0% in spring 2020. In its discussions of the monetary policy trade-offs through 2021, the Committee gave weight to the economic situation, with the Norwegian economy in the midst of a severe downturn, and low interest rates contributing to a more rapid return to more normal output and employment levels. The rapid recovery in economic activity has likely mitigated the risk that the downturn will have a more prolonged impact on the economy. As the economy normalised through the year and the labour market improved, the Committee assessed that there was no longer a need for the same degree of monetary accommodation.

A stronger krone and moderate wage growth resulted in underlying inflation that was below target in 2021. Increased global inflation, high freight rates and signs of rising wage growth lifted projections for inflation ahead further out in the year. The Committee gave weight to the consideration of stabilising inflation around the target somewhat further out, which suggested raising the policy rate towards a more normal level.

In its discussion of the balance of risks, the Committee members were conscious of the considerable uncertainty regarding the evolution of the pandemic. Towards the end of 2021, there was considerable uncertainty about the new Omicron variant and the duration of the containment measures that would be necessary. The Committee also gave weight to the risk of a build-up of financial imbalances, particularly in the first half of the year when house price inflation was still high. The Committee also judged that capacity constraints in the economy and persistent global price pressures might lead to higher-than-expected wage and price inflation.

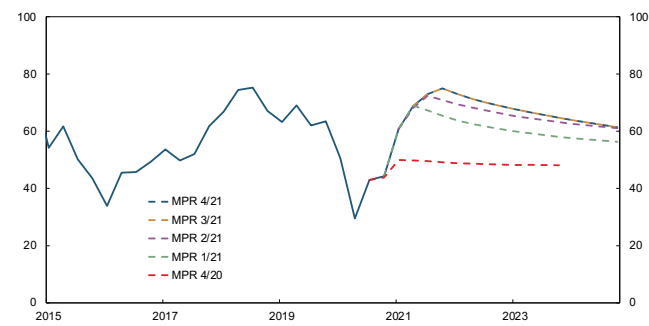
The policy rate path was gradually revised up through the first half of 2021. The rate paths in both March and June indicated that the first rate hike would occur in the latter half of 2021. At the meeting in September, the policy rate was increased from zero to 0.25%. The policy rate path was also revised up further, indicating a further policy rate increase in December.

Chart 5 Consumer prices. Projections in MPR 4/21. Four-quarter change. Percent. 2015 Q1 – 2024 Q4



Sources: Statistics Norway and Norges Bank

Chart 6 Oil prices. Spot and futures prices. USD per barrel. 2015 Q1 – 2024 Q4



Source: Refinitiv Datastream

At the December meeting, the policy rate was increased to 0.5%, while the policy rate path was little changed. The projections in the December 2021 *Monetary Policy Report* implied a gradual rise in the policy rate to around 1.75% over the coming years. With such a rate path, there were prospects that underlying inflation would be close to target in the course of 2022. Capacity utilisation was projected to fall in the near term but remain above a normal level in the years ahead.

Financial stability and the decision basis for the countercyclical capital buffer

The countercyclical capital buffer (CCyB) was reduced from 2.5% to 1% early in the pandemic in 2020. On the advice of the Committee in June 2021, the Ministry of Finance decided to increase the CCyB rate to 1.5%, effective from 30 June 2022. On 10 September 2021, Norges Bank was given decision-making authority for the CCyB and formal advisory responsibility for the systemic risk buffer. The systemic risk buffer is intended to address long-term systemic risk, while the purpose of the CCyB is to enhance banks' resilience in periods when financial imbalances are building up or have built up. These two buffer requirements constitute a substantial portion of banks' total capital requirements. The Committee sets the CCyB rate each quarter and will advise on the systemic risk buffer at least every other year, beginning in 2022.

Prior to the outbreak of the pandemic, the Committee's assessment was that imbalances were no longer building up. House price inflation had been moderate for several years, and household debt ratios had levelled off. During the pandemic, residential and commercial property prices increased sharply, and household credit growth picked up. In the latter half of 2021, the rise in property prices was more moderate, partly owing to higher expected lending rates. The Committee's assessment was that the consideration of financial imbalances suggested a higher CCyB rate and that banks had the capital and liquidity to maintain credit supply. The Committee decided to increase the CCyB rate to 2% with effect from 31 December 2022.

The Committee expected that the rate would be increased to 2.5% in the first half of 2022, taking effect one year later.

In *Financial Stability Report 2021*, the Norwegian financial system was assessed as having weathered the pandemic well. The gradual reopening of society has, along with government support measures, helped to keep bank losses low. Financial system vulnerabilities in Norway persist, but have been met by measures to increase resilience, including capital and liquidity requirements for banks and credit standard requirements. At the same time, the risk of shocks, particularly from abroad, constitutes a threat to financial stability. In the *Report*, the uncertainty regarding the further evolution of the pandemic was assessed as having diminished in 2021 compared with 2020. Norwegian banks are resilient and have ample loss-absorbing capacity.

The Committee still considers high household debt to be the main structural vulnerability in the Norwegian financial system. Household leverage is high both historically and compared with other countries. High household debt in Norway reflects conditions such as elevated house prices and a large proportion of home ownership.

The Committee is concerned about the impact of climate change and the transition to a low-carbon economy, which will affect all segments of society, including the financial system. An abrupt transition could entail a risk to financial stability. The transition to lower greenhouse gas emissions and new regulations entails a transition risk for the Norwegian economy in the years ahead. Within their mandates, central banks and financial supervisory authorities can promote financial stability by ensuring that all financial risks are backed by sufficient capital and by contributing to the inclusion and communication of climate risk in financial sector risk assessments and financial reporting.

Norges Bank's monetary policy strategy

In December 2021, Norges Bank's Monetary Policy and Financial Stability Committee adopted a monetary policy strategy.

The strategy describes the Committee's interpretation of the monetary policy mandate and provides a framework for the Committee's assessment of how monetary policy will respond to different shocks. The strategy is summarised below and is published in full on Norges Bank's website.

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.

Low and stable inflation

When setting the policy rate, Norges Bank aims to stabilise inflation, as measured by the annual rise in the consumer price index (CPI), around the 2% target. Provided there is confidence in low and stable inflation, variations in inflation around the target are not likely to engender any significant economic costs. How quickly the Bank seeks to return inflation to target will depend on the shocks that have occurred and whether there are conflicts between achieving the inflation target and the other monetary policy considerations. In interest rate setting, the bank gives weight to avoiding large and persistent deviations from the inflation target, whether above or below the target.

High and stable output and employment

Monetary policy can contribute to stabilising output and employment around the highest level consistent with price stability over time.

The economic costs of cyclical fluctuations are asymmetrical. High unemployment involves direct costs to both society and those unable to find employment. Very low unemployment, on the other hand, does not involve any direct costs, only potential indirect costs in the form of excessively high wage and price inflation. The Bank will therefore not aim to quickly close a positive output gap as long as there are prospects that inflation will remain within a range close to 2% and there are no signs of financial imbalances accumulating.

By preventing downturns from becoming deep and protracted, monetary policy can contribute to keeping unemployment from becoming entrenched at a high level so that the average level of employment over time is as high as possible.

Mitigating the build-up of financial imbalances

If there are signs that financial imbalances are building up, the consideration of maintaining high and stable output and employment may in some situations suggest keeping the policy rate somewhat higher than otherwise. This can to some extent mitigate the risk of a severe downturn further out. Nevertheless, the regulation and supervision of financial institutions are the most important tools for cushioning shocks to the financial system.

Response pattern

The policy rate influences inflation and the real economy with a lag, and the effects are uncertain. To reduce the risk of monetary policy contributing to economic instability, Norges Bank will normally respond less forcefully to shocks than if there had not been uncertainty about the transmission of monetary policy. Furthermore, the policy rate is normally changed gradually to make monetary policy more predictable and to reduce the risk of undesirable financial market volatility and unexpected reactions from households and firms. In situations where the risk of particularly adverse outcomes is pronounced, or if there is no longer confidence that inflation will remain low and stable, it may be appropriate to react more forcefully than normal in interest rate setting.

Norges Bank's Monetary Policy and Financial Stability Committee
Oslo, 9 February 2022



Øystein Olsen
Governor / Chair of the Executive Board



Ida Wolden Bache
First Deputy Chair



Øystein Børsum
Second Deputy Chair



Ingvild Almås



Jeanette Fjære-Lindkjenn

Income statement

Amounts in NOK millions	Note	2021	2020
Net income/-expense from financial instruments			
Net income/-expense from:			
-Equities	3	30 980	18 070
-Bonds	3	-6 536	12 618
-Financial derivatives		-131	591
-Secured lending	9	-27	-10
-Secured borrowing	9	-	-40
Interest income and expense from deposits in banks		8	-30
Interest income from lending to banks	18	86	206
Interest expense on deposits from banks and the Treasury	18	-19	-973
Net interest income from the IMF	17	177	57
Tax expenses	3	-25	-45
Other financial income/-expenses		-4	-1
Net income/-expense from financial instruments before foreign exchange gains/losses		24 509	30 443
Foreign exchange gains/-losses	8	-303	-499
Net income/-expense from financial instruments		24 206	29 944
Management of the Government Pension Fund Global (GPFG)			
Total comprehensive income, GPFG	20	1 550 628	1 122 356
Withdrawn from/-transferred to the krone account of the GPFG	20	-1 550 628	-1 122 356
Other operating income			
Management fee, GPFG	13	4 640	5 305
Other operating income	15	120	121
Total other operating income		4 760	5 426
Operating expenses			
Personnel expenses	12	-1 799	-2 084
Other operating expenses	15	-3 860	-4 178
Depreciation, amortisation and impairment losses	14	-200	-219
Total operating expenses		-5 859	-6 481
Profit/-loss for the period		23 107	28 889
Statement of comprehensive income			
Profit/-loss for the period		23 107	28 889
Change in actuarial gains/-losses	11	-114	-65
Total comprehensive income		22 993	28 824

Balance sheet

Amounts in NOK millions	Note	31 Dec. 2021	31 Dec. 2020
Assets			
Financial assets			
Deposits in banks		49 628	24 920
Secured lending	9,10	27 007	18 340
Unsettled trades		325	888
Equities	4	117 715	114 931
Equities lent	4,9,10	4 454	4 600
Bonds	4	467 667	448 105
Financial derivatives		26	12
Claims on the IMF	17	117 325	71 081
Lending to banks	18	45 101	80 168
Other financial assets	13	377	5 683
Total financial assets		829 625	768 728
Net value, GPFG	20	12 340 085	10 908 457
Non-financial assets			
Pensions	11	293	155
Non-financial assets	14	2 010	2 119
Total non-financial assets		2 303	2 274
Total assets		13 172 013	11 679 459

Amounts in NOK millions	Note	31 Dec. 2021	31 Dec. 2020
Liabilities and equity			
Financial liabilities			
Secured borrowing	9,10	28	23
Unsettled trades	9,10	22 197	14 383
Financial derivatives		5	10
Other financial liabilities		4 003	2 942
Liabilities to the IMF	17	98 044	53 925
Deposits from banks	18	23 372	52 807
Deposits from the Treasury	18	344 142	313 131
Notes and coins in circulation	16	39 745	41 006
Total financial liabilities		531 536	478 227
Deposits in krone account, GPFG	20	12 340 085	10 908 457
Other liabilities	19	11 688	15 956
Total liabilities		12 883 309	11 402 640
Equity		288 704	276 819
Total liabilities and equity		13 172 013	11 679 459

Oslo 9 February 2022



Øystein Olsen
(Governor/Chair)



Ida Wolden Bache
(Deputy Chair)



Øystein Børsum
(Deputy Chair)



Karen Helene Ulltveit-Moe



Kristine Ryssdal



Arne Hyttnes



Hans Aasnæs



Nina Udnæs Tronstad



Egil Herman Sjørus



Mona Helen Sørensen
(Employee representative)



Truls Oppedal
(Employee representative)

Statement of cash flows

Amounts in NOK millions, inflows (+)/outflows (-)	2021	2020
Operating activities		
Receipts of dividend from equities	2 341	2 674
Receipts of interest from bonds	4 809	6 208
Net receipts of interest and fee from secured lending and borrowing	25	18
Receipts of dividend, interest and fee from holdings of equities and bonds	7 175	8 900
Net cash flow from purchase and sale of equities	26 022	23 808
Net cash flow from purchase and sale of bonds	-32 285	-25 527
Net cash flow financial derivatives	719	1 672
Net cash flow related to deposits in banks	180	564
Net cash flow secured lending and borrowing	-487	-1 332
Net cash flow related to other expenses, other assets and other liabilities	-9 096	-13 272
Net cash flow related to other financial assets and other financial liabilities	5 991	-85 292
Net cash flow to/-from the Treasury	-89 143	-171 364
Inflow from the Norwegian government to the GPFG	-78 846	-5 032
Withdrawals by the Norwegian government from the GPFG	199 000	301 800
Management fee received from the GPFG	10 481	4 312
Net cash flow from operating activities	39 711	39 237
Investing activities		
Net cash flow related to non-financial assets and liabilities	-81	-38
Net cash flow from investing activities	-81	-38
Financing activities		
Cash flow to the Treasury from the Transfer Fund	-15 169	-19 706
Net cash flow from financing activities	-15 169	-19 706
Net change in cash		
Deposits in banks at 1 January	24 920	17 230
Net increase/-decrease of cash in the period	24 461	19 493
Net foreign exchange gains and losses on cash	247	-11 803
Deposits in banks at 31 December	49 628	24 920

Accounting policy

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

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

Statement of changes in equity

Amounts in NOK millions	Adjustment Fund	Transfer Fund	Total equity
1 January 2020	223 751	39 413	263 164
Total comprehensive income	22 730	6 094	28 824
31 December 2020 before transfer to the Treasury	246 481	45 507	291 988
Transferred to the Treasury	-	-15 169	-15 169
31 December 2020	246 481	30 338	276 819
1 January 2021	246 481	30 338	276 819
Total comprehensive income	20 007	2 986	22 993
31 December 2021 before transfer to the Treasury	266 488	33 324	299 812
Transferred to the Treasury	-	-11 108	-11 108
31 December 2021	266 488	22 216	288 704

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 the Guidelines for provisions and allocations of Norges Bank's profit or loss laid down on 13 December 2019, pursuant to Section 3-11, Sub-section 2, of the Central Bank Act.



Norges Bank Oslo 2020

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