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## NBIM Policy - Accounting and Valuation

Issued by: Chief Executive Officer, Norges Bank Investment Management  
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### 1 Purpose

The Accounting and Valuation Policy outlines the principles governing the accounting and financial reporting of the portfolios managed by NBIM, as well as the principles governing the valuation process.

### 2 Policy

All assets and liabilities managed by NBIM and real estate subsidiaries shall be included in financial reporting for the Government Pension Fund Global (GPF) and Norges Bank, and fair value measured for all investments, in accordance with international financial reporting standards (IFRS).

### 3 Fair value measurement

The following valuation principles apply for all holdings:

- For all assets and liabilities, the tradable price (for normal trade sizes in unstressed situations) gives the fair value and shall be the representative price.
- In general, when the primary price source for assets and liabilities given below does not result in the appropriate fair value, the appropriate pricing hierarchy shall be used until arriving at a price which is compliant with the fair value definition.
- Assets and liabilities which form constituents of benchmark indices given by the Ministry of Finance for the GPF shall be valued in accordance with the prices provided by the index provider, provided that the pricing methodology behind the index is compliant with the fair value definition.
- For assets and liabilities not within the benchmark, that are traded in active exchange or dealer markets, closing exchange prices shall be used for securities traded in exchange markets and bid prices for securities trading in dealer markets if available and if reflecting the tradable price.
- For securities not trading in active markets, quoted (or alternatively independently evaluated) bid prices shall be used where these are available and if the result arrives at the fair value.
- In general, prices derived from models should be used at lower levels in pricing hierarchies than directly observable prices. Where model derived prices are used, industry standard models and observable market inputs should be used as far as possible.
- Prices shall be sourced independently of the investment area.
- The pricing hierarchies shall be formally documented and in all situations where the pricing hierarchy is not to be applied, the price shall be recorded as an override. An override shall be applied whenever a price source is not considered in line with the fair value principle.
- All real estate investments shall at least annually be valued by an appointed and certified independent valuer at fair value. The valuation shall follow guidelines published by the International Valuation Standards Council and the scope shall match the IFRS accounting classification.
- For conversion between currencies WM/Reuters Closing Spot Rates 16:00 GMT Dollar fix shall be applied.

### 4 Performance measurement

For performance measurement (under Global Investment Performance Standards – GIPS), all holdings in equities, bonds, financial derivatives and real estate investments in the form of financial assets and properties are measured at fair value.

## 5 Accounting

The accounting policies for the investment portfolio of the GPFG and for the long term foreign exchange reserves shall follow the Regulation concerning annual financial reporting etc. for Norges Bank laid down 1 January 2011 and thus the financial reporting shall be prepared according to International Financial Reporting Standards (IFRS) approved by the European Union (EU). NBIM management issues a representation letter to the external auditor in relation to quarterly and annual financial reporting.

Within IFRS, NBIM shall apply the following high level policies:

- All transactions shall be recognised on the trade date to ensure the most accurate reflection of assets and liabilities held. Unlisted real estate investments shall be recognised on the completion date. Any cash transactions (funding/deposits etc.) are recognised on the transaction date.
- The functional currency of the GPFG's investment portfolio shall be Norwegian Kroner (NOK).
- All portfolios of bonds, equities and financial derivatives shall be classified as trading, fair value option (designated as at fair value through profit and loss), loans and receivables or held to maturity with corresponding balance sheet measurement as either fair value or amortised cost on reporting dates. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
  - Bonds are classified as "fair value option" based on being designated as at fair value through profit and loss upon entering into the transaction<sup>1</sup>. This is based on a fair value business model. The investment strategy for bond portfolios shall be assessed at regular intervals, for new portfolios and when carrying out significant changes for portfolios, to evaluate whether the business model is fair value based or amortised cost-based (hold and collect cash flows). If the business model is amortised cost-based the portfolio shall be classified as *held to maturity*<sup>2</sup> or *loans and receivables*<sup>3</sup> and measured in the balance sheet at amortised cost. In the event of amortised cost measurement of a bond portfolio in the balance sheet, fair value shall be measured for the holding in addition, for note disclosure purposes.
  - Equities are classified as "fair value option" based on being designated as at fair value through profit and loss upon entering into the transaction.
  - Financial derivatives are classified as trading and measured at fair value in the balance sheet, with value changes recognised in the income statement
- Short term cash instruments shall be measured at amortised cost.
- Only consolidated financial statements are prepared for the investment portfolio of the GPFG when subsidiaries are established exclusively as part of the management of the investment portfolio.
- Investment properties shall be measured at fair value, whether held by a controlled entity (subsidiary), as a jointly controlled asset, by a jointly controlled entity or by an associate.
- Norges Bank shall account for investments in associates (significant influence, but no control) and jointly controlled entities using the equity method.
- Jointly controlled assets shall be accounted for using proportionate consolidation.
- Real estate investments held as financial assets (interest in cash flow or similar) shall be designated as at fair value through profit and loss ("fair value option") unless the cash flows qualify as interest and/or principal and the business model is amortised cost-based (hold and collect cash flows). If the latter is the case the asset shall be classified as loans and receivables and measured at amortised cost in the balance sheet, while fair value shall in addition be measured for disclosure purposes.
- Income and costs related to securities lending programs shall be applied on a net basis directly to the respective portfolio.
- The gains/losses from changes in foreign exchange (FX) rates shall be presented on a separate line in the income statement.
- The cash flow statement shall be prepared using the direct approach, where all investment activities are defined as operating cash flows and inflows from the Ministry of Finance are defined as financing activities.

<sup>1</sup> At year end 2011 and prior period ends, all bond portfolios are measured at fair value in the balance sheet.

<sup>2</sup> Only if explicit decision to hold to maturity, *and* if the portfolio consists primarily of bonds quoted in an active market (level 1).

<sup>3</sup> Only if the portfolio consists primarily of bonds not quoted in an active market (level 2 and 3)

- NBIM shall prepare comprehensive disclosures (notes) on all material investments.

## **6 Reporting to the Valuation Committee**

- On a quarterly basis, reports shall be compiled for presentation to the NBIM valuation committee. These reports shall make it possible to evaluate the effectiveness of the valuation process, identify pricing anomalies, deviations from established pricing hierarchies and challenges in the pricing environment.

NBIM shall ensure that it continually reassesses this policy against both IFRS developments and changes in internal practices.