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Annual Report 2013

Norway: Norges Bank

NORGES BANK

2013 ANNUAL REPORT

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NORGES BANK

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Norges Bank Oslo 2014

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HIGHLIGHTS IN 2013

Norges Bank's key policy rate was kept unchanged at 1.5% throughout 2013.

Inflation drifted up though the year. At the end of 2013, underlying inflation was between 1¾% and 2¼%.

On advice from Norges Bank, the Ministry of Finance decided that banks should hold a countercyclical capital buffer of 1%.

Norges Bank decided that the design of the new banknote series will feature motifs illustrating the importance of the sea for Norway's business sector and economic prosperity.

The market value of the investment portfolio of the Government Pension Fund Global (GPFG) was NOK 5 038bn at the end of 2013, up from NOK 3 816bn at the end of 2012.

The GPFG earned a return of 15.9%, or NOK 692bn, in 2013.

ANNUAL REPORT OF THE EXECUTIVE BOARD 2013

NORGES BANK'S EXECUTIVE BOARD

The Executive Board supervises the executive and advisory activities of the Bank and comprises seven members, all appointed by the Council of State. Two employee representatives attend meetings when the Executive Board considers administrative matters.

Øystein Olsen
Appointed Governor of Norges Bank as from 1 January 2011 for a term of six years. Postgraduate degree in economics (Cand. oecon.) from the University of Oslo (1977). Work experience includes positions as director general of the Economic Policy Department, Ministry of Finance, and as Director General of Statistics Norway.

Jan F. Qvigstad
Appointed Deputy Governor of Norges Bank as from 1 April 2008 for a term of six years. Postgraduate degree in economics (Cand. oecon.) from the University of Oslo (1975). Work experience includes posts as principal officer and assistant director, Economics Department, Ministry of Finance, and as Executive Director of Norges Bank Monetary Policy.

Liselott Kilaas
Appointed 1 January 2004–31 December 2007. Reappointed 1 January 2008–31 December 2011 and 1 January 2012–31 December 2015. Managing director, Aleris Norge. Graduate of the University of Oslo and International Institute for Management Development (IMD) in Lausanne. Ms. Kilaas is a member of the board of directors of Telenor and has broad experience from the ICT sector, petroleum industry and consultancy.

Egil Matsen
Appointed 1 January 2012–31 December 2015. Professor, Department of Economics, NTNU, research in the areas of macroeconomics and finance. Mr. Matsen also has work experience from Norges Bank and holds a doctorate in economics (Dr. oecon.) from the Norwegian School of Economics.

Hilde Myrberg
Appointed 1 January 2014–31 December 2017. Self-employed. deputy chair of the board of Petoro AS. Ms. Myrberg holds directorships at CGG Veritas SA and Nordic Mining ASA and is a member of the corporate assembly of Gjensidige AS. She held the positions of executive vice president and senior vice president, corporate governance, at Orkla ASA, 2006–2012.

Kjetil Storesletten
Appointed 1 January 2014–31 December 2017. Professor, Department of Economics, University of Oslo from 2012 and in the period 2003-2009. Previously affiliated with Stockholm University and the Federal Reserve Bank of Minneapolis. Current appointments include editor of the Scandinavian Journal of Economics and chairman of the board of the Review of Economic Studies. Mr. Storesletten has a business economics degree from the Norwegian School of Economics and a PhD in economics.

Karen Helene Ulltveit-Moe
Appointed 1 January 2014–31 December 2017. Professor, Department of Economics, University of Oslo from 2005. Previously affiliated with the Norwegian School of Economics. Ms. Ulltveit-Moe has also held directorships in a number of Norwegian companies and served on various official panels. Ms. Ulltveit-Moe is a research fellow at the Centre for Economic Policy Research (CEPR) and CESifo and has a PhD in economics.

Employee representatives:

Jan Erik Martinsen
Employee of Norges Bank since 1975. Chief safety delegate in the period 1 January 1994–31 December 2000. Deputy chairman of Norges Bank's Staff Association from 2001 to 2006 and chairman since 1 January 2007.

Gøril Bjerkhol Havro
Employee of Norges Bank since 2008. Ms. Bjerkhol Havro has a BA from the University of Oxford, a master's degree in development studies from Nelson Mandela Metropolitan University in South Africa, and a business economics degree from HEC Paris. Work experience from the OECD.

ANNUAL REPORT OF THE EXECUTIVE BOARD 2013

Norges Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (Norges Bank Act). Norges Bank's management of the Government Pension Fund Global (GPFG) is regulated by the Government Pension Fund Act and the mandate for managing the GPFG issued by the Ministry of Finance. Norges Bank is managed from the head office in Oslo. The Bank also has offices in London, New York, Singapore and Shanghai.

Pursuant to Section 5 of the Norges Bank Act, executive and advisory authority in Norges Bank is vested in the Executive Board, which manages its resources. The Executive Board comprises seven members, all appointed by the Council of State. The Governor and Deputy Governor of Norges Bank are chairman and deputy chairman, respectively, of the Executive Board. The other five members are not employees of the Bank. Two alternates have also been appointed for the five external members. They attend Executive Board meetings on a regular basis with the right to be present and to speak. Two employee representatives attend Executive Board meetings when matters are discussed that primarily concern the Bank's internal operations and conditions for the staff.

The Executive Board works to realise the Bank's objectives and values, with particular emphasis on strategic issues relating to price stability, financial stability and sound and efficient asset management. The Executive Board attaches importance to high standards and low costs in the Bank's performance of its responsibilities.

The Executive Board is responsible for establishing satisfactory frameworks, objectives and principles for the Bank's operations. The Executive Board shall ensure that financial reporting and asset management are subject to adequate control and supervision and that risk management and internal control are satisfactory in all areas of the Bank's activities.

The Executive Board is supported by two committees, the Audit Committee and the Remuneration Committee. The Audit Committee comprises three of the external members of the Executive Board, and advises the Executive Board and prepares matters for its consideration. The Committee's task is to strengthen and streamline the Executive Board's management and follow-up work related to financial reporting, risk management and internal control. Internal Audit provides independent assessments of risk management and internal control for submission to the Executive Board. Internal Audit reports to the Audit Committee. The Remuneration Committee comprises two of the external members of the Executive Board. It is a preparatory and advisory body, responsible for matters concerning pay and remuneration arrangements at the Bank.

MONETARY POLICY, FINANCIAL STABILITY AND PAYMENT SYSTEMS

The conduct of monetary policy in 2013 was characterised by low interest rates and sluggish growth in advanced economies, a pronounced depreciation of the krone and slower growth in the Norwegian economy.

Internationally, there were signs of a moderate economic upturn in 2013, but growth among Norway's trading partners continued to be weak. Considerable uncertainty remained regarding economic developments abroad, especially in Europe. The improvement in global financial markets continued into 2013, and at year-end, money market risk premiums had fallen below pre-crisis levels. Policy rates were close to zero in number of countries, and both the European Central Bank (ECB) and the Federal Reserve announced that policy rates would be kept low for an extended period. The expected increase in policy rates abroad was deferred further out.

The Federal Reserve and Bank of Japan continued their asset purchases in order to keep long-term rates low. However, in spring, there were expectations that the Federal Reserve would begin to taper its asset purchases in the course of the year. This led to a steep rise in long-term rates in the US in summer, which also spread to other countries. Owing to expectations of diminished monetary stimulus abroad, the krone weakened substantially throughout 2013. As measured by the import-weighted krone exchange rate index (I-44), the krone was 10% weaker at year-end 2013 than at the same time in 2012.

Growth in the Norwegian economy slowed in 2013. Growth declined in most sectors, but the slowdown was most pronounced in the construction and oil supplier industries, where activity had increased substantially in recent years. Parts of the export industry continued to be affected by weak demand in Europe and a high cost level. Growth in private consumption was low and household saving was historically high. Low mainland business investment also had a dampening impact on growth. House prices fell somewhat through the second half of 2013, but household debt continued to rise faster than income. Employment continued to grow, but the pace of growth slowed through the year. Unemployment edged up, but remained low. Labour immigration was still high. Capacity utilisation declined somewhat, and was estimated to be close to a normal level towards year-end.

Inflation has been low and stable for some time. Viewed over several years, inflation has remained somewhat below, but fairly close to, 2.5%. In 2013, the annual rise in the consumer price index (CPI) was 2.1%. Inflation picked up somewhat through the year. Consumer price inflation varies considerably from month to month, partly as a result of short-term fluctuations in energy prices. The underlying 12-month rise in consumer prices was estimated to be between 1¾% and 2¼% towards year-end.

Wage growth was weaker than expected, probably as a result of lower capacity utilisation, combined with high labour immigration and low wage growth abroad. At the same time, the weaker krone might feed through to a higher rise in prices for imported consumer goods. Thus, the outlook for inflation did not change substantially, but owing to prospects for somewhat slower growth in the Norwegian economy, the expected upward shift in the key policy rate was deferred. Weight was given to the risk that a reduction in the key policy rate might increase the risk of a renewed build-up of financial imbalances. At the same time, the Executive Board noted that uncertainty surrounded developments in inflation, output and employment ahead, which suggested proceeding with caution in interest rate setting.

The key policy rate was kept unchanged at 1.5% throughout 2013. There was a considerable spread between the key policy rate and the interest rates facing households and enterprises. Bank lending rates for most households were around 4% towards year-end, while many enterprises were paying an interest rate on bank loans of around 4.5%.

In its conduct of monetary policy, Norges Bank manages banks' deposits with the central bank to ensure that the level of short-term money market rates is close to the key policy rate set by the Executive Board. This is achieved through different forms of market operations, whereby the central bank either supplies reserves to or withdraws reserves from the banking system. The average interest rate on unsecured overnight lending in the interbank market (the NOWA rate) in 2013 was equal to Norges Bank's key policy rate. The daily reported volume of overnight interbank lending through the year averaged NOK 12.2bn.

Banks posted solid earnings and increased their capital ratios in 2013. This reflects the new, higher capital requirements approved by the Storting (Norwegian parliament). Under the new rules, capital requirements are to be increased further in the coming years. To meet capital requirements, banks can retain earnings, issue equity, restrict lending or make other adjustments to their balance sheets. Some banks chose to issue new equity capital. Higher lending margins boosted banks' profits, enabling them to quickly raise their capital ratios.

Pursuant to the regulation of 4 October 2013, Norges Bank has been assigned the responsibility of preparing a decision basis for and advising the Ministry of Finance on the countercyclical capital buffer. The experiences of the financial crisis clearly demonstrated the close linkages between developments in the real economy and financial markets. With a view to further developing the Bank's analyses, the Executive Board has decided that monetary policy and the decision basis for the countercyclical capital buffer will be presented, as from 2013, in a single report, *Monetary Policy Report with financial stability assessment*.

In its first advice on the countercyclical capital buffer, in conjunction with the December *Report*, Norges Bank recommended that the buffer should be set at 1% of risk-weighted assets as from 1 January 2015. The Excutive Board's assessment was that financial imbalances that can amplify or trigger a downturn in the Norwegian economy had built up. The advice on the level of the buffer was also considered in the light of the other capital requirements. The Ministry of Finance decided that the requirement will apply as from 30 June 2015.

A number of Norwegian banks still had some way to go to meet the forthcoming international liquidity requirement. Nor did the banks meet the expected future requirements relating to long-term stable funding. The Executive Board was of the view that banks should disclose more information about their funding structure, liquidity and compliance with liquidity requirements. The Executive Board also pointed out that Norwegian legislation pertaining to crisis resolution must be updated to harmonise with the forthcoming EU directive. National legislation must provide for bank creditors to bear their share of banks' losses while vital banking services are maintained.

Norwegian payment systems functioned effectively in 2013. Operation of Norges Bank's settlement system was stable. In 2013, payments totalling on average NOK 203bn per day were settled in the settlement system, compared with NOK 216bn in 2012. At year-end 2013, banks had sight deposits and reserves on deposit at Norges Bank totalling NOK 37.2bn.

Norges Bank decided that the design of the new banknote series will feature the sea as the theme, reflecting its importance for Norway's business sector and economic prosperity.

INVESTMENT MANAGEMENT

Norges Bank's international reserves comprise foreign exchange reserves and claims on the International Monetary Fund (IMF). The reserves are divided into a money market portfolio and a long-term portfolio. In addition, capital is accumulated in a petroleum buffer portfolio to be used for transferring foreign exchange to the GPFG.

Norges Bank's foreign exchange reserves are to be available for transactions in the foreign exchange market as part of the conduct of monetary policy or in the interest of promoting financial stability, or to meet Norges Bank's international commitments to the IMF and to individual countries. In accordance with the principles laid down by the Executive Board, the foreign exchange reserves are invested so that at least SDR 10bn can be used within a single trading day without having to realise any appreciable losses.

The market value of the foreign exchange reserves came to NOK 330bn at the end of 2013 Q4. Equities and long-term fixed income investments totalled NOK 273bn, while money market investments and the petroleum buffer portfolio came to NOK 38bn and NOK 18bn, respectively. The reserves increased by NOK 62bn through the year, primarily owing to return on equities and a weaker krone against the currencies the reserves are invested in.

Measured in international currency, the return on the foreign exchange reserves, excluding the petroleum buffer portfolio, was NOK 28bn, or 9.67%, in 2013.

Norges Bank manages the GPFG on behalf of the Ministry of Finance. In 2013, international capital markets and the return on the GPFG were characterised by uncertainty factors with a positive outcome. Equity prices rose, especially in emerging markets. At year-end 2013, the market value of the investment portfolio of the GPFG was NOK 5 038bn, an increase of NOK 1 200bn on 2012. Transfers from the government totalled NOK 239bn, while the return on the portfolio was NOK 692bn before foreign exchange gains and losses. The krone exchange rate weakened against several of the currencies in the portfolio. In isolation, this increased the market value by NOK 291bn.

Throughout 2013, the GPFG continued to broaden its global asset allocation, in line with the revised investment mandate from 2012. In March 2010, Norges Bank received a mandate to gradually invest up to 5% of portfolio assets in real estate. The Bank made several large real estate investments in 2013 and also made its first purchase in the US real estate market.

Norges Bank engages in active ownership in its management of the GPFG. The Bank promotes shareholder rights and works to improve social and environmental conditions in companies. Norges Bank uses a number of instruments to promote the interests of the GPFG, such as dialogue with companies, investors, authorities and other standard-setters in the market, voting at general meetings, submitting shareholder proposals, participating in consultations and issuing documents that communicate Norges Bank's expectations. In 2013, an advisory body was established for corporate governance work at

Norges Bank. Corporate governance at Norges Bank is based on the principles of the UN Global Compact and the OECD Principles of Corporate Governance and Guidelines for Multinational Companies. In 2013, the Bank voted at more than 9500 shareholder meetings. The Executive Board also refers to the annual report on the management of the GPFG published by Norges Bank.

CORPORATE SOCIAL RESPONSIBILITY

Norges Bank performs important tasks and manages substantial assets on behalf of the nation. The Executive Board governs and follows up the Bank's tasks through objectives, strategies and internal policy documents in the form of principles and guidelines.

The aim of the Bank's activities is to perform important public tasks, and the Bank fulfils its corporate social responsibility through its work on these tasks.

Topics related to corporate social responsibility are dealt with in various guidelines, principle documents and procedures.

A new strategic plan for Norges Bank was approved by the Executive Board on 4 December 2013 for the period 2014-2016. Corporate social responsibility has been incorporated into the strategy and its components. Norges Bank is to be a transparent and well run central bank. The Bank is to perform its tasks in line with international best practice and in accordance with the ethical and management principles approved by the Executive Board.

RESPONSIBLE INVESTMENT

The GPFG is managed in accordance with the mandate laid down by the Ministry of Finance. This mandate includes a section on responsible investment, which has been incorporated into the Executive Board's investment mandate for the GPFG. In line with this mandate, Norges Bank has also integrated principles and guidelines on which there is broad international agreement into its expectations of the companies in the portfolio and their activities.

The premise of the Ministry's mandate for managing the GPFG is that solid long-term returns for the GPFG depend on sustainable economic, environmental and social developments. As operational manager of the GPFG, Norges Bank exercises its shareholder rights to promote such developments and to raise corporate governance standards. Important elements of this work are dialogue with companies, investors, the authorities and other participants who set financial market standards. In this way and through participation in consultations, Norges Bank plays a role in shaping standards that may lead to better rules for corporate governance and management and for the measurement and reporting of environmental and social risk. Furthermore, the Bank votes at general meetings, submits shareholder proposals and communicates its expectations of how companies the GPFG is invested in should manage social and environmental risk in their activities.

Risk relating to corporate governance and environmental and social factors may have an impact across countries, sectors and companies. According to the Executive Board's principles for risk management at Norges Bank Investment Management, investment activities must take into account risk factors relating to economic, environmental and social conditions. In particular cases, analyses of these factors may result in portfolio adjustment or divestment. The Bank's responsible investment work is concentrated on six strategic focus areas: equal treatment of shareholders, the role and responsibilities of boards of directors, well functioning financial markets, children's rights, climate change and water management.

The Bank participates in various formal investor and capital market stakeholder networks. These networks focus on determining standards for corporate governance and active ownership. With regard to capital market regulation, the Bank advances its views and communicates information to supervisory authorities and other standardisation bodies wherever relevant.

Norges Bank has a principled approach to questions regarding equal treatment of shareholders and the role and responsibilities of boards of directors. For three of its strategic focus areas, the Bank has published its expectations of the manner in which companies should report their management of risk relating to children's rights, climate change and water resources. The Bank's activities include measurement of risk and reporting and communicating by letter with selected companies. Furthermore, Norges Bank cooperates with key standard setters such as UNICEF and the Carbon Disclosure Project (CDP) and has been a sponsor of CDP Water since its launch in 2009.

Reporting on the responsible investment activities of the GFPG is conducted in accordance with the requirements in the mandate from the Ministry of Finance, through documents such as the GPFG's annual report. These reporting requirements are enshrined in the Executive Board's principles for the "Organisation and Management of Norges Bank Investment Management", Section 4 of which ("Reporting") sets forth requirements for quarterly and annual reporting in line with the mandate from the Ministry of Finance.

The GPFG and the foreign exchange reserves may not be invested in instruments that the Ministry of Finance has decided to exclude from the GPFG's investment universe.

The strategy for responsible investment practices for the GPFG is under review. On 29 November 2013, the Ministry of Finance circulated for comment a consultation paper based on a report from the Strategy Council on Responsible Investment. Norges Bank's response to the consultation was submitted on 24 January 2014. In the opinion of Norges Bank, the Strategy Council's recommendations will lead to a more integrated approach to responsible investment practices. The developments outlined will strengthen the GPFG's practices as a responsible investor. The implementation of the Strategy Council's recommendations, including further development of the mandate for management of the GPFG, will be reviewed in detail after the Storting debates the forthcoming white paper on the management of the Government Pension Fund.

ETHICS AND ANTI-CORRUPTION WORK

It is important to the Executive Board that the Bank's employees in all respects conduct themselves with the necessary ethical awareness and that they are loyal to Norges Bank as their employer. The Executive Board has laid down ethical principles for employees. These ethical principles are intended to generate a common approach to ethical issues among all employees of Norges Bank. Under these principles, the Bank must maintain high ethical standards, respect human rights, act in a socially responsible manner and comply with current laws and regulations. Norges Bank does not accept any form of discrimination or corruption.

The principles serve as the basis for further rules and procedures laid down by the executive management of Central Banking Operations and Norges Bank Investment Management, respectively. These rules pertain to employees' personal trading, activities outside the Bank, gifts and loyalty to the Bank in general. The rules have been implemented through extensive information campaigns and staff training. Compliance with the rules is monitored and noncompliance is reported. The need to amend the rules is evaluated on a regular basis.

Norges Bank's anti-corruption work is anchored in internal rules. Anti-corruption rules for central banking operations will be reviewed again in 2014.

Employees who as part of their function normally have access to or work in investment services or management of financial instruments for the Bank or for the account of a client of the Bank are covered by special rules regarding personal trading pursuant to Chapter 8 of the Securities Trading Act. Further rules and procedures have been laid down to ensure compliance with these personal trading rules.

The Ministry of Finance has laid down a regulation concerning impartiality and conflicts of interest for Norges Bank's Executive Board. An administrative routine has been put in place to assist members in complying with the regulation.

In addition, the Executive Board has laid down general principles for internal reporting of irregularities (whistleblowing) at Norges Bank.

OPEN COMMUNICATION

Norges Bank aims to communicate in a correct, predictable, transparent and responsible manner. The Bank's communication with the public takes the form of publications, reports, press conferences, speeches and presentations through numerous channels and fora. In accordance with Norges Bank's strategy, communication will increasingly focus on transparency, accessibility and predictability. The Bank's assessments will be made publicly available on a regular basis.

The Bank's work on its core tasks entails developing national and international networks by hosting conferences, workshops and seminars.

In the run-up to the Bank's bicentenary celebration in 2016, a number of projects have been launched related to the history of the Bank and its collections.

EXTERNAL ENVIRONMENT

Norges Bank is a landowner in the Kvadraturen district of central Oslo. The Bank works with public authorities and other landowners to promote and develop a safe and attractive urban space in the immediate vicinity of the Bank. The Bank's strategy calls for managing and developing Norges Bank's properties in Norway in a manner that preserves their value. The main office in Oslo is a monumental structure of great cultural and historical importance.

Norges Bank's direct environmental impact is primarily related to greenhouse gas emissions and office waste. The Bank's indirect environmental impact is related to procurement of goods and services and standards for customers, suppliers and investments. According to the management strategy for the Bank's properties in Norway, management costs are benchmarked against those for comparable buildings, and management, operation and maintenance programmes are enhanced by incorporating sustainability and other environmental concerns. Work to reduce power consumption continued in 2013, by upgrading equipment and through more efficient control of lighting and ventilation systems.

CONTRACTORS

Norges Bank complies with public procurement legislation, and the Bank's contractors must adhere to corporate social responsibility standards contained therein. New contracts require that employees of contractors adhere to a standardised excerpt from the Bank's ethical rules. This requirement is limited to persons with access to the Bank's premises or electronic systems.

HUMAN RESOURCES

Norges Bank's aim is to be a transparent and well run central bank. The Bank is a complex knowledge enterprise with a global reach. Activities are performed in accordance with international good practices. Achieving this ambition requires the prudent and proper use of resources. It places considerable demands on the way in which the Bank works and interacts, and means that operations must have a healthy balance of ongoing operational tasks and innovation projects that combine to maintain a high level of quality in all the Bank's operations.

The Bank aims to recruit top candidates from leading institutions and other professionals. The Bank works systematically to develop the skills of employees and provide for internal mobility, international trainee- and internships and further education. The Bank will continue to build its reputation as a preferred employer in 2014. The aim is to attract the best executive and professional talent in all areas, and work has begun to introduce the Bank to new target groups nationally and internationally.

At year-end 2013, there were 701 employees at Norges Bank, compared with 660 at year-end 2012. Of these, 370 were employed by NBIM, compared with 336 the previous year. The increase in this part of the Bank's operations will also continue in 2014. The Bank has employees from a total of 32 countries.

GENDER EQUALITY AND DIVERSITY

Norges Bank's policy is to give women and men the same opportunities with regard to salary, promotion and professional and personal development. The Bank's recruitment guidelines state that the best qualified candidate will be hired, regardless of gender, age, ethnicity or disability. The Bank has a gender equality and diversity action plan, and the Executive Board monitors the progress of gender equality efforts at Norges Bank through yearly reports from the administration. In 2013, the gender breakdown was 35% women and 65% men. Corresponding figures for 2012 were 36% and 64%, respectively.

Targets have been set for the proportion of women on the staff of Norges Bank. For central banking operations, the target is 40% in all job categories. For NBIM, the targets are 25% for positions at director level and 33% for other job categories.

The percentage of women on the staff of Norges Bank at year-end 2013 and year-end 2012 was as follows:

Central Banking Operations

Level	2013	2012
Department director/ executive management	43%	50%
Directors/asst. directors	35%	35%
Other employees	44%	44%
Total	**42%**	**42%**

Norges Bank Investment Management

Level	2013	2012
Leader Group	0%	14%
Management Group/Heads	14%	10%
Other employees	31%	32%
Total	**28%**	**29%**

Average pay for women as a percentage of pay for men at year-end 2013 and end-2012 were as follows:

Central Banking Operations

Level	2013	2012
Department director/ executive management	99%	97%
Directors/asst. directors	96%	99%
Other employees	92%	92%
Total	**90%**	**91%**

Norges Bank Investment Management

Level	2013	2012
Management Group/Heads	105%	103%
Other employees	86%	85%
Total	**85%**	**81%**

For the group Other employees, pay for women and men is virtually equal in each of the job categories in this group. Average pay for women in the group as a whole is nevertheless lower than for men because of a lower percentage of women in job categories with the highest pay.

At the end of 2013, 4% of staff worked part-time at Norges Bank; 91% of part-time staff are women and 9% men.

In 2013, 844 weeks of parental leave were taken, of which women accounted for 68%.

Of total leave due to children's illness, 42% was taken by women and 58% by men.

Measures to boost the percentage of women include using women economists to promote Norges Bank at various educational institutions and to encourage internal and external women candidates to apply for vacant management positions and assume responsibility for important projects and reports. As an employer, Norges Bank seeks to address the needs of employees in all phases of life. Flexitime and home office arrangements at the Bank make the job situation easier for parents of young children.

HEALTH, SAFETY AND ENVIRONMENT

Norges Bank's priority is protecting the lives and health of employees, contract personnel and visitors. Thirteen workplace accidents or injuries directly relating to work for Norges Bank were recorded in 2013. There were no accidents or injuries of a serious nature in connection with travelling on Bank business. No occupational injuries or accidents were reported to the Norwegian Labour Inspection Authority in 2013.

The principles of universal design are applied on reconstruction projects, and the Bank provides aids and protective equipment as needed or required. The Bank has well equipped fitness facilities for employees. Regular feedback on the physical and psychosocial working environment comes from annual employee health appraisal interviews conducted by the Bank's health service and from annual climate surveys. According to the reports, job satisfaction is high and working conditions in general are satisfactory. The Working Environment Committee assesses the working environment at the Bank in general as positive. This assessment is supported by low sickness absence statistics at the Bank.

SICKNESS ABSENCE AND AN INCLUSIVE WORKPLACE

Sickness absence at the Bank remained stable at a low level in 2013. In 2013, sickness absence accounted for 2.8% of the total number of working days, compared with 2.5% in 2012. As an inclusive workplace enterprise, the Bank is committed to working to maintain sickness absence at a low level, accommodating employees needing special adaptations and enabling older employees to extend their professional careers in line with national objectives.

INTERNAL CONTROL AND RISK MANAGEMENT

The Ministry of Finance has issued a regulation on risk management and internal control at Norges Bank, corresponding to a similar regulation for entities licensed by Finanstilsynet. The Executive Board has issued general risk management policies for Norges Bank and detailed risk management policies for Central Banking Operations and Norges Bank Investment Management, respectively. The two operational areas have each established a unit for coordinating and following up risk management and internal control. In addition, they each have a function for ensuring compliance with legislation and internal rules.

The Audit Committee is a preparatory body for the Executive Board in its follow-up of risk management and internal control. In addition, Internal Audit supports the Executive Board in its follow-up of risk management and internal control by providing advice and independent assessments.

Risk management and internal control in Norges Bank are based on the management model describing the Bank's organisational structure and management principles and the roles and responsibilities of the Bank's executive management. Management models have been established for Norges Bank Investment Management and Central Banking Operations, respectively, with more detailed management policies for the two operational areas. The Executive Board has laid down new principles for risk management for Central Banking Operations. Reporting of risk assessments is an integral part of corporate governance. Central Banking Operations report risk assessments three times a year, and Norges Bank Investment Management four times a year. Each year, Norges Bank's Governor and the Chief Executive Officer of Norges Bank Investment Management assess whether internal control was implemented in a satisfactory manner. Internal Audit submits an annual independent report on internal control at the Bank. On the basis of reporting from the administration and Internal Audit, the Executive Board submits to the Supervisory Council an annual assessment of the risk situation at the Bank.

MORE ABOUT FINANCIAL RISK

Norges Bank's primary exposures to financial risk comprise market risk, credit risk, counterparty risk and foreign exchange risk though the management of foreign exchange reserves. In addition, the Bank is exposed to credit risk associated with lending to banks. The Bank's borrowings primarily comprise deposits from banks and the government.

The composition of the foreign exchange reserves portfolios and the associated risk are primarily determined by the benchmark index defined by the Executive Board. The Executive Board's guidelines for the portfolios contain further restrictions. These restrictions regulate the extent of active management in addition to rule-based capital allocations. The portfolios primarily comprise equities and government and government-related bonds, but also contain corporate and securitised bonds. In addition, they contain forward exchange contracts, futures contracts and equity swaps. Norges Bank measures the absolute and relative market risk related to the management of the portfolios.

Norges Bank's market risk is the risk of changes in the value of the portfolios due to movements in interest rates and equity prices. Norges Bank's credit risk is the risk of losses if an issuer of fixed income instruments or a bank defaults on its payment obligations to Norges Bank. Norges Bank performs credit assessments of interest-bearing securities and counterparties. Loans to banks are provided against collateral in the form of approved securities. Norges Bank's counterparty risk is the risk of losses if the counterparty is declared bankrupt or cannot otherwise perform its contractual obligations. Counterparty risk includes risk associated with the bankruptcy of a counterparty, settlement risk and custody risk. Norges Bank's currency risk is the risk of changes in exchange rates. Norges Bank is not hedged against exchange rate fluctuations. As the central bank, Norges Bank is not exposed to liquidity risk. Norges Bank has no exposure to financial risk in the management of the GPFG. For more details, see Note 1, Section 2, in Part II.

REPORT ON THE FINANCIAL STATEMENTS

The annual financial statements of Norges Bank are prepared in accordance with the Norwegian Accounting Act and the Regulation relating to annual financial statements for Norges Bank. The regulation requires Norges Bank to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, but lays down specific requirements for the presentation of the investment portfolio of the GPFG including subsidiaries that solely comprise investments as part of the management of the investment portfolio. The regulation requires Norges Bank's financial statements to include the financial reporting of the investment portfolio of the GPFG, which shall also be prepared in accordance with IFRS.

The foreign exchange reserves constitute Norges Bank's main assets (disregarding the GPFG, which has no effect on the Bank's results). Norges Bank holds interest-free liabilities in the form of notes and coins in circulation. In addition, the Bank holds domestic deposits from the government and other banks. This balance sheet composition will normally generate a positive return over time. The Bank's assets are invested primarily in foreign exchange, whereas its liabilities are primarily in NOK. This gives rise to a currency risk that requires sufficient equity. Norges Bank presents separate columns in the income statement, balance sheet and statement of cash flows showing the Bank's foreign exchange reserves. Cash flows at Norges Bank are primarily of an operational nature.

Norges Bank's income primarily comprises net income from financial instruments related to the foreign exchange reserves. Gains and losses arise from changes in exchange rates, changes in equity prices and changes in interest rates that affect bond prices. Norges Bank's results depend on developments in these parameters, which can cause substantial annual fluctuations in net income.

Total comprehensive income for 2013 shows a profit of NOK 53.4bn, compared with a profit of NOK 0.8bn for 2012.

Net income from financial instruments in global securities markets related to the Bank's foreign exchange reserves was a gain of NOK 53.2bn in 2013, compared with NOK 0.3bn in 2012. The reason for this increase in net income is the depreciation of the krone against most of the principal currencies in the foreign exchange reserves, which resulted, when translated into NOK, in a foreign exchange gain of NOK 25bn in 2013.

In 2012, the appreciation of the krone against most of the principal currencies in the foreign exchange reserves resulted in a foreign exchange loss of NOK 21.2bn for the foreign exchange reserves. Gains and losses arising from changes in the krone exchange rate have no effect on the international purchasing power of the foreign exchange reserves. Interest payments to the Treasury amounted to NOK 0bn in 2013. In 2012, total interest expenses to the Treasury amounted to NOK 0.6bn.

Actuarial gains and losses for the Bank's pension benefit obligations amounted to a loss of NOK 0.1bn in 2013, and a gain of NOK 1.3bn in 2012.

The Adjustment Fund stood at NOK 73.3bn at year-end 2012. After year-end allocations for 2013, the Adjustment Fund amounted to NOK 126.7bn. The Ministry of Finance has stipulated the amount that Norges Bank may allocate to the Adjustment Fund as a buffer against changes in exchange rates and securities prices (see "Distribution of total comprehensive income", below). The size of the foreign exchange reserves and domestic claims at year-end provide a basis for allocating up to NOK 136.1bn to the Adjustment Fund.

Norges Bank's total assets were NOK 5 414bn at year-end 2013. Norges Bank's financial statements include the krone account and investment portfolio of the GPFG, which account for approximately 93% of total assets. The GPFG's krone deposit is a liability item on Norges Bank's balance sheet and at year-end was NOK 5 035bn. The equivalent amount of the krone deposit is invested abroad by Norges Bank in an earmarked investment portfolio. The return earned on the investment portfolio is transferred to the krone

account of the GPFG. Costs incurred by Norges Bank in connection with management of the GPFG are reimbursed by the Ministry of Finance up to a limit. Financial reporting for the investment portfolio is presented in Note 25 pursuant to the provisions of Section 3 of the Regulation relating to annual financial statements for Norges Bank.

DISTRIBUTION OF TOTAL COMPREHENSIVE INCOME

Pursuant to the Norges Bank Act of 24 May 1985, guidelines for allocation and distribution of Norges Bank's profit were originally approved by the Council of State on 7 February 1986.

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

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

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

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

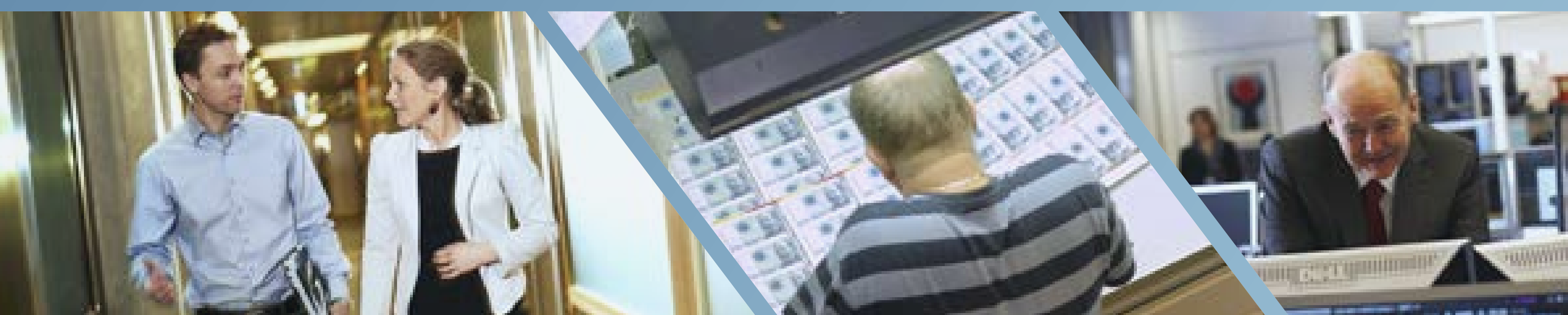
5. *In connection with the closing of the books each year, an amount equal to one third of the capital in the Transfer Fund shall be transferred to the Treasury.*

In accordance with the guidelines, the Executive Board proposes the following transfers and allocations:

In accordance with point 1, the profit after other allocations, NOK 53.4m, is to be transferred to the Adjustment Fund. As there are no funds in the Transfer Fund, no transfer will be made to the Treasury.

Oslo, 12 February 2014

Øystein Olsen *(Chair)*	Jan Fredrik Qvigstad *(Deputy Chair)*	Liselott Kilaas
Egil Matsen	Hilde Myrberg	Kjetil Storesletten
Karen Helene Ulltveit-Moe	Jan Erik Martinsen *(Employee representative)*	Gøril Havro *(Employee representative)*



NORGES BANK'S ANNUAL FINANCIAL STATEMENTS 2013

FINANCIAL STATEMENTS 2013

INCOME STATEMENT

Amounts in NOK millions

	Note	2013	2012	2013 Of which foreign exchange reserves	2012 Of which foreign exchange reserves
NET INCOME FINANCIAL INSTRUMENTS					
Interest income from deposits and claims	3	39	19	15	12
Interest income from lending to banks	3	243	283	-	-
Interest income, lending associated with reverse repurchase agreements	3	26	47	24	41
Net income/expenses and gains/losses from:					
- Equities	3,17	30 411	15 750	30 386	15 597
- Bonds and other fixed income securities	3	-2 260	5 924	-2 259	5 925
- Financial derivatives	3	16	-43	16	-43
Interest expense, borrowing associated with repurchase agreements	3	-22	-3	0	0
Interest expense paid on deposits from banks and the Treasury	3	-656	-1 356	-	-
Net interest income from claims on/liabilities to the International Monetary Fund (IMF)	3,14	11	15	-	-
Tax expenses	3	-17	-13	-17	-13
Other financial income/expenses	3, 21	132	1 327	1	0
Net income from financial instruments before foreign exchange gains/losses		**27 923**	**21 950**	**28 166**	**21 519**
Foreign exchange gains/losses		26 309	-21 644	25 044	-21 210
Net income from financial instruments		**54 232**	**306**	**53 210**	**309**
MANAGEMENT OF THE INVESTMENT PORTFOLIO OF THE GOVERNMENT PENSION FUND GLOBAL (GPFG)					
Total comprehensive income, investment portfolio, GPFG	25	980 069	225 669		
Withdrawn from/Transferred to krone account, GPFG	25	-980 069	-225 669		
Of which management fees, GPFG	4	2 889	2 193		
Management of the investment portfolio of the GPFG		**2 889**	**2 193**		
OTHER OPERATING INCOME					
Other operating income	5	125	113		
Total other operating income		**125**	**113**		
OTHER OPERATING EXPENSES					
Personnel expenses	6	-1 209	-1 107		
Other operating expenses	7	-2 483	-1 924		
Depreciation, amortisation and impairment losses	18	-97	-88		
Total other operating expenses		**-3 789**	**-3 119**		
Profit/loss for the period		**53 457**	**-507**	**53 210**	**309**
STATEMENT OF COMPREHENSIVE INCOME					
Profit/loss for the period		53 457	-507	53 210	309
Change in actuarial gains/losses	22	-98	1 280		
Total comprehensive income		**53 359**	**773**	**53 210**	**309**

BALANCE SHEET

Amounts in NOK millions

ASSETS	Note	31 Dec 2013	31 Dec 2012	31 Dec 2013 Of which foreign exchange reserves	31 Dec 2012 Of which foreign exchange reserves
FINANCIAL ASSETS					
Deposits in banks		6 294	3 749	6 214	3 672
Lending associated with reverse repurchase agreements	12	22 970	12 388	22 194	12 388
Unsettled trades		2	1	2	1
Equities	10,17	114 472	96 721	114 272	96 520
Equities lent	10,11,12	4 355	2 821	4 355	2 821
Bonds and other fixed income instruments	10	185 420	152 735	185 420	152 735
Financial derivatives	13	8	6	8	6
Claims on the IMF	14	38 430	34 315	-	-
Lending to banks	15	-	12 006	-	-
Other financial assets	16	5 613	6 460	50	14
Total financial assets		**377 564**	**321 202**	**332 515**	**268 157**
INVESTMENTS, GPFG					
Investments, GPFG	25	5 034 846	3 813 576		
Total investments, GPFG		**5 034 846**	**3 813 576**		
NON-FINANCIAL ASSETS					
Other non-financial assets	18	2 080	1 941		
Total non-financial assets		**2 080**	**1 941**		
TOTAL ASSETS		5 414 490	4 136 719	332 515	268 157

Amounts in NOK millions

Liabilities and equity	Note	31 Dec 2013	31 Dec 2012	31 Dec 2013 Of which foreign exchange reserves	31 Dec 2012 Of which foreign exchange reserves
FINANCIAL LIABILITIES					
Short-term borrowing		0	0	0	0
Borrowing associated with repurchase agreements	11,12	0	0	0	0
Cash collateral received	11,12	1 365	1 160	1 365	1 160
Unsettled trades		1 528	1 450	1 528	1 450
Financial derivatives	13	21	4	21	4
Other financial liabilities	19	2 441	1 927	1 278	1 015
Liabilities to the IMF	14	28 413	24 845	-	-
Deposits from banks, etc.	3, 20	74 672	35 336	-	-
Deposits from the Treasury	3	89 464	130 783	-	-
Notes and coins in circulation	21	54 060	53 755	-	-
Total financial liabilities		**251 964**	**249 260**	**4 192**	**3 629**
DEPOSITS IN KRONE ACCOUNT, GPFG					
Deposits in krone account, GPFG	25	5 034 846	3 813 576		
Total deposits in krone account, GPFG		**5 034 846**	**3 813 576**		
OTHER LIABILITIES					
Pensions	22	367	330		
Other liabilities		616	215		
Total other liabilities		**983**	**545**		
Total liabilities		**5 287 793**	**4 063 381**	**4 192**	**3 629**
EQUITY					
Equity		126 697	73 338		
Total equity		**126 697**	**73 338**		
TOTAL LIABILITIES AND EQUITY		5 414 490	4 136 719		
TOTAL FOREIGN EXCHANGE RESERVES				328 323	264 528

Oslo, 12 February 2014

Øystein Olsen
(Chair)

Jan Fredrik Qvigstad
(Deputy Chair)

Liselott Kilaas

Egil Matsen

Hilde Myrberg

Kjetil Storesletten

Karen Helene Ulltveit-Moe

Jan Erik Martinsen
(Employee representative)

Gøril Havro
(Employee representative)

STATEMENT OF CASH FLOWS

Amounts in NOK millions
inflows (+)/ outflows (-)

	2013	2012	2013 Of which foreign exchange reserves	2012 Of which foreign exchange reserves
Operating activities				
Interest received on deposits in banks	-69	-3 596	-69	-3 596
Net cash flows received in connection with reverse repurchase agreements	-8 631	-3 783	-7 855	-3 788
Net cash flows arising from purchases and sales of equities	14 413	-2 773	14 413	-2 773
Net cash flows arising from purchases and sales of bonds and other fixed income instruments	-22 791	-7 751	-22 791	-7 751
Net cash flows arising from financial derivatives	567	-350	540	-346
Net cash flows related to claims on and liabilities to the International Monetary Fund	349	-641	-	-
Net cash flows arising from lending to banks	12 000	12 945	-	-
Dividends received from investments in equities	2 631	2 686	2 606	2 661
Interest received on bonds and other fixed income instruments	4 142	4 093	4 142	4 093
Fees received in connection with equity and bond lending	70	72	70	72
Interest received on lending to banks	248	573	-	-
Net cash flows related to deposits in banks	39 293	-56 803	-	-
Inflows from the Treasury to the GPFG	-240 934	-277 862	-	-
Net cash flows from the Treasury excl. inflows to the GPFG	199 616	327 984	-	-
Interest paid on banks' deposits	-626	-705	-	-
Interest paid on the government's deposits	-	-642	-	-
Net cash flows related to notes and coins in circulation	291	222	-	-
Cash collateral received/paid related to securities lending, derivatives and repurchase agreements	205	1 088	205	1 088
Cash flows related to other financial assets and other financial liabilities	3 237	-1 964	2 345	-3 069
Management fee received from the GPFG	2 193	2 539	2 193	2 539
Net cash flows related to other operating income and other expenses	-3 873	-2 768	-	-
Net cash outflows from operating activities	**2 331**	**-7 436**	**-4 201**	**-10 870**
Investing activities				
Net cash flows related to non-financial assets and liabilities	-228	-157	-	-
Net cash flows from investing activities	**-228**	**-157**	**-**	**-**
Financing activities				
Net inflows related to foreign exchange reserves	-	-	-	3 275
Net cash flows from financing activities	**-**	**-**	**-**	**3 275**

Amounts in NOK millions
inflows (+)/ outflows (-)

	2013	2012	2013 Of which foreign exchange reserves	2012 Of which foreign exchange reserves
Net change in cash and cash equivalents				
Cash and cash equivalents at 1 January	3 749	11 790	3 671	11 713
Net cash payments in the period	2 103	-7 593	2 110	-7 595
Foreign exchange gains/losses on cash and cash equivalents	442	-448	433	-447
Cash and cash equivalents at 31 December	6 294	3 749	6 214	3 671
Cash and cash equivalents comprise:				
Deposits in banks	6 294	3 749	6 214	3 671
Short-term borrowing	0	-	-	-
Total	6 294	3 749	6 214	3 671

STATEMENT OF CHANGES IN EQUITY

Amounts in NOK millions

	Adjustment Fund	Transfer Fund	Total equity
1 January 2012	72 565	-	72 565
Total comprehensive income	773	-	773
31 December 2012	**73 338**	-	**73 338**
1 January 2013	73 338	-	73 338
Total comprehensive income	53 359	-	53 359
31 December 2013	**126 697**	-	**126 697**

NOTES

NOTE 1 ACCOUNTING POLICIES

1. INTRODUCTION

Norges Bank is Norway's central bank. The Bank shall promote economic stability in Norway. Norges Bank has executive and advisory responsibilities in the area of monetary policy and is responsible for promoting robust and efficient payment systems and financial markets. Norges Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

Pursuant to Section 30, second paragraph, of the Norges Bank Act, the annual financial statements of Norges Bank have been prepared in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank, which has been laid down by the Ministry of Finance. The regulation requires that Norges Bank's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, but sets certain specific requirements for the presentation of the investment portfolio of the GPFG and subsidiaries that exclusively constitute investments as part of the management of the investment portfolio. The regulation requires Norges Bank's financial statements to include the financial reporting of the investment portfolio of the GPFG, which shall also be prepared in accordance with IFRS. On this basis, the annual financial statements of Norges Bank, including the financial reporting of the investment portfolio of the GPFG, have been prepared in accordance with IFRS. Consolidated financial statements are prepared for the investment portfolio of the GPFG in accordance with IFRS.

Norges Bank prepares annual financial statements with closing date on 31 December. In addition, Norges Bank prepares interim financial statements, which solely comprise the quarterly financial reporting of the investment portfolio of the GPFG, with closing dates on 31 March, 30 June and 30 September.

The annual financial statements of Norges Bank for 2013 were approved by the Executive Board on 12 February 2014 and adopted by the Supervisory Board on 27 February 2014.

2. NORGES BANK AND THE GPFG

The GPFG is invested in its entirety outside Norway. The Storting (Norwegian parliament) has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for investment management. The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues.

The Ministry of Finance has deposited funds for investment in a krone account in Norges Bank specified for this purpose. The corresponding value of the krone account constitutes an investment portfolio managed by Norges Bank in accordance with the Act relating to the Government Pension Fund and the management mandate for the GPFG issued by the Ministry of Finance. Subsidiaries that exclusively constitute investments as part of the management of the investment portfolio are consolidated in the financial statements of the GPFG. The Executive Board has delegated day-to-day asset management to the Bank's asset management area, Norges Bank Investment Management.

Pursuant to the provisions of the mandate for management issued by the Ministry of Finance, Norges Bank shall manage the krone deposit in its own name by investing the funds in a portfolio of equities, fixed-income securities and real estate, referred to as the investment portfolio.

The Bank shall seek to obtain the highest possible return after expenses measured in the currency basket of the benchmark. The fixed-income benchmark specifies a defined allocation between government bonds and corporate bonds, and a sub-benchmark for each. Bonds in the government bond benchmark are weighted on the basis of the relevant countries' GDP, while the bonds in the benchmark for corporate bonds are weighted according to market capitalisation. The currency distribution follows from these weighting principles. The benchmark for equities is constructed on the basis of market capitalisation for shares in the countries included in the benchmark, where selected companies are excluded from the investment universe. The investment portfolio may not invest in securities issued by Norwegian entities or issued in Norwegian kroner. These securities are also excluded from the benchmark. Positions in financial derivatives are included in the relevant asset classes, but are shown separately in the income statement and balance sheet for the GPFG.

Norges Bank is not exposed to financial risk from its management of the GPFG. The return on the portfolio is transferred in its entirety to the krone account and does not affect total comprehensive income or equity in Norges Bank. The net value of the investment portfolio is recognised as an asset on a separate line in the Norges Bank balance sheet. The krone account is recognised as a liability in the same amount to the Ministry of Finance in the Norges Bank balance sheet.

3. CHANGES IN ACCOUNTING PRINCIPLES AND IMPLEMENTATION OF AMENDMENTS TO IFRS

3.1 Changes in accounting principles

Investments in jointly controlled entities and associates

Jointly controlled entities and associates were previously accounted for under the equity method. The GPFG qualifies for the scope exceptions in IAS 28 and IAS 31, and therefore the exception to the requirement for the use of the equity method because it is an investment fund. These investments are therefore now designated as instruments that are measured at fair value through profit or loss. This voluntary change in principle has been made, as measurement at fair value is in accordance with the business model of the GPFG. In addition, the fair value option is elected for most other balance sheet items where available. As a result this change in principle will lead to more consistent application of fair value where this is possible. This will provide more relevant information.

As most material assets and liabilities within jointly controlled entities and associates have been accounted for at fair value, also prior to the change in principle from the equity method to fair value measurement, there are no adjustments in the opening balance sheet.

Other financial assets, other financial liabilities, short-term receivables and liabilities associated with positions in repurchase and reverse repurchase agreements, deposits in banks and short-term borrowing

Other financial assets, other financial liabilities, deposits in banks and short-term borrowing as well as assets and liabilities associated with repurchase and reverse repurchase agreements that previously have been accounted for at amortised cost in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* have been designated as financial assets and financial liabilities measured at fair value through profit or loss in accordance with IAS 39 from 1 October 2013. This voluntary change in accounting principle has been made, as fair value measurement is in accordance with the business model of Norges Bank and Norges Bank thereby qualifies to elect the fair value option. In addition, the GPFG applies the fair value option for most other balance sheet items where this is available. As a result the change in principle would lead to more consistent use of fair value where this is possible. This will provide more relevant information.

Because of the short-term nature of the instruments mentioned above, there is no material difference between measurement at fair value and at amortised cost.

3.2 Implementation of amendments to IFRS

IAS 1 Presentation of Financial Statements

Norges Bank has implemented amendments to IAS 1 related to presentation of other comprehensive income, which did not result in material changes in the statement of comprehensive income.

IAS 19 Employee Benefits

Amendments to IAS 19, effective for annual periods beginning on or after 1 January 2013, have been implemented in Norges Bank's annual financial statements for 2013. Implementation requires that the interest cost component be calculated as the net interest on the net defined benefit liability (asset). The amendments also entail more extensive note disclosures.

When pension expense was calculated under the previous IAS 19, the expected return on plan assets and the interest expense on the benefit obligation were calculated separately. Under the revised IAS 19, the net interest on the net benefit obligation is calculated using the discount rate. This results in isolation in an increase in pension expense in the statement of income. Comparative amounts for 2012 have been restated (see Note 22 Pension benefit obligation for a further explanation).

More extensive note disclosures required by the revised IAS 19 pertain primarily to sensitivity analyses for significant actuarial assumptions, the characteristics of defined benefit plans and the risks associated with them and an explanation of amounts in the financial statements (see Note 22 Pension benefit obligation).

IFRS 7 Financial Instruments – Disclosures
Norges Bank implemented amendments to IFRS 7 in 2013. These amendments require disclosure of offsetting rights and related agreements (such as collateral) for financial instruments subject to master netting agreements or equivalents. The amendments have been implemented retrospectively (see GPFG Note 8 Collateral and offsetting).

IFRS 13 Fair Value Measurement
IFRS 13 was implemented in 2013. This standard is applied prospectively. IFRS 13 defines fair value and determines a comprehensive framework for measurement and disclosure relating to fair value. IFRS 13 is applied when other IFRSs require or permit fair value measurement or disclosures relating to fair value measurement. Implementation of IFRS 13 did not have a material impact on the financial reporting of Norges Bank, as the requirements in the standard were satisfied prior to implementation.

4. ACCOUNTING POLICIES

4.1 Income statement, statement of comprehensive income and balance sheet

The income statement, statement of comprehensive income and the balance sheet have been prepared in accordance with IAS 1 *Presentation of Financial Statements*. In addition, the share of total amounts in NOK related to foreign exchange reserves is presented in separate columns in Norges Bank's income statement and balance sheet. The liquidity presentation format is used for the balance sheet.

4.2 Statement of cash flows

The statement of cash flows has been prepared in accordance with IAS 7 *Statement of Cash Flows* using the direct method, whereby major classes of cash receipts and cash payments are disclosed separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown on a net basis when appropriate. All investment activity is defined as operating activities. The management fee for the GPFG, which is charged to the investment portfolio and paid by the Ministry of Finance to Norges Bank, is also classified as an operating activity. Cash and cash equivalents comprise Deposits in banks and Short-term borrowing.

Cash transfers to the GPFG's krone account, in the form of a contribution from the owner, 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.

Investment in non-current assets is classified as investing activity in Norges Bank.

Pursuant to the Norges Bank Act, Norges Bank is responsible for issuing notes and coins and ensuring that society has access to and the necessary confidence in cash as a means of payment. Thus, issuance of notes and coins is deemed an operating activity and not a financing activity.

4.3 Statements of changes in equity and in owner's capital

Norges Bank presents statements of changes in equity and, for the GPFG, of changes in owner's capital. The statements have been prepared in accordance with IAS 1 *Presentation of Financial Statements*.

Owner's capital for the GPFG comprises contributed capital in the form of transfers from the Norwegian government and retained earnings in the form of total comprehensive income.

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

4.4 Currency

Norges Bank's functional currency is the Norwegian krone (NOK). Transactions in foreign currency are recognised in the financial statements at the exchange rate prevailing on the transaction date.

Assets and liabilities in foreign currency are translated into NOK using the exchange rate at the balance sheet date. The presentation currency for financial reporting is the Norwegian krone.

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

Foreign subsidiaries that are consolidated into the investment portfolio's financial reporting and have a functional currency different from that of Norges Bank are translated into Norwegian kroner. Income statements are translated at an average exchange rate for the period, and balance sheets are translated at the reporting period's closing rate. Any translation differences are included in Total comprehensive income and presented as Translation reserve arising from consolidation of foreign subsidiaries. This includes long-term loans provided to subsidiaries that are determined to be part of the net investment in foreign operations in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

See also GPFG Note 2 Significant estimates and critical accounting judgements.

4.5 Income and expenses

Interest income from deposits in banks, money market investments, reverse repurchase agreements and bonds and other fixedincome instruments is recognised when the interest is earned and classified in each of the respective lines in the income statement.

Interest income related to investments in associates and jointly controlled entities is presented together with interest expenses in the underlying companies and will as a result be part of Net income/expense – gains/losses from Associates and jointly controlled entities real estate. See GPFG Note 3 Profit/loss on the portfolio before foreign exchange gains and losses and returns by asset class for a specification of this.

Dividends from investments in equity instruments are recognised as income when the dividends are formally approved by the shareholders' meeting or comparable responsible party. Dividends are included in the line Net income/expenses and gains/losses from equities and units.

Income from securities lending is presented as a net income comprising securities lending fees, expenses related to cash collateral received, reinvestment income, and the deduction of the security lending agents' fees connected to the handling of the transaction. The net income is calculated and classified in accordance with the type of security that is lent as either Net income/expenses and gains/losses from equities and units or Net income/expenses and gains/losses from bonds and other fixed income instruments.

Rental income related to investment property, less direct expenses incurred in connection with the signing of lease agreements, is recognised as income straight-line over the lease term. Incentive schemes related to signing lease agreements are recognised straight-line over the lease term, even if payment streams deviate from this basis.

For a description of accounting using the equity method, see 4.12 Jointly controlled entities and jointly controlled assets.

Interest expense is measured and recognised as incurred in profit or loss and presented as either Interest expense repurchase agreements or Other interest income and interest expense.

For a description of recognition of income and expenses related to jointly controlled entities and associates measured at fair value, see Section 4.12 Jointly controlled entities and associates.

Transaction costs are defined as all costs directly attributable to the completed transaction. For investments in equity and fixed income instruments, this includes normal commission fees and stamp duties. Commission fees include an amount paid as part of the commission fee to cover analytical research services through CSAs (commission sharing agreements: agreements in which portions of commission fees paid to brokers are allocated further to parties that have contributed analytical research). For investments within the investment asset class real estate, transaction costs will also typically include fees to advisors, typically lawyers and valuation experts, and stamp duty. Transaction costs are expensed as incurred and classified in accordance with the type of investment as either Net income/expenses and gains/losses from equities and units, Net income/expenses and gains/losses from bonds and other fixed income instruments, or Net income/expenses and gains/losses from Financial assets real estate. For investment property, directly attributable transaction costs are recognised in the balance sheet as a portion of the cost at initial recognition. For financial instruments that at initial recognition are measured at amortised cost, transaction costs are recognised in the balance sheet as part of the instrument's cost.

The management fee comprises the Ministry of Finance's reimbursement of Norges Bank's expenses connected with the management of the GPFG, which is recognised in the income statement for the investment portfolio of the GPFG as an expense, and recognised as revenue in the Norges Bank income statement. Operating expenses are reimbursed by the Ministry of Finance within an agreed limit. The management fee accrues during the financial year, but is cash-settled in the year following. Management fee payable is measured at amortised cost.

Interest income from lending to banks is recognised in profit or loss as earned. Interest expense on banks' and Treasury deposits is measured and recognised as incurred. Other operating income in the Norges Bank income statement primarily comprises services for banks, services for the government and rental income that is recognised in profit or loss as earned. Personnel expenses and Other operating expenses are recognised in profit or loss as incurred.

4.6 Tax

Norges Bank's activities are not subject to tax in Norway. In some foreign markets, Norges Bank is liable to tax, in the form of withholding tax on dividend and interest income, capital gains tax as well as corporate tax paid by foreign subsidiaries, jointly controlled entities and associates for operations in other countries.

The amount of tax is determined primarily by local tax laws, but may in many instances be adjusted for on the basis of tax agreements the Norwegian government has with the country concerned.

Taxes are expensed as incurred and when it is not probable that they will be refunded. Taxes that Norges Bank expects to be refunded, but which it has not yet received are presented in the balance sheet as Other financial assets. For further information see GPFG Note 11 Other financial assets/Other financial liabilities. When at a subsequent evaluation, Norges Bank deems it less probable that a refund claim will be accepted the refund will be reversed.

Accrued withholding tax, after deductions for refundable withholding tax and corporate tax, are considered income taxes and classified as Tax expense in the income statement. These taxes are recognised at the same time as dividend income (See Section 4.5 of this note). In the balance sheet, net withholding taxes, after deductions for refunds, are classified as a liability until they have been settled. Ordinarily, refunds are received after gross withholding tax has been settled, and the claim for a refund is presented as an asset until the refund is received.

Deferred tax is recognised in subsidiaries, associates and jointly controlled entities on the basis of the difference between the carrying amounts of assets and liabilities and the tax base of the respective assets and liabilities. Deferred tax assets are recognised if it is probable that they can be utilised.

Income tax and net change in deferred tax from unrealised valuation changes in real estate arising in associates and jointly controlled entities real estate are included in Net income/expense – gains/losses from: Jointly controlled entities and associates real estate and is not presented separately as Tax expense.

Deferred tax assets/liabilities are not presented separately in the balance sheet. Deferred tax assets are included in Other financial assets and deferred tax liabilities are included in Other financial liabilities.

4.7 Classification and presentation of financial instruments

At initial recognition, all financial assets are classified in one of the following categories depending on the type of instrument and purpose of the investment:

- Financial assets held for trading

- Financial assets designated as at fair value through profit or loss (fair value option)
- Financial assets classified as loans and receivables

At initial recognition, financial liabilities are classified in one of the following categories:
- Financial liabilities held for trading
- Financial liabilities designated as at fair value through profit or loss (fair value option)
- Other financial liabilities

Norges Bank does not engage in hedge accounting, and therefore none of the financial instruments are designated as hedging instruments.

Financial assets or liabilities held for trading
All positions in financial derivatives as well as short-sale bonds are classified in the category financial assets or financial liabilities held for trading. Other assets and liabilities are classified as held for trading if they are acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or at the point of initial recognition it is part of a portfolio that is managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. None of the investments in equities or bonds are as at the balance sheet reporting date classified as held for trading.

Financial assets and liabilities designated as at fair value through profit or loss (fair value option)
Financial instruments are classified in this category if the following criteria are met: the financial instruments are part of a portfolio that is managed and whose performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy. This implies that a fair value business model is used for the portfolio or the asset, and the primary objective is to have gains over the longer term connected to changes in fair value.

All portfolios of equities and bonds under management are as at the balance sheet date classified in this category. Positive holdings of equities and other equity instruments and positive holdings of bonds and other fixed-income instruments are presented on separate lines in the balance sheet. Net short positions in similar instruments are presented as Short-sale bonds. Bond and other debt in jointly controlled entities are presented as Jointly controlled entities and associates is presented as Jointly controlled entities and associates real estate.

Short-term financial assets and liabilities such as positions in repurchase and reverse repurchase agreements and deposits/liabilities in the money market as well as cash collateral are classified in this category: See Section 3 of this note regarding the change in accounting policy.

Jointly controlled entities and associates are classified in this category. See Section 3 of this note regarding the change in accounting policy.

Investments in the asset class real estate in the form of a share in the cash flow from underlying properties are classified in this category and presented on a separate line in the balance sheet.

Loans and receivables and other financial liabilities, measured at amortised cost
Financial assets and liabilities that are not held for trading and are not designated as at fair value through profit or loss, and are not listed in an active market, are classified as loans and receivables or other financial liabilities.

Earned and accrued interest
Earned and accrued interest is presented in the balance sheet on the same line as the respective financial asset or liability.

4.8 Recognition and derecognition, financial instruments

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

Financial assets are derecognised when the contractual rights to the cash flows expire, or when the financial asset and substantially all the risks and rewards of ownership are transferred. Average acquisition cost is used upon derecognition.

Financial liabilities
Financial liabilities are recognised in the balance sheet in the same manner as financial assets, see above. Financial liabilities are derecognised when the obligation has been settled, extinguished or cancelled.

Securities lending
Securities lent are not derecognised from Norges Bank's balance sheet. During the lending period the securities are accounted for in the same way as other securities holdings. As the counterparty has the right to sell or pledge the security, the security is considered transferred. Lent securities are presented on separate lines in the balance sheet, Equities lent and Bonds lent.

Collateral received in the form of cash is recognised as an asset together with a corresponding liability, Cash collateral received. Collateral received in the form of securities is not recognised in the balance sheet unless reinvested.

Reinvestments of cash collateral in the form of reverse repurchase agreements and bonds are recognised in the balance sheet and accounted for in the same manner as comparable investments.

For more information about securities lending, see GPFG Note 7 Transferred financial assets.

Repurchase and reverse repurchase agreements
In connection with positions in repurchase agreements, the security is not derecognised when the agreement is entered into. As the counterparty has the right to sell or pledge the security, the security is considered transferred. These securities are therefore presented together with other lent bonds on the line Bonds lent. This is a change in presentation from the previous year. NOK 18 495m has been reclassified in the comparatives from Bonds and other fixed-income instruments to Bonds lent. During the contract period, the accounting for the underlying securities is in accordance with the accounting policies for investments in securities. Cash received is recognised as a financial asset in the form of bank deposits and the corresponding short-term financial liability, Borrowing associated with repurchase agreements.

In connection with reverse repurchase agreements, the received underlying security is not reinvested and therefore is not recognised in the balance sheet. The cash paid is derecognised, and a corresponding receivable reflecting the cash amount that will be received in return is recognised as an asset, Lending associated with reverse repurchase agreements.

Income and expenses connected with repurchase and reverse repurchase agreements are presented on separate lines in the income statement, Interest income, lending associated with reverse repurchase agreements and Interest expense repurchase agreements.

4.9 Measurement of financial instruments
Initial recognition
Financial assets and liabilities classified in categories with subsequent measurement at fair value through profit or loss are recognised at fair value on the trade date. Fair value will normally be the transaction price unless a different value can be justified on the basis of transactions observed in the market.

Subsequent measurement – fair value
All receivables, liabilities, equities, bonds and other fixed-income instruments, real estate investments and financial derivatives classified as financial assets and liabilities held for trading or designated as at fair value through profit or loss are measured at fair value on the reporting dates after initial recognition. Gains and losses from changes in fair value are recognised in profit or loss in the period in which they arise. See Section 4.13 for further information on this.

Subsequent measurement – amortised cost
Financial assets and liabilities classified as loans and receivables or other financial liabilities are measured at amortised cost after initial recognition. The effective interest is recognised in profit or loss. The effective interest rate is determined as the rate that discounts contractual cash flows within the agreed maturity to the recognised amount. The cash flows include directly attributable transaction costs.

4.10 Netting
Financial assets and financial liabilities are presented net in the balance sheet only if Norges

Bank has a legal right to offset, and the intention and practice of settling on a net basis.

Financial assets and liabilities are not netted, because these criteria are not met. This implies that financial derivatives with positive market values are presented as assets and financial derivatives with negative market values are presented as liabilities.

For further information, see GPFG Note 8 Collateral and offsetting.

4.11 Investment property

Properties held for the purpose of earning rental income and for capital appreciation within the real estate asset class are accounted for as investment property.

Investment property is recognised as an asset when it is probable that the future rental income and value changes that are associated with the property will flow to Norges Bank and the cost of the investment property can be measured reliably. An investment property is derecognised when sold, i.e. when substantially all the risks and potential for returns related to the property have been transferred to a buyer.

At initial recognition investment property is measured at its purchase price, plus directly attributable transaction costs.

Investment property is measured at fair value at the reporting dates following initial recognition. See Section 4.13 for further information on this. Changes in the fair value of properties classified as investment property in the balance sheet of the investment portfolio are presented in the income statement as Net income/expenses – gains/losses from investment properties. For property owned by jointly controlled entities, see the description of presentation below.

4.12 Jointly controlled entities and jointly controlled assets

Through subsidiaries established as part of the management of the GPFG, joint control or significant influence arises over other entities.

Jointly controlled entities are investments where Norges Bank through an agreement with the counterparty has joint control over the entity's strategic, financial and operational decisions.

Associates are investments where Norges Bank has acquired significant influence over the entity. Significant influence is achieved when Norges Bank through subsidiaries acquires 20% or more of the voting power in an investee but does not control or jointly control the investee. Significant influence means that Norges Bank can affect financial or operating policy decisions in an investee.

Norges Bank has elected to measure investments in jointly controlled entities and associates at fair value through profit or loss. Fair value is determined by aggregating the fair values of assets and liabilities in the respective entities. See Section 4.13 for detailed information about fair value measurement. See also Section 3 regarding the change in accounting principle. Investments in jointly controlled entities and associates are recognised when it is probable that the future economic benefits that are associated with the interest in the entity will flow to Norges Bank and the cost of the investment can be measured reliably. Jointly controlled entities and associates are derecognised when sold, i.e. when substantially all the risks and returns have been transferred to a buyer.

Cost at initial recognition comprises the consideration paid, plus directly attributable transaction costs. Investments in such entities are presented as Jointly controlled entities and associates real estate in the balance sheet of the GPFG.

In subsequent reporting periods, the carrying amounts of the investments are adjusted for fair value changes for the period. Fair value changes and distributions from the investments are included in profit and loss and presented as Net income/expense – gains/losses from: jointly controlled entities and associates real estate.

Jointly controlled assets are accounted for using proportionate consolidation. Such investments are recognised on the same basis as for jointly controlled entities.

Under proportionate consolidation, Norges Bank accounts for the investment portfolio's share of assets, liabilities, income and expenses, on the basis of their nature.

Cost at initial recognition comprises the consideration paid, plus directly attributable transaction costs. Jointly controlled assets primarily comprise investment property (see above). Income and expenses associated with property management are presented as Net income/expenses and gains/losses from: investment properties.

4.13 Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The price quoted by a stock exchange, broker or price provider is used for securities that are traded in active markets.

If the market for a security or an asset is not active, fair value is established by using a standard valuation technique to estimate fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is used. The chosen valuation technique makes maximum use of market inputs.

For investment property external appraisals and valuations are regularly obtained as the primary basis for the determination of fair value.

For further information on valuation techniques, see GPFG Note 12 Fair value measurement.

Changes in fair value are included in the income statement on the line that represents the respective investment.

4.14 Consolidation of subsidiaries
Norges Bank has established subsidiaries that exclusively constitute investments as part of the management of the GPFG.

The accounting policies are applied consistently when consolidating ownership interests in subsidiaries. Intra-group transactions and intercompany balances are eliminated in the preparation of consolidated financial statements. Intragroup items comprise loans and equity financing from the investment portfolio to subsidiaries to finance real estate investments in subsidiaries. Loans are made at market interest rates and are issued in the subsidiary's functional currency. Except for the above-mentioned items, all items recognised in subsidiaries' financial statements are included in the statement of comprehensive income, balance sheet and statement of cash flows. This includes subsidiary administrative expenses, presented as Other expenses.

4.15 Internal trades between portfolios
Internal trades in the form of money market deposits/loans and repurchase agreements between the investment portfolio of the GPFG and Norges Bank's long-term reserves are presented as a net receivable/payable between the two reporting entities on the balance sheet line Other financial assets (for the party with the net receivable) and Other financial liabilities (for the party with the net payable). Corresponding income statement items are presented gross in the respective income statement as either interest income or interest expense. Such internal trades are made under the arm's length principle, i.e. on market terms.

4.16 Related parties
Norges Bank is owned by the Norwegian government and under IAS 24.25 is exempt from the disclosure requirements pertaining to related party transactions with the government.

4.17 Notes and coins
Notes and coins in circulation are recognised in the balance sheet at face value when they are placed into circulation. Notes and coins are derecognised when they are withdrawn from circulation and no later than the expiry of the ten-year deadline for redemption. Notes and coins not redeemed by the ten-year deadline are recognised in profit or loss as Other financial income/expenses. Notes and coins redeemed after the ten-year deadline are recognised on the same line as an expense in profit or loss. Expenses for the production of notes and coins are recognised in profit or loss as incurred in Other expenses.

4.18 Pensions and other benefit obligations
Accounting treatment of pension and other benefit obligations is in accordance with revised IAS 19 *Employee Benefits*. Norges Bank has several pension plans, a funded plan for Bank employees financed by the Bank's pension fund, in addition to unfunded plans for a number of other employees. The Bank's other benefit obligations are related to restructuring measures in the

form of early retirement and termination benefits. Calculations for fund-based plans through Norges Bank's pension fund are based on actuarial assumptions regarding life expectancy, expected wage growth and adjustment of the National Insurance basic amount (G). The economic assumptions on which the calculation of the benefit obligations is based may change over time. The net benefit obligation is the difference between the present value of the benefit obligation and the fair value of plan assets.

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

4.19 Deposits from the government

Deposits from the government are recognised as a liability at fair value and measured at amortised cost.

4.20 Presentation of the investment portfolio of the GPFG

Income from the investment portfolio of the GPFG and income attributed to the GPFG's krone account are presented on separate lines in the statement of income. The net value of the investment portfolio and the balance of the GPFG's krone account are presented on separate lines on the asset and liability side of the balance sheet, respectively. Deposits and withdrawals from the GPFG's krone account are presented on separate lines in the statement of cash flows.

Financial reporting for the investment portfolio of the GPFG is presented in a separate note (see Note 25 GPFG).

4.21 International Monetary Fund (IMF)

Norges Bank and the IMF

Pursuant to Section 25 of the Norges Bank Act, Norges Bank shall administer Norway's financial rights and fulfil the obligations ensuing from participation in the IMF.

Allocated Special Drawing Rights (SDRs)

Allocated Special Drawing Rights (SDRs) are recognised as an asset in the balance sheet. The value of SDRs is calculated on the basis of a currency basket comprising USD, EUR, GBP and JPY. The equivalent value of SDR allocations by the IMF shows Norges Bank's total allocations of SDRs since the scheme entered into force in 1969 and is recognised as a liability. SDRs are measured at amortised cost.

Reserve tranche position

Norges Bank's reserve tranche position in the IMF comprises Norges Bank's allocated quota in the IMF less the IMF's krone deposit with Norges Bank. The outstanding balance with the IMF is recognised net in the balance sheet. The quota in the IMF and the krone liability to the IMF are measured at amortised cost.

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

At initial recognition, loans to the IMF and international commitments under the auspices of the IMF are recognised in the balance sheet at fair value. Subsequent measurement is at amortised cost.

4.22 Lending to banks

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

4.23 Other non-financial assets

Non-current assets

Non-current assets are recognised at cost, less accumulated straight-line depreciation or amortisation over their expected useful life. An impairment test is performed if there is an indication of impairment. If the carrying amount exceeds fair value, the carrying amount will be written down to fair value.

Gold

Norges Bank has holdings of gold coins and gold bars as part of the Bank's historical collections. The holdings were measured at fair value on the date the gold was reclassified from international reserves to non-current assets. An impairment test is performed if there is an indication of impairment. If the carrying amount exceeds fair value, the carrying amount will be reduced to fair value. In the event the metallic value of gold rises, the holdings are not revalued.

Art and numismatic collections

Norges Bank has a collection of art, gifts and numismatic objects such as medals, banknotes and coins. The collection has been recognised at estimated cost on the basis of an appraisal in 2005. An impairment test is performed if there is an indication of impairment.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT APPLICABLE IN 2013

IASB final standards and IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations with application dates after 2013

IFRS 10 Consolidated Financial Statements – Investment Entities

In October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27 to provide an exception to the consolidation requirements in IFRS 10 for reporting entities that qualify as investment entities. Such reporting entities are required to measure investments in subsidiaries at fair value and recognise the investments as a single line item in the balance sheet.

Norges Bank has determined that the GPFG is an investment entity under IFRS 10, as the requirements to qualify are met. The most significant requirements are that the GPFG receives funds from an investor for the purpose of providing investment management services, is committed to the investor to invest funds solely for returns from capital appreciation and/or investment income and measures and evaluates the performance of substantially all of its investments on a fair value basis.

IFRS 10 will result in changes in financial reporting. These mainly comprise a change from consolidation to fair value measurement for most subsidiaries, including subsidiaries with jointly controlled assets in their balance sheets that are currently proportionately consolidated. An exception is subsidiaries that provide investment related services. These companies shall continue to be consolidated. The discontinuation of consolidation of subsidiaries will result in a reclassification of translation differences within owner's capital. It is not expected that the implementation of changes under IFRS 10 will lead to changes in measurement, as the underlying investments are already measured at fair value. Norges Bank as such is not an investment entity.

The adoption of IFRS 10 will not have consequences for the GPFG, as investments in subsidiaries will be measured at fair value in their totality, i.e. inclusive of underlying investments (for example in associates or jointly controlled entities).

Investment entity amendments in IFRS 10, IFRS 12 and IAS 27 are effective from 1 January 2014. The amendments were endorsed by the EU in the fourth quarter of 2013. Norges Bank expects to apply IFRS 10, including these amendments, from 1 January 2014.

IFRS 9 Financial Instruments

IFRS 9 replaces the classification and measurement rules for financial instruments in IAS 39 *Financial Instruments – Recognition and Measurement*. Under IFRS 9, financial assets with basic loan features shall be carried at amortised cost, unless the business model indicates that they should be carried at fair value. All other financial assets shall be carried at fair value. Classification and measurement of financial liabilities under IFRS 9 is a continuation of IAS 39, with the exception of financial liabilities designated as at fair value through profit or loss (fair value option), where changes in fair value relating to own credit risk shall be separated and presented in other comprehensive income.

All portfolios of equities, bonds and financial derivatives, as well as real estate investments classified as financial assets, have a business model that is consistent with the classification measured at fair value under IFRS 9 as at 31 December 2012.

The effective date of IFRS 9 has been deferred to annual periods beginning on or after 1 January 2015, but the standard has not yet been endorsed by the EU. Norges Bank expects to apply IFRS as from 1 January 2015, under the assumption that it will be endorsed by the EU. Application of IFRS 9 is not expected to result in material changes in classification, recognition or measurement for Norges Bank's financial reporting on the transition date.

IFRS 10 Consolidated Financial Statements
IFRS 10 *Consolidated Financial Statements* supersedes IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. See above for further amendments concerning investment entities.

In the EU, IFRS 10 is effective for accounting periods beginning on or after 1 January 2014. IFRS 10 (excluding amendments relating to investment entities) was endorsed by the EU in the fourth quarter of 2012.

With the exception of amendments in IFRS 10, IFRS 12 and IAS 27 related to investment entities (see above), Norges Bank does not expect that the implementation of IFRS 10 will have a material impact on the consolidated financial statements of the investment portfolio or other areas of Norges Bank.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 *Disclosure of Interests in Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of and risks associated with interests in other entities as well as the effects of those interests on the entity's balance sheet, income and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates, or unconsolidated structured entities.

In the EU IFRS 12 is effective for annual periods beginning on or after 1 January 2014, and the standard was endorsed by the EU in 2012.

Norges Bank does not expect that the adoption of IFRS 12 will have a material impact on the financial reporting for the GPFG or other areas of Norges Bank. Norges Bank expects to apply IFRS 12 as from 1 January 2014. As the GPFG is an investment entity (see above), somewhat more substantial changes in note disclosures are expected when IFRS 10 and IFRS 12 are adopted.

NOTE 2 SIGNIFICANT ESTIMATES AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of the financial statements of Norges Bank, which includes the financial reporting for the GPFG in accordance with the accounting policies in Note 1, involves the use of estimates and judgements that may affect assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and expectations about future events that are considered probable at the time the financial statements are presented.

Estimates are based on best judgement. However, actual results may deviate from estimates. In cases of particularly uncertain estimates, this is described in the respective notes.

SIGNIFICANT ESTIMATES

Below is an overview of significant estimates on the reporting date.

Fair value of securities, financial assets, financial derivatives, jointly controlled entities, associates and investment property not traded or quoted in an active market
Parts of the holdings are not traded in active markets, i.e. they are allocated to Level 2 or Level 3 in the fair value hierarchy. This pertains primarily to bond holdings, OTC financial derivatives and real estate investments, while nearly all equities are allocated to Level 1 (traded in active markets).

Level 2 and 3 holdings are valued using models, and the resulting value is defined as an estimate. The resulting values of holdings allocated to Level 3, with significant use of unobservable inputs, are regarded as particularly uncertain estimates. Generally, widely accepted, standard pricing models are used. For further information on pricing models and the control environment (see GPFG Note 12 Fair value measurement).

Investment properties are measured at fair value. Fair value is based on external appraisals and valuations, or, recent comparable transactions in comparable markets. The determination of fair value in such appraisals and valuations requires the use of estimates such as future cash flows from assets (based on assumptions regarding tenant occupancy rates, tenant profiles, future revenue streams, the capital value of property, plant and equipment and the overall physical condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions on the reporting date and are allocated to Level 3.

Jointly controlled entities and associates are measured at fair value. Fair value is determined by aggregating all assets and liabilities in the respective entities. The material assets and liabilities in the jointly controlled entities and associates consist of investment property and debt measured at fair value. See above for significant estimates related to investment properties.

Instruments held by Norges Bank other than through the GPFG are primarily allocated to Level 1.

Gains/losses on securities before foreign exchange gains and losses, and Foreign exchange gains and losses

Gains and losses on securities and financial derivatives resulting from changes in the price of the security/instrument (before foreign exchange gains and losses) and gains and losses resulting from changes in foreign exchange rates (foreign exchange gains and losses) are presented separately in the income statement. The method of allocating total gains and losses in Norwegian kroner for a holding for a period to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations.

Foreign exchange element:
Norges Bank calculates unrealised gains and losses due to changes in foreign exchange rates based on the cost in local currency of the holding and the change in the foreign exchange rate from the time of purchase until the balance sheet date. If the holding has been purchased in a previous period, gains and losses from previous periods that have already been recognised in profit or loss are deducted to arrive at the gain or loss for the current period. Accordingly, for realised gains or losses, the foreign exchange rate on the date of sale is used instead of the closing rate at the end of the reporting period, and previously recognised unrealised gains or losses for the holding are reversed in the current period.

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

Pension benefit obligation

Norges Bank has several pension plans, a funded plan for employees with employment in Norway, which is financed by Norges Bank's own pension fund, in addition to unfunded plans for a number of other employees, as well as employees in foreign countries. Unfunded plans are funded through operations and primarily comprise defined contribution plans. The funded plan is a defined benefit plan. Measurement of the pension benefit cost and the pension benefit obligation for these plans requires determination of a number of assumptions and estimates, including future salaries, discount rates, early retirement frequency and return on plan assets. Norges Bank follows Norwegian Accounting Standards Board (NASB) guidelines in determining assumptions for defined benefit plans under IAS 19 Employee Benefits. The guideline assumptions are assessed against actual conditions at Norges Bank before a decision is made to apply them.

Changes in these assumptions may affect the pension plans' financial position, in addition to the net periodic pension benefit cost for the period.

The pension benefit obligation (PBO) is significantly affected by changes in the discount rate and expected salary and pension benefit adjustments. The PBO is also materially affected by demographic assumptions. Changes in the aforementioned parameters and changes in the PBO will affect the net pension benefit cost in subsequent periods, both the service cost for the year and the effect of discounting. Norges Bank's PBO pertains exclusively to Norway.

Notes and coins in circulation

Notes and coins are derecognised from the balance sheet and recognised as income after an announced withdrawal from circulation and the expiry of the ten-year deadline for redemption, under the assumption that at this point, remaining notes and coins outstanding will not be redeemed. Nevertheless, upon application, older note and coin series may be redeemed in special cases. In such cases, the redemption amount will be recognised as an expense.

SIGNIFICANT CRITICAL ACCOUNTING JUDGEMENTS RELATED TO THE APPLICATION OF ACCOUNTING POLICIES

The following are the judgements made by management related to the application of accounting policies regarded to have the greatest impact on the amounts recognised in the financial statements.

Choice of functional currency

The management of Norges Bank judges the Norwegian krone to be the functional currency of the Bank, as this is the dominant currency with regard to the underlying activities of the Bank. The owner's capital, in the form of the GPFG krone account, is denominated in Norwegian kroner, and a significant share of the costs related to the management of the assets is in Norwegian kroner.

The financial reporting for the GPFG is part of the financial statements of Norges Bank, and on this basis the judgement is that the investment portfolio's functional currency is also the Norwegian krone, even though changes in the Norwegian krone exchange rate versus other currencies do not affect the international purchasing power of the investment portfolio. The Bank's and the investment portfolio's nominal return is measured and reported internally and to the owner in Norwegian kroner, while the percentage return for the investment portfolio is reported both in Norwegian kroner and in the currency basket specified in the management mandate issued by the Ministry of Finance (see further information in Note 25 GPFG Note 13 Risk). Furthermore, no single currency stands out as dominant in the asset management.

When subsidiaries are established or acquired in connection with the management of the real estate asset class within the GPFG, an assessment is made concerning the appropriate functional currency for use in the subsidiary's financial reporting, and for use in the consolidation into the consolidated financial statements of the investment portfolio. Normally the local currency will appear as the appropriate functional currency for the company, given that this is the currency of the economic environment in which the entity operates, and the currency for all of its transactions.

In cases where there is doubt related to which currency is the functional currency or where transactions are in multiple currencies, or where the entity has no operations, the currency of its financing activities and the denomination of any income and expenses will be considered, together with the consideration of whether the entity is merely an extension of Norges Bank into the local market

Assessment of degree of control

In the case of investments in entities or assets in which the GPFG has a substantial ownership interest, an assessment is made to determine whether that interest represents control over the entity or the asset. This assessment is necessary to determine whether the investment should be accounted for as an investment in a financial asset, an associate, a jointly controlled entity/asset or a consolidated subsidiary. As part of the assessment of the degree of control, the ownership interest will be given significant consideration, along with the contractual terms in the shareholder and joint venture agreements that may suggest a greater or lesser degree of control than that based on an observation of the ownership interest taken in isolation. A total assessment of all relevant elements in each specific case forms the basis for a conclusion concerning whether or not the Bank has control over the investment.

NOTE 3 NET INCOME FROM FINANCIAL INSTRUMENTS

Table 3.1 Net income from financial instruments before foreign exchange gains/losses

Amounts in NOK millions

						2013
	Interest income/ expense	Dividends	Net income/ expense	Realised gains/ losses **	Unrealised gains/ losses	Total
Interest income from deposits and claims	39	-	-	-	-	39
Interest income from lending to banks	243	-	-	-	-	243
Interest income from lending associated with reverse repurchase agreements	26	-	-	-	-	26
Net income/expense and gains/losses from:						
- Equities *	-	2 694	69	3 721	23 927	30 411
- Bonds and other fixed income securities	4 495	-	-	-138	-6 617	-2 260
- Financial derivatives	-1	-	-	36	-19	16
Interest expense, borrowing associated with repurchase agreements	-22	-	-	-	-	-22
Interest expense on banks' and Treasury deposits:						
- Of which interest expense paid to Treasury	-	-	-	-	-	-
- Of which interest expense paid on sight deposits from banks	-498	-	-	-	-	-498
- Of which interest expenses paid on F-deposits from banks	-143	-	-	-	-	-143
- Of which interest expenses paid on depots operated by banks	-15	-	-	-	-	-15
Net interest income, from claims on/liabilities to the International Monetary Fund	11	-	-	-	-	11
Tax expense	-	-	-17	-	-	-17
Other financial income/expenses	64	-	68	-	-	132
Net income from financial instruments before foreign exchange gains/losses	4 199	2 694	120	3 619	17 291	27 923

Amounts in NOK millions

						2012
	Interest income/ expense	Dividends	Net income/ expense	Realised gains/ losses **	Unrealised gains/ losses	Total
Interest income from deposits and claims	19	-	-	-	-	19
Interest income from lending to banks	283	-	-	-	-	283
Interest income from lending associated with reverse repurchase agreements	47	-	-	-	-	47
Net income/expense and gains/losses from:						
- Equities *	-	2 619	76	-63	13 118	15 750
- Bonds and other fixed income securities	4 009	-	-	2 092	-177	5 924
- Financial derivatives	-1	-	-	-106	64	-43
Interest expense, borrowing associated with repurchase agreements	-3	-	-	-	-	-3
Interest expense on banks' and Treasury deposits:						
- Of which interest expense paid to Treasury	-641	-	-	-	-	-641
- Of which interest expense paid on sight deposits from banks	-513	-	-	-	-	-513
- Of which interest expenses paid on F-deposits from banks	-185	-	-	-	-	-185
- Of which interest expenses paid on depots operated by banks	-17	-	-	-	-	-17
Net interest income, from claims on/liabilities to the International Monetary Fund	15	-	-	-	-	15
Tax expense	-	-	-13	-	-	-13
Other financial income/expenses	98	-	1 229	-	-	1 327
Net income from financial instruments before foreign exchange gains/losses	**3 111**	**2 619**	**1 292**	**1 923**	**13 005**	**21 950**

* Net income/expense from equities is associated with securities lending.
** Tax-related transaction costs arising from asset management are primarily deducted from the income statement line for the relevant investment type. These are typically transaction costs.

INTEREST TERMS FOR LOANS TO BANKS

Fixed-rate loans (F-loans) are an instrument primarily used to supply liquidity to the banking system. They are issued against collateral in the form of securities. The maturity on F-loans is determined by Norges Bank and varies depending on the projection of structural liquidity. Average maturity on F-loans to banks was 0.2 month in 2013 compared with 0.1 month in 2012.

The interest rates on F-loans are normally determined by multi-price auctions. In a multi-price auction, also referred to as an American auction or an ordinary auction, banks submit bids for a desired amount and interest rate. Norges Bank decides the aggregate amount of the allotment. The banks' interest rate bids are ranked in descending order. Banks that place bids within the aggregate amount will be awarded an amount at the interest rate submitted.

INTEREST TERMS FOR DEPOSITS FROM BANKS

Sight deposits: Banks can deposit unlimited reserves in Norges Bank via the standing deposit facility. The interest rate on deposits less than or equal to a bank's quota is equal to the key policy rate (sight deposit rate). Sight deposits in excess of this quota bear a lower interest – the reserve rate. In 2013 and 2012, the reserve rate was 100 basis points lower than the key policy rate.

Banks have been divided into three groups, with all banks in a particular group allocated the same quota. Settlement banks are also allocated a supplemental quota in addition to the quota for their particular group.

Fixed-rate deposits: Norges Bank reduces the quantity of reserves in the banking system by providing banks with fixed-rate deposits (F-deposits). As in the case of F-loans, the interest rate is normally determined by multi-price auction. The maturity on F-deposits is determined by Norges Bank and varies depending on the projection of structural liquidity. Norges Bank can provide F-deposits at a floating rate, i.e. the interest rate on the F-deposits depends on the benchmark rate in the money market. Average maturity for F-deposits from banks was 0.2 month in 2013, compared with 0.1 month in 2012.

INTEREST TERMS FOR DEPOSITS FROM THE TREASURY

Interest terms for deposits from the government are set in a special agreement between Norges Bank and the Ministry of Finance. The deposit rate is calculated on the basis of money market rates weighted between Norwegian and foreign rates in proportion to investments in Norges Bank's balance sheet (excluding Investment for and Deposits krone account GPFG).

Interest on Treasury deposits was paid at an annual rate of 0% during all of 2013. In 2012, interest was paid at annual rate of 0.75% in Q1, 0.50% in Q2 and 0.25% in Q3 and Q4. The same interest rates apply to deposits from public sector account holders who receive interest on their deposits.

TAX EXPENSE

Tax expense comprises taxes in accordance with IAS 12 *Income Taxes*. The applicable taxes are withholding tax on dividend and interest income and capital gains tax. These give rise to tax expenses related to the long-term portfolio (see specification in Table 3.2).

For a description of the treatment of tax expenses, see Note 25 GPFG Note 4 Tax expense.

Table 3.2 Tax expense, long-term portfolio

Amounts in NOK millions

					2013
	Gross income before taxes	Income taxes deducted	Income taxes refunded	Tax expense	Net income after taxes
Dividend equities - withholding tax	2 686	57	-40	17	2 669
Total tax expense		**57**	**-40**	**17**	

Amounts in NOK millions

					2012
	Gross income before taxes	Income taxes deducted	Income taxes refunded	Tax expense	Net income after taxes
Dividend equities - withholding tax	2 595	47	-34	13	2 582
Total tax expense		**47**	**-34**	**13**	

NOTE 4 MANAGEMENT FEE, GPFG

Table 4.1 shows Norges Bank's total operating expenses that are reimbursed by the Ministry of Finance as principal for the management of the GPFG. Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each of the portfolios managed by Norges Bank. All other costs included in the basis for calculation of the management fee are costs that are common to the management of the GPFG and the long-term reserves, and are allocated to the individual portfolio using a cost-allocation model based primarily on market values and asset-class composition. Performance-based fees to external managers are covered outside of the set limit, as part of the management fee. The management fee is a function of expenses presented in Norges Bank's income statement as Total other operating expenses.

Table 4.1 Specification of the management fee

Amounts in NOK millions

	2013	2012
Salary, social security and other personnel related costs	709	587
Custody and settlement costs	423	351
IT-services, systems and data *	454	432
Research, consulting and legal fees *	99	64
Other costs	103	90
Allocated common costs Norges Bank	104	90
Base fee to external managers	313	272
Management fee excluding performance-based fees	**2 205**	**1 886**
Performance-based fees to external managers	684	307
Total management fees	**2 889**	**2 193**

* Outsourced IT and analysis costs have been moved and are presented as IT-services, systems and data and Research, consulting and legal fees. Comparative amounts for 2012 have been restated.

NOTE 5 OTHER OPERATING INCOME

Table 5.1 Other operating income

Amounts in NOK millions

	2013	2012
Services, banks	59	59
Services, government	35	27
Rent, external	23	20
Other income	8	7
Other operating income	**125**	**113**

SERVICES FOR BANKS

Norges Bank performs settlement services for banks through Norges Bank's settlement system (NBO). To promote efficient and robust settlement of payments in Norges Bank, expenses for account maintenance and settlement services are covered by the annual fees for NBO. The assumption is that revenues will cover two-thirds of the overall cost of implementing and operating the settlement system. A third of expenses is attributable to central banking functions and covered by Norges Bank.

SERVICES FOR THE GOVERNMENT

The Ministry of Finance is responsible for managing the government's debt securities and cash holdings. Pursuant to agreements between Norges Bank and the Ministry of Finance, some responsibilities associated with the management of the government's debt and cash holdings have been assigned to Norges Bank. Norges Bank's responsibilities are related to market operations in government bonds and Treasury bills. The Ministry of Finance covers Norges Bank's expenses for these services.

NOTE 6 PERSONNEL EXPENSES

Table 6.1 Specification of personnel expenses

Amounts in NOK millions

	2013	2012
Salary and fees	803	662
Employer's social security contributions	110	89
Pension expense, see Note 22	161	236
Restructuring costs, see Note 22	1	0
Other personnel expenses	134	120
Personnel expenses	**1 209**	**1 107**

Norges Bank had 701 permanent employees at 31 December 2013, corresponding to 693.9 full-time equivalents (FTEs). At 31 December 2012, there were 660 permanent employees, corresponding to 654.5 FTEs.

BENEFITS TO GOVERNING BODIES AND SENIOR MANAGEMENT

Supervisory Council

In 2013, the chair of the Supervisory Council received annual remuneration of NOK 48 400, the deputy chair received NOK 30 400 and the other members of the Council received NOK 23 600. Alternates received annual fixed remuneration of NOK 3 900 and NOK 2 250 for each meeting attended. Members of the Permanent Committee receive annual remuneration of NOK 48 400. Total remuneration to members and alternates of the Permanent Committee and the Supervisory Council totalled NOK 705 200 in 2012, compared with 699 542 in 2012.

Expenses for Norges Bank's Supervisory Council and the Office of the Supervisory Council amounted to NOK 11 756 960 in 2013, compared with NOK 13 340 870 in 2012. With regard to remuneration to members of the Supervisory Council and the director of the Office of the Supervisory Council, reference is made to the Supervisory Council's report to the Storting for 2013.

Executive Board – external members

Remuneration to members and alternates of the Executive Board is determined by the Ministry of Finance.

Table 6.2 Remuneration to the Executive Board

Name	Total remuneration	Executive Board	Audit Committee	2013 Remuneration Committee
Liselott Kilaas	255 000	198 000	57 000	-
Egil Matsen	255 000	198 000	57 000	-
Ida Helliesen	266 000	198 000	68 000	-
Eirik Wærness	203 200	198 000	-	5 200
Brit Rugland	203 200	198 000	-	5 200

Name	Total remuneration	Executive Board	Audit Committee	2012 Remuneration Committee
Liselott Kilaas	256 000	190 000	66 000	-
Egil Matsen	245 000	190 000	55 000	-
Ida Helliesen	245 000	190 000	55 000	-
Eirik Wærness	210 000	190 000	-	20 000
Brit Rugland	210 000	190 000	-	20 000

Alternates received a fixed annual remuneration of NOK 130 000. Total remuneration to members and alternates of the Executive Board, Audit Committee and Remuneration Committee was NOK 1 422 400 in 2013, compared with NOK 1 416 000 in 2012.

Governor and Deputy Governor

The salaries of the Governor and Deputy Governor of Norges Bank are determined by the Ministry of Finance. In addition, they have a company car at their disposal, a free telephone and insurance covered by their employer. Governor Øystein Olsen is a member of Norges Bank's pension fund. The terms and conditions of his retirement benefits are the terms and conditions for the pension fund in force on the date in question.
A full retirement pension for Deputy Governor Jan F. Qvigstad is 2/3 of final salary adjusted in line with pensions in the National Insurance scheme. Retirement benefits are payable from the date of retirement, albeit not before the age of 65. The period of service for full benefit is 12 years. The pension plan will be coordinated with other public pension plans, but this is not taken into account in the calculation of current earned pension benefits. Deputy Governor Qvigstad has a pension entitlement from his previous period of service at Norges Bank. Coordination of this entitlement would offset current estimated earned pension benefit.

Table 6.3 Remuneration to the Governor and Deputy Governor

					2013
Executive	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 032 715	164 641	482 304	-
Deputy Governor	Jan F. Qvigstad	1 690 919	155 223	1 412 219	1 555 000

					2012
Executive	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	1 959 712	165 730	581 941	-
Deputy Governor	Jan F. Qvigstad	1 628 673	171 061	1 695 736	1 555 000

SALARIES AND RETIREMENT BENEFITS FOR OTHER SENIOR EXECUTIVES AT NORGES BANK

Senior executives are entitled to the same retirement benefits and have the same borrowing rights as the Bank's other employees. Pension plans are discussed in Note 22 Pension benefit obligation and loans to employees are discussed in Note 16 Other financial assets.

Benefits to senior executives in Norges Bank Central Banking Operations

The Executive Board sets a salary interval for executive directors in Central Banking Operations. The Governor determines annual salary within this interval.

Table 6.4 Remuneration to senior executives

					2013
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Amund Holmsen	1 440 642	19 433	212 431	2 740 000
Executive Director, Monetary Policy	Birger Vikøren	1 473 752	23 186	248 468	1 031 030
Executive Director, Markets and Banking Services	Kristin Gulbrandsen	1 497 782	18 279	328 705	2 058 029
Executive Director, Corporate and Shared Services	Jannecke Ebbesen	1 443 446	21 755	262 062	2 500 000
Executive Director, General Secretariat	Jon Nicolaisen	1 510 624	17 168	318 794	100 000
Director, Internal Audit	Ingunn Valvatne	1 478 005	31 146	316 618	1 176 000
Director, Communications and External Relations	Siv Meisingseth[1)]	894 012	15 902	212 154	2 009 854
Director, Communications and External Relations	Hilde Singsaas[2)]	178 571	1 836	60 747	-
General Counsel	Marius Ryel	1 514 519	21 995	328 282	-

1) Siv Meisingseth resigned from the position of Director of Communications and External Relations on 31 August 2013.
2) Hilde Singsaas became Director of Communications and External Relations on 11 November 2013.

					2012
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Executive Director, Financial Stability	Amund Holmsen[1)]	820 650	13 376	180 240	2 815 000
Executive Director, Monetary Policy	Birger Vikøren[2)]	834 710	15 758	193 496	1 093 518
Executive Director, Markets and Banking Services	Kristin Gulbrandsen[3)]	1 456 843	26 040	396 660	2 129 577
Executive Director, Corporate and Shared Services	Jannecke Ebbesen	1 389 511	25 883	348 589	-
Executive Director, General Secretariat	Jon Nicolaisen[4)]	1 463 147	21 970	419 473	150 000
Director, Internal Audit	Ingunn Valvatne	1 433 046	36 462	426 548	1 232 000
Director, Communications and External relations	Siv Meisingseth[5)]	517 537	10 047	175 510	2 164 461
General Counsel	Marius Ryel[6)]	1 461 524	24 122	428 564	-

1) Amund Holmsen became Executive Director of Financial Stability on 1 June 2012.
2) Birger Vikøren became Executive Director of Monetary Policy on 1 June 2012.
3) Kristin Gulbrandsen became Executive Director of Markets and Banking Services on 1 June 2012.
4) Jon Nicolaisen became Executive Director of the General Secretariat on 1 June 2012.
5) Siv Meisingseth was on leave until 1 August 2012.
6) Marius Ryel became General Counsel on 1 June 2012.

Remuneration to senior executives in Norges Bank Investment Management

The Executive Board sets a salary interval for the chief executive officer (CEO) of Norges Bank Investment Management. The Governor determines annual salary within this interval. Salaries for other members of the Norges Bank Investment Management leader group are determined by the CEO in consultation with the Executive Board and based on annual assessments. Stated remuneration pertains to the period during which the employee was a member of the leader group.

Table 6.5 Remuneration to senior executives in Norges Bank Investment Management

					2013
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
CEO	Yngve Slyngstad	5 930 377	24 518	398 954	603 995
Deputy CEO and Chief of Staff	Trond Grande	3 801 524	15 397	287 735	-
CIO Equities	Petter Johnsen	5 748 000	63 136	574 800	-
CIO Real Estate	Karsten Kallevig	4 073 061	45 220	272 135	-
Chief Treasurer	Jessica Irschick[1)]	1 609 440	55 791	160 944	-
Chief Risk Officer	Jan Thomsen	3 446 715	19 498	293 484	-
Chief Operating Officer	Age Bakker	3 091 906	15 854	337 748	-

1) Jessica Irschick resigned from the position of Chief Treasurer on 30 April 2013.

					2012
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
CEO	Yngve Slyngstad	5 930 377	46 933	542 241	704 662
Deputy CEO and Chief of Staff	Trond Grande	3 791 524	19 549	426 830	-
CIO Equities	Petter Johnsen	4 903 500	60 400	490 350	-
CIO Real Estate	Karsten Kallevig	3 800 367	31 235	424 906	-
Chief Treasurer	Jessica Irschick	4 903 500	208 987	490 350	-
Chief Risk Officer	Jan Thomsen	3 433 215	12 532	407 460	-
Chief Operating Officer	Age Bakker	3 059 321	16 097	457 104	-

NOTE 7 OTHER OPERATING EXPENSES

Table 7.1 Other operating expenses

Amounts in NOK millions

	2013	2012
Custody and settlement costs	452	377
IT-services, systems and data	625	581
Research, consulting and legal fees	194	136
Other costs	215	251
Base fees to external managers	313	272
Performance-based fees to external managers	684	307
Total other operating expenses	**2 483**	**1 924**

* Expenses for Outsourced IT and analysis costs have been reclassified and are presented as IT systems and data and Analysis, consulting and legal services, respectively. Comparative amounts for 2012 have been restated.

Table 7.2 Fees, external auditor

Amounts in NOK thousands (excluding VAT).

	2013	2012
Statutory audit	11 824	10 074
Other assurance services	4 301	2 908
Tax advice	266	16
Other services	169	660
Total fees, external auditor	**16 560**	**13 658**

AUDIT EXPENSES IN SUBSIDIARIES

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

Table 7.3 Fees, external auditors subsidiaries

Amounts in NOK thousands

	2013	2012
Statutory audit	2 302	1 537
Other assurance services	-	-
Tax advice	71	246
Other services	211	85
Total fees, external auditors subsidiaries	**2 584**	**1 868**

NOTE 8 FOREIGN EXCHANGE RESERVES - FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY PORTFOLIO AND CURRENCY

Norges Bank's foreign exchange reserves comprise Norges Bank's foreign exchange assets. Norges Bank's foreign exchange reserves are divided between a long-term portfolio managed by Norges Bank Investment Management and a money market portfolio and a petroleum buffer portfolio managed by Markets and Banking Services in Central Banking Operations. The portfolios are managed under different mandates and have different risk profiles.

The petroleum buffer portfolio is used for regular purchases of foreign exchange for the GPFG. This portfolio receives funds from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the foreign exchange markets.

Table 8.1 Foreign exchange reserves by portfolio

Amounts in NOK millions

					31 Dec. 2013
			PORTFOLIOS		
	Long-term	Money market	Petroleum buffer	Not included in exchange reserves	Total exchange reserves
FINANCIAL ASSETS					
Deposits in banks	59	3 207	2 948	-	6 214
Lending associated with reverse repurchase agreements	1 365	5 628	15 201	-	22 194
Unsettled trades	2	-	-	-	2
Equities	114 272	-	-	-	114 272
Equities lent	4 355	-	-	-	4 355
Bonds and other fixed income instruments	154 467	30 953	-	-	185 420
Financial derivatives	7	1	-	-	8
Other financial assets	158	-	-	108	50
Total financial assets	**274 685**	**39 789**	**18 149**	**108**	**332 515**
FINANCIAL LIABILITIES					
Short-term borrowing	0	-	0	-	0
Borrowing associated with repurchase agreements	0	-	-	-	0
Cash collateral received	1 365	-	-	-	1 365
Unsettled trades	-	1 528	-	-	1 528
Financial derivatives	12	0	9	-	21
Other financial liabilities	-	0	1 278	-	1 278
Total financial liabilities	**1 377**	**1 528**	**1 287**	**-**	**4 192**
Net foreign exchange reserves*	**273 308**	**38 261**	**16 862**	**108**	**328 323**

Amounts in NOK millions

			PORTFOLIOS		31 Dec. 2012
	Long-term	Money market	Petroleum buffer	Not included in exchange reserves	Total exchange reserves
FINANCIAL ASSETS					
Deposits in banks	107	3 565	0	-	3 672
Lending associated with reverse repurchase agreements	1 546	3 361	7 481	-	12 388
Unsettled trades	1	-	-	-	1
Equities	96 520	-	-	-	96 520
Equities lent	2 821	-	-	-	2 821
Bonds and other fixed income instruments	125 496	27 239	-	-	152 735
Financial derivatives	6	0	0	-	6
Other financial assets	2 053	-	-	2 039	14
Total financial assets	**228 550**	**34 165**	**7 481**	**2 039**	**268 157**
FINANCIAL LIABILITIES					
Short-term borrowing	0	-	-	-	0
Borrowing associated with repurchase agreements	0	-	-	-	0
Cash collateral received	1 160	-	-	-	1 160
Unsettled trades	-	-	1 450	-	1 450
Financial derivatives	4	0	0	-	4
Other financial liabilities	2	-	1 013	-	1 015
Total financial liabilities	**1 166**	**0**	**2 463**	**-**	**3 629**
Net foreign exchange reserves*	**227 384**	**34 165**	**5 018**	**2 039**	**264 528**

* For the long-term portfolio, Net foreign exchange reserves include outstanding balances with the GPFG. Outstanding balances are excluded from the term foreign exchange reserves presented in Norges Bank's annual financial statements (cf. IMF definition).

Table 8.2 Foreign exchange reserves by currency

Amounts in NOK millions

								31 Dec. 2013
	USD	CAD	EUR	GBP	CHF	JPY	Other	TOTAL
FINANCIAL ASSETS								
Deposits in banks	6 082	3	60	32	0	18	19	6 214
Lending associated with reverse repurchase agreements	11 585	-	10 609	-	-	-	-	22 194
Unsettled trades	2	-	-	-	-	-	-	2
Equities	62 215	4 556	13 826	10 224	4 014	9 700	9 737	114 272
Equities lent	1 725	43	658	41	40	1 005	843	4 355
Bonds and other fixed income instruments	90 326	-	63 375	16 119	-	15 600	-	185 420
Financial derivatives	1	-	0	0	-	-	7	8
Other financial assets	5	0	10	4	31	-	0	50
Total financial assets	**171 941**	**4 602**	**88 538**	**26 420**	**4 085**	**26 323**	**10 606**	**332 515**
FINANCIAL LIABILITIES								
Short-term borrowing	-	0	0	0	0	0	0	0
Borrowing associated with repurchase agreements	-	-	-	-	-	-	-	-
Cash collateral received	1 365	-	-	-	-	-	-	1 365
Unsettled trades	1 528	-	-	-	-	-	-	1 528
Financial derivatives	0	-	9	12	-	-	-	21
Other financial liabilities	1 278	-	-	-	-	-	-	1 278
Total financial liabilities	**4 171**	**0**	**9**	**12**	**0**	**0**	**0**	**4 192**
Net foreign exchange reserves	**167 770**	**4 602**	**88 529**	**26 408**	**4 085**	**26 323**	**10 606**	**328 323**

Amounts in NOK millions

								31 Dec. 2012
	USD	CAD	EUR	GBP	AUD	JPY	Other	TOTAL
FINANCIAL ASSETS								
Deposits in banks	2 123	1	1 445	31	1	57	14	3 672
Lending associated with reverse repurchase agreements	6 913	-	5 089	-	-	386	-	12 388
Unsettled trades	-	-	-	-	1	-	-	1
Equities	50 051	4 602	12 052	8 741	3 452	7 098	10 524	96 520
Equities lent	861	51	293	42	225	845	504	2 821
Bonds and other fixed income instruments	76 337	-	51 832	13 343	-	11 214	9	152 735
Bonds lent	-	-	-	-	-	-	-	-
Financial derivatives	5	-	0	1	-	-	-	6
Other financial assets	7	0	4	2	0	-	1	14
Total financial assets	136 297	4 654	70 715	22 160	3 679	19 600	11 052	268 157
FINANCIAL LIABILITIES								
Short-term borrowing	0	0	0	0	0	0	0	0
Borrowing associated with repurchase agreements	-	-	-	-	-	-	-	-
Cash collateral received	1 160	-	-	-	-	-	-	1 160
Unsettled trades	-	-	1 450	-	-	-	-	1 450
Financial derivatives	0	-	0	4	-	-	-	4
Other financial liabilities	1 015	-	-	-	-	-	-	1 015
Total financial liabilities	2 175	0	1 450	4	0	0	0	3 629
Net foreign exchange reserves	**134 122**	**4 654**	**69 265**	**22 156**	**3 679**	**19 600**	**11 052**	**264 528**

NOTE 9 INTERNATIONAL RESERVES

Norges Bank regularly reports International reserves to Statistics Norway and the International Monetary Fund (IMF). International reserves, as defined by the IMF, comprise Norges Bank's foreign exchange reserves, claims on and liabilities to the IMF, special drawing rights (SDRs), gold and other specified marketable reserve assets.

Table 9.1 Foreign exchange reserves and international reserves

Amounts in NOK millions

	31 Dec. 2013 Foreign exchange reserves	31 Dec. 2012 Foreign exchange reserves	31 Dec. 2013 International reserves	31 Dec. 2012 International reserves
FINANCIAL ASSETS				
Deposits in banks	6 214	3 672	6 214	3 672
Lending associated with reverse repurchase agreements	22 194	12 388	22 194	12 388
Unsettled trades	2	1	-	-
Equities	114 272	96 520	114 272	96 520
Equities lent	4 355	2 821	4 355	2 821
Bonds and other fixed income instruments	185 420	152 735	185 420	152 735
Financial derivatives	8	6	8	6
Claims on the IMF	-	-	36 239	32 947
Other financial assets	50	14	3	4
Total financial assets	**332 515**	**268 157**	**368 705**	**301 093**
FINANCIAL LIABILITIES				
Short-term borrowing	0	0	-	-
Borrowing associated with repurchase agreements	0	0	-	-
Cash collateral received	1 365	1 160	-	-
Unsettled trades	1 528	1 450	-	-
Financial derivatives	21	4	12	4
Other financial liabilities	1 278	1 015	1 278	1 013
Liabilities to the IMF	-	-	13 789	11 463
Total financial liabilities	**4 192**	**3 629**	**15 079**	**12 480**
TOTAL FOREIGN EXCHANGE RESERVES	328 323	264 528		
TOTAL INTERNATIONAL RESERVES			353 626	288 613

NOTE 10 EQUITIES, BONDS AND OTHER FIXED INCOME INSTRUMENTS

Table 10.1 Equities

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
EQUITIES:				
Listed equities	118 627	149	99 342	124
OTC equities	200	0	200	0
Total equities	118 827	149	99 542	124
Of which equities lent	*4 355*	-	*2 821*	-

Table 10.2 Bonds and other fixed income instruments

Amounts in NOK millions

			31 Dec. 2013
	Nominal value *	Fair value including accrued interest	Accrued interest
Government bonds	173 155	183 255	1 700
Government-related bonds	-	-	-
Corporate bonds	284	43	-
Securitised bonds	4	0	-
Treasury bills	2 123	2 122	-
Total bonds and other fixed income instruments	175 566	185 420	1 700
Of which bonds lent	-	-	-

Amounts in NOK millions

			31 Dec. 2012
	Nominal value *	Fair value including accrued interest	Accrued interest
Government bonds	133 166	149 010	1 307
Government-related bonds	19	12	0
Corporate bonds	326	90	1
Securitised bonds	1 794	1 422	38
Treasury bills	2 229	2 201	0
Total bonds and other fixed income instruments	137 534	152 735	1 346
Of which bonds lent	-	-	-

* Nominal values have been translated into NOK at the closing rate at the balance sheet date. The nominal value comprises the face value of the instrument or principal.

NOTE 11 TRANSFERRED FINANCIAL ASSETS

SECURITIES LENDING

For the long-term portfolio, Norges Bank has entered into securities lending agreements with external agents. These agreements give the agents the right to lend securities owned by Norges Bank to other market participants with borrowing needs. Both equities and bonds are lent through securities lending programmes. See Note 25 GPFG Note 7 Transferred financial assets for a description of such securities lending programmes.

Net income related to equities lending within the long-term portfolio amounted to NOK 69m in 2013, while the corresponding income for 2012 was NOK 76m. See Note 3 Net income from financial instruments.

REPURCHASE AGREEMENTS

Norges Bank uses the markets for repurchase agreements in its financing activities. See Note 12 Collateral and offsetting and Note 25 GPFG Note 7 Transferred financial assets for a detailed description of this type of transaction.

Table 11.1 Transferred financial assets

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
SECURITIES LENDING PROGRAM				
Equities	4 355	4 355	2 821	2 821
Total transferred financial assets still recognised in the balance sheet	**4 355**	**4 355**	**2 821**	**2 821**
ASSOCIATED LIABILITIES				
Cash collateral received associated with securities lending	1 365	1 365	1 160	1 160
Total associated liabilities	**1 365**	**1 365**	**1 160**	**1 160**

NOTE 12 COLLATERAL AND OFFSETTING

COLLATERAL

Norges Bank is a party to various types of transaction in which collateral is received or posted. These include securities lending transaction, derivative transactions and repurchase and reverse repurchase agreements (see Note 11 Transferred financial assets and Note 13 Financial derivatives). For a description of follow-up of counterparty risk related to collateral, see Note 24 Risk.

SECURITIES LENDING

When a security is lent out, the borrower transfers collateral to the agent in the form of cash or securities. The collateral includes a margin and is held on behalf of Norges Bank.

FINANCIAL DERIVATIVES

Norges Bank posts or receives cash collateral in accordance with positions in foreign exchange contracts and over-the-counter (OTC) financial derivatives (interest rate swaps, credit default swaps and swaptions).

See Note 25 GPFG Note 8 Collateral and netting for a description of securities lending, repurchase and reverse repurchase agreements and financial derivatives.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Under repurchase or reverse repurchase agreement, Norges Bank receives or posts collateral in the form of securities in exchange for cash.

Table 12.1 Securities received as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities received as collateral under securities lending	-	2 904	-	1 463
Bonds received as collateral under securities lending	-	468	-	407
Equities received as collateral under reverse repurchase agreements	-	911	-	141
Bonds received as collateral under reverse repurchase agreements	-	22 088	-	11 248
Total securities received as collateral	-	**26 371**	-	**13 259**

Securities received in connection with securities lending or reverse repurchase agreements may be sold or pledged. At 31 December 2013 and 31 December 2012, no securities had been sold or pledged.

Table 12.2 Securities transferred or posted as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Equities transferred under securities lending	4 355	4 355	2 821	2 821
Bonds posted as collateral in futures contracts	203	203	192	192
Total securities transferred or posted as collateral	**4 558**	**4 558**	**3 013**	**3 013**

Table 12.3 Cash received/posted as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Received	Posted	Received	Posted
Related to repurchase agreements	-	22 970	-	12 388
Related to securities lending programme	1 365	-	1 160	-
Related to derivative transactions	-	99	-	94
Total cash collateral	**1 365**	**23 069**	**1 160**	**12 482**

* Reinvested in reverse repurchase agreements, NOK 1 365m.

Table 12.4 presents an overview of financial assets and liabilities, the effect of legally binding netting agreements and related collateral for reducing credit risk. For a description of netting, see Note 25 GPFG Note 8 Collateral and netting.

Table 12.4 Assets and liabilities subject to netting agreements

Amounts in NOK millions

ASSETS Description	Amounts subject to enforceable netting agreements: Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Security collateral received (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforceable netting agreements	31 Dec. 2013 Gross financial assets as recognised in the balance sheet
Derivatives	1	0	-	-	1	7	8
Lending associated with reverse repurchase agreements	22 194	-	747	21 447	-	776	22 970
Total	22 195	0	747	21 447	1	783	22 978

* Cash collateral posted is classified as Lending associated with reverse repurchase agreements and Other financial assets.

LIABILITIES Description	Amounts subject to enforceable netting agreements: Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	31 Dec. 2013 Gross financial liabilities as recognised in the balance sheet
Derivatives	12	0	11	-	1	9	21
Borrowing associated with repurchase agreements	-	-	-	-	-	-	-
Cash collateral received	1 365	-	747	614	4	-	1 365
Total	1 377	0	758	614	5	9	1 386

Amounts in NOK millions

ASSETS Description	Amounts subject to enforceable netting agreements: Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	31 Dec. 2012 Gross financial liabilities as recognised in the balance sheet
Derivatives	6	1	-	-	5	-	6
Lending associated with reverse repurchase agreements	10 938	-	625	10 313	-	1 450	12 388
Total	10 944	1	625	10 313	5	1 450	12 394

LIABILITIES Description	Amounts subject to enforceable netting agreements: Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	31 Dec. 2012 Gross financial liabilities as recognised in the balance sheet
Derivatives	4	1	-	-	3	-	4
Cash collateral received	1 160	-	625	525	10	-	1 160
Total	1 164	1	625	525	13	-	1 164

NOTE 13 FINANCIAL DERIVATIVES

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a cost-efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities, bond or the fixed income markets in general, or to specific markets or companies.

Table 13.1 is a specification of financial derivative holdings at market value as at 31 December 2013 and 31 December 2012, classified as assets or liabilities. Table 13.2 shows exposure expressed as the notional amounts of financial derivatives for long and short positions. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. The sum of the absolute amounts of long and short positions is the gross exposure, which provides information about the extent to which different types of financial derivatives are used. The net position is the difference resulting from subtracting short positions from long positions. This is an indication of the total risk exposure from each type of financial derivative.

Table 13.1 Specification of financial derivatives – fair value

Amounts in NOK millions

	Fair value					
	31 Dec. 2013			31 Dec. 2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Foreign exchange contracts	-	9	-9	-	-	-
Listed futures contracts	1	0	1	5	-	5
Swap contracts	0	12	-12	1	4	-3
Options	7	-	7	-	-	-
Total financial derivatives	8	21	-13	6	4	2

Table 13.2 Financial derivatives – Exposure

Amounts in NOK millions

	Exposure							
	31 Dec. 2013		Average 2013		31 Dec. 2012		Average 2012 *	
	Long	Short	Long	Short	Long	Short	Long	Short
Foreign exchange contracts	1 287	-	2 807	-	1 539	-	2 515	-
Listed futures contracts	1 028	1 511	1 838	2 035	-	795	1 697	4 011
Swap contracts	0	38	0	31	0	27	1	27
Options	7	-	4	-	-	-	-	-
Total financial derivatives	2 322	1 549	4 649	2 066	1 539	822	4 213	4 038

* Comparative amounts have been restated as a consequence of new calculation methodology.

For a detailed description of the various financial derivatives, see Note 25 GPFG Note 9 Financial derivatives.

NOTE 14 INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, sustain economic growth, promote high employment and reduce poverty around the world. The IMF gives advice to member countries and provides temporary funding in the event of balance of payments problems. Norges Bank administers Norway's financial rights and fulfils the obligations ensuing from participation in the IMF.

Table 14.1 Claims on and liabilities to the IMF

Amounts in NOK millions

					31 Dec. 2013
	*Loan resource commitments**	Amounts drawn on commitments	Subscriptions **	SDRs	Total amount recognised
FINANCIAL ASSETS					
IMF quota	-	-	17 624	-	17 624
Holdings of Special Drawing Rights (SDR)	-	-	-	13 909	13 909
Loans to the IMF, New Arrangements to Borrow (NAB)	*36 211*	4 706	-	-	4 706
Bilateral borrowing agreement with the IMF	*56 127*	-	-	-	-
Loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	*2 806*	2 191	-	-	2 191
Claims on the IMF	*95 144*	6 897	17 624	13 909	38 430
FINANCIAL LIABILITIES					
Krone liability to the IMF	-	-	13 789	-	13 789
Equivalent value of SDR allocations	-	-	-	14 624	14 624
Liabilities to the IMF	-	-	13 789	14 624	28 413
Net positions with the IMF	*95 144*	6 897	3 835	-715	10 017

Amounts in NOK millions

					31 Dec. 2012
	Loan resource commitments*	Amounts drawn on commitments	Subscrip-tions **	SDRs	Total amount recognised
FINANCIAL ASSETS					
IMF quota	-	-	16 126	-	16 126
Holdings of Special Drawing Rights (SDR)	-	-	-	12 855	12 855
Loans to the IMF, New Arrangements to Borrow (NAB)	*33 136*	3 966	-	-	3 966
Bilateral borrowing agreement with the IMF	*51 360*	-	-	-	-
Loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	*2 568*	1 368	-	-	1 368
Claims on the IMF	*87 064*	5 334	16 126	12 855	34 315
FINANCIAL LIABILITIES					
Krone liability to the IMF	-	-	11 464	-	11 464
Equivalent value of allocated Special Drawing Rights	-	-	-	13 381	13 381
Liabilities to the IMF	-	-	11 464	13 381	24 845
Net positions with the IMF	*87 064*	5 334	4 662	-526	9 470

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

** Net subscriptions refer to the reserve tranche position and is Norway's quota less Norway's krone liability to the IMF, i.e. the net amount at the bottom of the column. If necessary, Norges Bank may without condition request to borrow from the IMF an amount equal to Norway's reserve tranche position.

IMF quotas

The IMF allocates quotas to member countries which primarily reflect member countries' relative size in the world economy. The quota determines the member country's financial contribution to the IMF and provides the basis for determining the amount of financing the member can access in the event of balance of payments problems. 75% of the quota is paid to the IMF in the country's own currency, while the remainder (25%) is normally paid in SDRs or a widely used foreign currency. Norway's quota at 31 December 2013 was SDR 1 883.7m, unchanged from 2012.

IMF quotas – The 14th General Review of Quotas

In 2010, the IMF approved a quota reform as part of the 14th General Review of Quotas. Norway has ratified the agreement, but the reform has not come into effect, since it is yet to be ratified by a sufficient number of member countries. Once the reform comes into effect, quotas (member countries' subscriptions) will approximately double. Norway's quota will increase from SDR 1 883.7m to SDR 3 754.7m. On the same date that Norway pays in the quota increase, Norway's commitment to furnish funds for the NAB (see the section Lending below) will be reduced from SDR 3 871m to SDR 1 967m.

Special Drawing Rights and Equivalent value of allocated Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset created by the IMF in 1969. The value of the SDR is calculated on the basis of a currency basket comprising US dollars, euros, sterling and Japanese yen. The composition of the SDR is evaluated every five years. SDRs are periodically allocated to IMF member countries, most recently in 2010, on the basis of the size of member countries' quotas. Equivalent value of allocated SDRs in the IMF shows total allocations of SDRs since the scheme entered into force. As at 31 December 2013, a total of SDR 1 563.1m had been allocated to Norway. Allocated SDRs are unchanged from 2012. Holdings amounted to SDR 1 468.7m, compared with SDR 1 501.6m at end-2012.

After being allocated SDRs, IMF members may acquire SDRs in two ways, either by purchasing

SDRs from other member countries in a voluntary arrangement or when the IMF asks member countries in a strong position to purchase SDRs from member countries in a weaker position. SDRs cannot be used for direct purchases of goods and services. Net purchases and sales of SDRs in the period result in changes in the item Special Drawing Rights, which shows the actual holdings of SDRs.

Loans to the IMF, New Arrangements to Borrow (NAB)

The New Arrangements to Borrow (NAB) programme is used for loans if the IMF has a need for funds in excess of quota resources. Loans to the IMF under the NAB at 31 December 2013 totalled SDR 503m, or NOK 4 706m. The corresponding amount at end-2012 was SDR 463.3m or NOK 3 966m. Total loan resource commitments to the NAB amount to SDR 3 871m.

Bilateral borrowing agreement with the IMF, 2012 Borrowing Agreements.

On 12 October 2012, a bilateral borrowing agreement was signed between the IMF and Norges Bank. Under the agreement, the IMF will be provided with a borrowing facility in the form of a drawing arrangement of up to SDR 6bn and is part of a broader international effort to provide the IMF with sufficient resources to meet the borrowing needs of member countries in times of crisis. Thirty-eight countries have signed borrowing agreements or have pledged funding totalling around NOK 2 800bn.

Loans to the IMF's Poverty Reduction and Growth Trust (PRGT)

The Poverty Reduction and Growth Trust (PRGT) is a separate programme aimed at boosting the IMF's lending capacity to low-income countries. Loans to the PRGT at 31 December 2013 totalled SDR 234m SDR or NOK 2 191m. The corresponding amount for end-2012 was SDR 159.4m, or NOK 1 364m. Total loan resource commitments to the PRGT are SDR 300m.

Krone liability to the IMF

The IMF has deposited its NOK holdings with Norges Bank. The IMF's claim on Norges Bank is in SDRs, and its NOK holdings with Norges Bank are adjusted to eliminate any foreign exchange rate risk the IMF would have on its NOK holdings with Norges Bank. At 31 December 2013, the krone liability to the IMF was SDR 1 473.8m compared with SDR 1 339.1m at end-2012.

NET INTEREST INCOME ON CLAIMS ON/LIABILITIES TO THE IMF

Table 14.2 Net interest income, claims on/liabilities to the IMF

Amounts in NOK millions

				2013
	Amounts drawn on commitments	Subscriptions	SDR	Total
INTEREST INCOME				
Interest on the quota in the IMF	-	13	-	13
Interest on Special Drawing rights (SDR)	-	-	11	11
Interest on loans to the IMF, New Arrangements to Borrow (NAB)	3		-	3
Interest on bilateral loans to the IMF	-	-	-	-
Interest on loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	5	-	-	5
Interest income, IMF	8	13	11	32
INTEREST EXPENSES				
Interest on NOK liability to the IMF	-	10	-	10
Interest on equivalent value of allocated Special Drawing Rights	-	-	11	11
Interest expenses, IMF	-	10	11	21
Net interest income, claims on/liabilities to the IMF	8	3	0	11

Amounts in NOK millions

				2012
	Amounts drawn on commitments	Subscrptions	SDR	Total
INTEREST INCOME				
Interest on the quota in the IMF	-	16	-	16
Interest on Special Drawing rights (SDR)	-	-	14	14
Interest on loans to the IMF, New Arrangements to Borrow (NAB)	4	-	-	4
Interest on bilateral loans to the IMF	-	-	-	-
Interest on loans to the IMF's arrangements to low-income countries, Poverty Reduction and Growth Trust (PRGT)	8	-	-	8
Interest income, IMF	12	16	14	42
INTEREST EXPENSES				
Interest on NOK liability to the IMF	-	12	-	12
Interest on equivalent value of allocated Special Drawing Rights	-	-	15	15
Interest expenses, IMF	-	12	15	27
Net interest income, claims on/liabilities to the IMF	12	4	-1	15

Interest on Special Drawing Rights and Interest on equivalent value of SDR allocations

Member countries earn interest income from the IMF on their holdings of Special Drawing Rights. Interest income is recognised as Interest on Special Drawing Rights. Member countries are also charged for interest expenses by the IMF on the equivalent value of allocated Special Drawing Rights. Interest expenses are recognised as Interest on equivalent value of SDR allocations. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

Interest on the quota in the IMF and Interest on the krone liability to the IMF

Interest on the reserve tranche position (as defined in the footnote to Table 14.1 above) is calculated by the IMF. Interest is calculated net by the IMF, but presented gross in Norges Bank's financial statements as Interest on the quota in the IMF and Interest on NOK liability to the IMF. Interest is calculated monthly and netted quarterly. The interest rate is updated weekly by the IMF.

OTHER INCOME RELATED TO THE IMF

Income on the IMF's sale of gold holdings

In recent years, the IMF has sold portions of its gold holdings. A portion of the windfall profits from these sales is to be used for interest subsidies in the PRGT programme. IMF rules require that windfall profits from gold sales must be distributed to the membership, before they are returned to the PRGT. After obtaining assurances from Norway, the IMF transferred Norway's share of NOK 127m to Norges Bank on 22 October 2013. The transaction gives rise to this income on Norges Bank's income statement, while the actual payment to the PRGT programme will be made by the government. A similar sale took place in 2012, from which Norway's share of NOK 49m was transferred to Norges Bank.

NOTE 15 LENDING TO BANKS

Table 15.1 Lending to banks

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
F-loans to banks	-	12 006
Lending to banks	**-**	**12 006**

See Note 3 Net income from financial instruments for a description of fixed-rate loans (F-loans) to banks and Note 24 Risk for a discussion of credit risk associated with lending.

NOTE 16 OTHER FINANCIAL ASSETS

Table 16.1 Other financial assets

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Receivables from the GPFG related to management fee	2 889	2 193
Receivables from the GPFG related to investments *	108	2 039
Loan to Seðlabanki Íslands	1 664	1 461
Loans to employees	729	594
Other financial assets	223	173
Other financial assets	**5 613**	**6 460**

* Receivables from the GPFG related to investments comprise the net value of deposits and repurchase and reverse repurchase agreements vis-à-vis the GPFG. These related party transactions were carried out at arm's length.

LOAN TO ICELAND

As at 31 December 2013, Seðlabanki Íslands had drawn NOK 1 664m under a bilateral loan agreement with Norges Bank. As at 31 December 2012, Seðlabanki Íslands had drawn NOK 1 461m. The change from 2012 to 2013 in the amount drawn is due in its entirety to an exchange rate adjustment. The loan is guaranteed by the Icelandic and Norwegian governments.

LOANS TO EMPLOYEES

The Bank's loan scheme for its employees comprises residential mortgages and consumer loans. Mortgages are provided in accordance with guidelines from the Supervisory Council within 80% of assessed value, limited to NOK 2 520 000 and a maximum term of 30 years. Consumer loans are limited to a maximum of four times the employee's monthly salary, though not exceeding NOK 350 000 kroner. The loan schemes apply to all employees. The interest rate is linked to the norm rate (the norm rate for loans on favourable terms from an employer). The Ministry of Finance sets the norm rate up to six times a year. In 2013, the interest rate was 2.25% for the entire year. In 2012, the interest rate was 2.75% from January to April and 2.25% from May to December.

NOTE 17 BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The Bank for International Settlements (BIS) is located in Basel, Switzerland, and was established in 1930 to manage German war reparations after the First World War and to promote central bank cooperation in general. The BIS is an active forum for discussion and information sharing for central banks and financial supervisory authorities and carries out research and compiles statistics in those areas. The BIS acts as a bank for central banks, and its mission is to serve central banks in their pursuit of monetary and financial stability by fostering international cooperation in those areas. This means above all that the BIS coordinates transactions for central banks and on behalf of international organisations and provides loans during financial crises.

The BIS is a limited liability company owned by central banks. Norges Bank has been a shareholder since its founding. Norges Bank has 8 000 voting shares (with a face value of SDR 5 000) in the BIS. In addition, a further 564 non-voting shares (with a face value of SDR 5 000) were purchased in 2005, for a total of 8 564 shares.

The shares are carried at fair value under Equities. When the shares were issued, the BIS required payment of only 25% of the share capital, with the remaining 75% a contingent liability not recognised in the balance sheet.

Table 17.1 Shares in the BIS

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Shares in the BIS	200	200
Share capital in the BIS not paid, not recognised	300	275
Dividend received from the BIS	25	24

NOTE 18 OTHER NON-FINANCIAL ASSETS

Table 18.1 Other non-financial assets

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Non-current assets	1 661	1 529
Gold	291	291
Art and numismatic collections	82	82
Other assets	46	39
Other non-financial assets	**2 080**	**1 941**

NON-CURRENT ASSETS

Table 18.2 Non-current assets

Amounts in NOK millions

						2013
	Intangible assets	Property, plant and equipment				
	Software	Buildings	Land	Other	Plant under construction	Total
Cost at 1 Jan.	253	2 495	60	107	131	3 046
+ Additions	21	88	-	75	44	228
- Disposals	6	-	-	5	-	11
Cost at 31 Dec.	**268**	**2 583**	**60**	**177**	**175**	**3 263**
- Accumulated depreciation and impairment	192	1 308	-	102	-	1 602
Carrying amount at 31 Dec.	**76**	**1 275**	**60**	**75**	**175**	**1 661**
Depreciation for the year	**29**	**51**	**-**	**17**	**-**	**97**
Depreciation schedule, no. of years	3-6	5-75	none	4-10	none	

Amounts in NOK millions

						2012
	Intangible assets	Property, plant and equipment				
	Software	Buildings	Land	Other	Plant under construction	Total
Cost at 1 Jan.	238	2 472	60	106	20	2 896
+ Additions	20	23	-	3	111	157
- Disposals	5	-	-	2	-	7
Cost at 31 Dec.	**253**	**2 495**	**60**	**107**	**131**	**3 046**
- Accumulated depreciation and impairment	169	1 258	-	90	-	1 517
Carrying amount at 31 Dec.	**84**	**1 237**	**60**	**17**	**131**	**1 529**
Depreciation for the year	**27**	**50**	**-**	**11**	**-**	**88**
Depreciation schedule, no. of years	5-6	5-75	none	5-10	none	

BUILDINGS

Bankplassen 4:

Bankplassen 4 is being leased to the government for 80 years until 21 November 2066. The contract of lease is dated 21 November 1986. The deadline for non-renewal is 21 November 2065. The building is fully depreciated and its carrying amount at 31 December 2013 is NOK 0.

OTHER

Norges Bank is self-insured for owned buildings and fixtures.

NOTE 19 OTHER FINANCIAL LIABILITIES

Table 19.1 Other financial liabilities

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Current liability Norges Bank and the investment portfolio of the GPFG	1 278	1 013
Other financial liabilities	1 163	914
Other financial liabilities	2 441	1 927

NOTE 20 DEPOSITS FROM BANKS ETC.

Table 20.1 Deposits from banks etc.

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Sight deposits from banks	37 213	35 220
Fixed-rate deposits from banks	37 315	-
Other deposits	144	116
Deposits from banks etc.	74 672	35 336

See Note 3 Net income from financial instruments for a description of Sight deposits and Fixed-rate deposits with associated interest rate terms.

NOTE 21 NOTES AND COINS IN CIRCULATION

Notes and coins in circulation are recognised at 31 December 2013 in the amount of NOK 54.1bn and correspond to the total face value of all notes and coins put into circulation. The corresponding amount at 31 December 2012 was NOK 53.8bn.

Norges Bank is obliged to redeem notes and coins for 10 years following the decision to withdraw them as legal tender. In 2013, invalidated banknotes and coins were redeemed in the amount of NOK 17.3m, compared with NOK 1.9m in 2012. The amount was recognised as an expense under Other financial income/expenses.

No invalidated notes and coins were recognised as income in 2013. The deadline for redeeming banknotes in Series VI expired in 2012 and the face value of outstanding notes in Series VI was recognised as income in the amount of NOK 547.6m. Unredeemed invalidated coins from four older coin series had also been recognised as income as part of tightened redemption practices. These coin series had a face value of 704.6m. These amounts were recognised as income under Other financial income/expenses.

NOTE 22 PENSION BENEFIT OBLIGATION

Norges Bank has funded and unfunded pension and other benefit obligations. All funded and unfunded plans are included in the Bank's actuarial settlement.

Norges Bank's funded pension benefit obligations are covered by Norges Bank's own pension fund, which is organised as a separate legal entity. Retirement benefits are equal to 2/3 of the employee's salary at the time of retirement. The period of service for full benefits is 30 years. Employees contribute 2% of their gross annual salary into the pension fund. Norges Bank's contribution for 2013 and 2013 was covered by cash payments. Benefits from the pension fund are coordinated with benefits from the National Insurance scheme.

The basis for retirement benefits covered by the funded plan is limited to an amount equivalent to 12 times the basic pension (G). An unfunded pension plan funded out of current income was established as from 2007 to cover that portion of pensionable salaries in excess of 12G for those employees who already had an agreement entitling them to pension over and above this limit. For those whose employment began after 1 January 2007, the basis for retirement benefits is limited to 12G. The pension plan complies with public service pension requirements.

At 31 December 2013, the benefit obligation of Norges Bank's funded plans is NOK 2 611m, compared with NOK 2 515m at 31 December 2012. Assumptions concerning mortality and other demographic factors are based on standard K 2005 (strengthened). The IR 73 rate is used as a basis for calculating disability provisions. A 3% supplement for future administration costs is priced into the pension benefit obligation. Pension benefits pertaining to the individual employee are calculated on the basis of pension benefits earned or received as at 31 December 2013. The pension benefit obligation is equivalent to the calculated cash value of benefits earned.

At 31 December 2013, the Bank's funded pension plan covers 2 312 persons, of whom 962 are drawing retirement benefits, 658 are active members (including all those affected by restructuring) and 692 are members who have left the Bank with vested rights. At 31 December 2012, the plan covered 2 322 persons, of whom 966 were drawing retirement benefits, 652 were active members and 704 were members who have left the Bank with vested rights.

NORGES BANK'S BENEFIT OBLIGATIONS

Norges Bank has funded pension plans associated with membership in Norges Bank's pension fund. In addition, the Bank has unfunded plans funded out of current income. These are special and allocated pensions, the unfunded portions of pensions for employees with salaries higher than 12G earned after 1 January 2007, contractual early retirement pensions calculated on the basis of an expected 15% take-up rate and early retirement pensions and redundancy pay agreements related to restructuring. The benefit obligation related to restructuring is the present value of all agreements, including agreements with disbursements in 2014 or later.

Table 22.1 Economic and demographic assumptions

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Discount rate	4.00%	3.90%
Interest rate on assets	4.00%	3.90%
Rate of compensation increase	3.75%	3.50%
Rate of pension increase	2.75%	2.50%
Increase in social security base amount (G)	3.50%	3.25%
Expected annual attrition	2% up to age 50, then 0	2% up to age 50, then 0
Payroll tax/social security tax	14.10%	14.10%
Mortality table	K2013 FT	K2005
Disability table	KU	KU

Table 22.2 Reconciliation of net liability (assets) recognised in the balance sheet

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
CHANGE IN DEFINED BENEFIT OBLIGATION (DBO) INCL. PAYROLL TAX		
DBO at the beginning of the year	3 417	4 401
Service cost	119	163
Interest cost	134	116
Curtailment/settlement	-	-
Plan amendments	-	-
Acquisition (disposal)	-	-
Payroll tax of employer contribution	-25	-24
Benefits paid	-155	-160
Remeasurement loss (gain)	299	-1 079
DBO at year-end	**3 789**	**3 417**
CHANGE IN PLAN ASSETS		
Fair value of assets at the beginning of the year	3 088	2 795
Interest income	91	43
Settlement	-	-
Acquisition (disposal)	-	-
Employer contribution incl. payroll tax	203	204
Payroll tax of employer contribution	-25	-24
Benefits paid	-134	-131
Remeasurement loss (gain)	200	201
Fair value of assets at year-end	**3 423**	**3 088**
Pension scheme not recognised in the actuarial	1	1
Net amount recognised in the balance sheet	**-367**	**-330**

Table 22.3 Specification of funded and unfunded plans

Amounts in NOK millions

	31 Dec. 2013			31 Dec. 2012		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Accrued benefit obligations	3 618	172	3 790	3 252	166	3 418
Plan assets	-3 423	-	-3 423	-3 088	-	-3 088
Net benefit obligation/(-) plan assets	**195**	**172**	**367**	**164**	**166**	**330**

Table 22.4 Allocation of plan assets for funded(defined-benefit) plan

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Bonds	2 303	2 162
Equities	925	772
Real estate	195	154
Total	3 423	3 088

PENSION EXPENSE FOR EMPLOYEES IN NORWAY

Pension expense has been calculated in accordance with revised IAS 19 Employee Benefits and includes current service cost, interest expense and expected return on plan assets. Norges Bank's share of the lump-sum premiums for employees of Norsk Kontantservice AS previously employed by Norges Bank is included in pension expense.

The change in special and allocated benefits is included in the Bank's overall pension expense. Pension expense is shown in Table 22.5:

Table 22.5 Pension expense

Amounts in NOK millions

		2013		2012
Service cost and cost of benefit changes		150		192
Service cost incl. interest and payroll tax	119		163	
Administration cost incl. payroll tax	31		29	
Financial cost (income)		12		44
Net interest cost (income) incl. payroll tax	12		41	
Investment management cost incl. payroll tax	-		3	
Net periodic pension cost (income) *		162		236
Other comprehensive income (OCI) in the period				
Remeasurement loss (gain) - change in discount rate		-49		-781
Remeasurement loss (gain) - change in other financial assumptions		518		-248
Remeasurement loss (gain) - change in mortality table		185		-
Remeasurement loss (gain) - change in other demographic assumptions		-		-
Remeasurement loss (gain) - experience adjustments, DBO		-356		-49
Remeasurement loss (gain) - experience adjustments, assets		-200		-205
Investment management cost		-		3
OCI losses (gains) in the period *		98		-1 280

* Implementation of revised IAS 19 Employee benefits has resulted in a change in the method of calculating pension expense. Comparative amounts for 2012 have been restated, with an increase in recognised pension expense in the amount of NOK 57m, and a corresponding increase in the actuarial gain for the period.

PENSION PLANS FOR LOCALLY EMPLOYED STAFF OF FOREIGN OFFICES

Locally employed staff at Norges Bank's offices in London and New York have a defined-contribution pension plan in accordance with local provisions in addition to what has been established by the authorities. As employer, Norges Bank contributes up to 8% of fixed salary for employees in New York and up to 10% of fixed salary for employees in London to the plans in line with market practice. The plans are managed externally, pursuant to rules determined by Norges Bank. Recognised expenses for the plans in London and New York amounted to NOK 7.9m and NOK 6.9m in 2012. Locally employed staff at Norges Bank's offices in Singapore and Shanghai have no pension plan beyond what has been established by the authorities, which is in line with market practice.

SENSITIVITY ANALYSIS

Norges Bank has assessed the assumptions, discount rate and expected wage growth as the most significant assumptions used in the actuarial calculation. The sensitivity analysis has been prepared in the light of possible changes in the aforementioned assumptions. The other actuarial assumptions are kept unchanged in the sensitivity analysis.

Table 22.6 Sensitivity analysis

Amounts in NOK millions

				31 Dec. 2013
	Discount rate	Rate of compensation increase	ABO pensioners / DBO other	Change*
Assumptions as at 31 Dec. 2013	4.00%	3.75%	3 744	N/A
Discount rate + 0.5%	3.50%	3.75%	4 079	8.95%
Discount rate + 0.5%	4.50%	3.75%	3 429	-8.42%
Expected wage growth +0.5%	4.00%	4.25%	3 836	2.45%
Expected wage growth -0.5%	4.00%	3.25%	3 627	-3.13%

* Percentage change in the pension benefit obligation.

NOTE 23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

23.1 LONG-TERM PORTFOLIO

For a discussion of the control environment and valuation techniques for the long-term portfolio, see Note 25 GPFG Note 12 Fair value measurement.

Pricing uncertainty

All equities, bonds and financial derivatives have been allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation risk. Investments allocated to Level 2 are valued using models with observable inputs. These holdings have some pricing uncertainty. Holdings allocated to Level 3 are priced using models with considerable use of unobservable inputs, which implies substantial uncertainty regarding the establishment of fair value. These investments too, are valued by external professional valuation experts who are regarded as giving the best estimate of fair value and where the total valuation from different pricing providers varies only to a limited extent.

Table 23.1 groups the investments into categories of assessed pricing uncertainty.

Table 23.1 Specification of investments by level of valuation uncertainty

Amounts in NOK millions

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Equities	**118 603**	**99 331**	**23**	**6**	**1**	**4**	**118 627**	**99 341**
Government bonds	154 424	123 973	-	-	-	-	154 424	123 973
Government-related bonds	-	-	-	7	-	5	-	12
Corporate bonds	-	-	-	57	43	33	43	90
Securitised bonds	-	-	-	1 422	-	-	-	1 422
Total bonds	**154 424**	**123 973**	**-**	**1 486**	**43**	**38**	**154 467**	**125 497**
Financial derivatives (assets)	7	5		1	-	-	7	6
Financial derivatives (liabilities)	-	-	-12	-4	-	-	-12	-4
Total financial derivatives	**7**	**5**	**-12**	**-3**	**-**	**-**	**-5**	**2**
Deposits in banks	-	-	59	-	-	-	59	-
Lending associated with reverse repurchase agreements	-	-	1 365	-	-	-	1 365	-
Other financial assets	-	-	158	-	-	-	158	-
Unsettled trades (assets)	-	-	2	-	-	-	2	-
Short-term borrowing	-	-	0	-	-	-	0	-
Borrowing associated with repurchase agreements	-	-	0	-	-	-	0	-
Cash collateral received	-	-	-1 365	-	-	-	-1 365	-
Total other	**-**	**-**	**219**	**-**	**-**	**-**	**219**	**-**
Total	273 034	223 309	230	1 489	44	42	273 308	224 840

Almost all equity holdings (99.98%) are classified as Level 1. Valuation of bonds is more uncertain and complex than valuation of equities. Norges Bank carries out analyses at each reporting date to identify the extent to which there have been transactions and price transparency with related market liquidity for different types of bonds as well as for a number of individual holdings. All government bonds have been allocated to Level 1 and pricing is thus almost entirely based on quoted market prices. Remaining securitised bonds are allocated to Level 2 on the basis of somewhat limited market activity and price transparency for these holdings.

Changes in Level 3 holdings

The table below shows a reconciliation of changes in carrying amounts for all Level 3 holdings.

Table 23.2 Specification of changes in Level 3 holdings

Amounts in NOK millions

	01 Jan. 2013	Net gains/ losses	Purchases	Sales	Settled	Tranferred from Level 1 or 2	Tranferred to Level 1 or 2	Foreign exchange gainslosses	31 Dec.2013
Equities	4	-17	1	0	-5	4	0	14	1
Total bonds	38	1	0	0	-27	9	0	22	43
Total	**42**	**-16**	**1**	**0**	**-32**	**13**	**0**	**36**	**44**

Amounts in NOK millions

	01 Jan. 2012	Net gains/ losses	Purchases	Sales	Settled	Tranferred from Level 1 or 2	Tranferred to Level 1 or 2	Foreign exchange gains/ losses	31 Dec.2012
Equities	6	2	3	0	-1	4	-2	-8	4
Total bonds	837	-90	162	-817	-17	2	-7	-32	38
Total	**843**	**-88**	**165**	**-817**	**-18**	**6**	**-9**	**-40**	**42**

Holdings allocated to Level 3 in the fair value hierarchy increased by NOK 2m during 2013, which is unchanged, relatively speaking, given the size of the portfolio. The increase was primarily due to transfers of bonds from Level 1 and Level 2 to Level 3 and a foreign exchange gain for both asset classes.

Sensitivity for Level 3 holdings

Table 23.3 Additional specification of Level 3 sensitivities

Amounts in NOK millions

			2013
	Specification of Level 3 at 31 Dec. 2013	Unfavourable changes	Favourable changes
Equities and units	1	-1	1
Total bonds	43	-6	6
Government-related bonds	-	-	-
Corporate bonds	43	-6	6
Total	44	-7	7

Amounts in NOK millions

			2012
	Specification of Level 3 at 31 Dec. 2012	Unfavourable changes	Favourable changes
Equities and units	4	-1	1
Total bonds	38	-6	4
Government-related bonds	5	-1	0
Corporate bonds	33	-5	4
Total	42	-7	5

Norges Bank's analyses indicate that valuation risk in the long-term portfolio remained virtually unchanged during 2013. Holdings classified as Level 3 increased somewhat, but total risk in the event of unfavourable changes is the same. The estimated valuation risk of Level 3 holdings at year-end 2013 was NOK 7m in the event of unfavourable changes and NOK 7m in the event of favourable changes. Total valuation risk for Level 3 holdings is expected to be less than this, as the valuation of all holdings will not move in the same direction on the basis of a change in a single parameter. The technique used to calculate the sensitivity of bond values is based on the availability of independent price sources and begins with the highest and lowest available price for a specific bond. Where a higher or lower price was not available, a standard sensitivity parameter was used. The level of the resulting valuation change is based on the bond type and the availability, reliability and variation of prices.

23.2 MONEY MARKET PORTFOLIO

The money market portfolio is the most liquid portion of the Bank's foreign exchange reserves. In accordance with the guidelines, the portfolio is invested in a manner permitting it within a single trading day to be used for foreign exchange market transactions without realising any appreciable losses.

The benchmark portfolio is composed of USD and EUR overnight money market indices and Treasury bill indices for the same currencies. Managers are to seek a reasonable return within the constraints set by liquidity requirements and the risk framework. There are restrictions on the choice of instruments and currencies in the portfolio, and there are guidelines for how much the actual portfolio may deviate from the benchmark.

The money market portfolio comprises short money market instruments and German and US government securities, denominated in EUR and USD, respectively, with a maturity of up to one year.

Control environment

The control environment for fair value measurement of financial instruments is organised around guidelines which are supported by work and control procedures. The valuation environment has been established, and is adjusted, in accordance with best market practice for valuation. The operational implementation of best market practice principles is done in a manner to ensure a transparent, scalable and comparable valuation of all holdings on a daily basis through the use of sophisticated processes using both internal and external data solutions.

Prices for financial instruments from independent price providers are based on observable prices. On a daily basis, the valuation process is subject to numerous controls, focusing on defined thresholds and sensitivities. The levels of these thresholds and sensitivities are monitored and adjusted in accordance with prevailing market conditions. At each month-end, additional extensive controls are performed to ensure compliance with established pricing procedures and the valuation policy's fair value measurement principles. This includes verifying that the external fund accountant uses external prices as required by the fair value hierarchy applicable at the time in question and verifying that the resulting prices reflect fair value as at the date concerned, i.e. the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation techniques

Norges Bank has defined hierarchies for the independent price sources that serve as a basis for valuation. Holdings of bonds and notes are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively by reputable independent external price providers. Prices are verified based on comparative analyses of prices in accordance with the established hierarchies with prices from available alternative price sources. When alternative price sources are considered to be more representative of fair value, prices are adjusted to bring the valuation closer to expected fair value. 100% of the money market portfolio's investments as at year-end 2013 comprised highly liquid holdings, and are therefore associated with low valuation risk.

Inputs used, observable as well as unobservable, include the following elements:

- Bond and note prices – prices based on price quotes
- Credit spreads – these are obtained from the credit derivative market
- Yield curves – benchmark yield curves are often the foundation of the valuation matrix and are obtained from: (1) interbank rates at the short end, (2) the first eight settlement dates for money market futures and (3) swap market rates
- Money market and bond futures – official closing prices from exchanges are obtained via clearing brokers
- Foreign exchange rates – WMFX rates at 16:00 GMT obtained from Reuters for use in determining spot prices and translating amounts into NOK.

Pricing uncertainty

All government bonds and notes in the money market portfolio have been allocated to categories reflecting assessed pricing uncertainty. Level 1 comprises investments that are valued on the basis of observable market prices in active markets and are considered to have very limited valuation risk. Table 23.4 divides the investments in the money market portfolio into categories of assessed pricing uncertainty.

Table 23.4 Specification of investments by level of pricing uncertainty

Amounts in NOK millions

	Level 1		Level 2		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Government bonds	28 830	25 038	-	-	28 830	25 038
Treasury notes	2 123	2 201	-	-	2 123	2 201
Total securities	**30 953**	**27 239**	**-**	**-**	**30 953**	**27 239**
Financial derivatives (assets)	1	-	-	-	1	-
Financial derivatives (liabilities)	-	-	0	-	0	-
Total financial derivatives	**1**	**-**	**0**	**-**	**1**	**-**
Deposits in banks	-	-	3 207	-	3 207	-
Lending associated with reverse repurchase agreements	-	-	5 628	-	5 628	-
Unsettled trades (liabilities)	-	-	-1 528	-	-1 528	-
Other financial liabilities	-	-	0	-	0	-
Total, other	**-**	**-**	**7 307**	**-**	**7 307**	**-**
Total	**30 954**	**27 239**	**7 307**	**-**	**38 261**	**27 239**

23.3 PETROLEUM BUFFER PORTFOLIO

The petroleum buffer portfolio comprises deposits in banks and lending associated with reverse repurchase agreements. Lending follows the same guidelines and procedures that apply to the money market portfolio (see Section 23.2 for a further discussion).

Table 23.5 divides the investments in the petroleum buffer portfolio into categories of assessed pricing uncertainty as at 31 December 2013 and 31 December 2012.

Table 23.5 Specification of investments by level of pricing uncertainty

Amounts in NOK millions

	Level 1		Level 2		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Securities	**-**	**-**	**-**	**-**	**-**	**-**
Financial derivatives (assets)	-	0	-	-	-	0
Financial derivatives (liabilities)	-9	0	-	-	-9	0
Total financial derivatives	**-9**	**0**	**-**	**-**	**-9**	**0**
Deposits in banks	-	-	2 948	-	2 948	-
Lending associated with reverse repurchase agreements	-	-	15 201	-	15 201	-
Short-term borrowing	-	-	0	-	0	-
Other financial liabilities	-	-	-1 278	-	-1 278	-
Total, other	**-**	**-**	**16 871**	**-**	**16 871**	**-**
Total	**-9**	**0**	**16 871**	**-**	**16 862**	**0**

23.4 OTHER EQUITY INVESTMENTS

Norges Bank has other holdings of financial instruments in the form of equities in addition to the portfolios mentioned. These are related to investments made by the Bank in its role as Norway's central bank to discharge Norway's international obligations in this area. The obligations involve long-term commitments that do not have economic gain as an objective and are not, by their nature, financial investments.

Pricing uncertainty

The shares in the BIS are categorised under Level 3 in the fair value hierarchy, and valuation is particularly uncertain owing to a lack of activity in the market. These shares are valued using models that use a substantial degree of non-observable inputs.

Table 23.6 Specification of investments by level of pricing uncertainty

Amounts in NOK millions

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Equities	-	-	-	-	200	200	200	200

NOTE 24 RISK

Norges Bank's foreign exchange reserves

Norges Bank's foreign exchange reserves are divided between a long-term portfolio managed by Norges Bank Investment Management and a money market portfolio managed by Markets and Banking Services in Central Banking Operations. The portfolios are managed under different mandates and have different risk profiles.

In addition, a petroleum buffer portfolio is used for regular transfers of foreign exchange to the GPFG. This portfolio receives funds from the State's Direct Financial Interest in petroleum activities (SDFI) and from Norges Bank's foreign exchange purchases in the foreign exchange market. The petroleum buffer portfolio is managed by Markets and Banking Services in Central Banking Operations.

24.1 LONG-TERM PORTFOLIO

The composition of the holdings in the long-term portfolio and associated risk is primarily determined by the benchmark defined by Norges Bank's Executive Board.

In the investment mandate for the portfolio issued by Norges Bank's Executive Board, there are a number of guidelines and restrictions regarding the combined equity and bond asset class, as well as for the individual asset classes. These restrictions regulate to what degree Norges Bank can engage in active investment management while remaining within the legally established capital allocations.

For a discussion of Norges Bank's and Norges Bank Investment Management's governance structure and the framework for investment risk, see Note 25 GPFG Note 13 Risk.

Market risk measurement

Market risk is the risk of changes in the value of the portfolio due to movements in interest rates, equity prices, foreign exchange rates and credit spreads. Norges Bank measures risk in both absolute terms for the actual portfolio, and the relative market risk for investments in the portfolio.

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

Asset class by region

The long-term portfolio is invested across several asset classes and regions as shown in Table 24.1.

Table 24.1 Allocation by asset class and region

				31 Dec. 2013
		Market value in percentage by region	Market value in percentage by asset class	Assets minus liabilities, amounts in NOK millions
Equities	Americas and Africa	57.9		
	Europa	26.2		
	Asia and Oceania	15.9		
Total equities			43.4	118 532
Bonds	Americas and Africa	43.0		
	Europa	46.9		
	Asia and Oceania	10.1		
Total bonds			56.6	154 777

		Market value in percentage by region	Market value in percentage by asset class	31 Dec. 2012 Assets minus liabilities. amounts in NOK millions
Equities	Americas and Africa	55.9		
	Europa	26.6		
	Asia and Oceania	17.5		
Total equities			43.6	99 230
Bonds	Americas and Africa	43.0		
	Europa	47.9		
	Asia and Oceania	9.1		
Total bonds			56.4	128 153

Concentration risk
The long-term portfolio contains substantial investments in bonds issued by sovereigns. It is also normal for private companies to issue both equities and bonds.

Table 24.2 presents holdings of bonds issued by sovereigns, including government bonds issued in local currency or in foreign currency and inflation-linked bonds in local currency:

Table 24.2 Holdings within the segment government bonds

Amounts in NOK millions

		Market value
	31 Dec. 2013	31 Dec. 2012
US	66 327	55 136
France	29 377	22 493
Germany	27 002	21 787
UK	16 119	13 342
Japan	15 600	11 214
Greece	-	5
Argentina	-	1

Table 24.3 shows the long-term portfolio's largest non-government bonds and equities holdings by issuer. Covered bonds issued by financial institutions are included in the bonds column.

Table 24.3 Largest holdings excluding sovereigns, both bonds and equities

Amounts in NOK millions

	Sector	Bonds	Equities	31 Dec. 2013 Total market value
Apple Inc	Technology	-	1 708	1 708
Exxon Mobil Corp	Oil & Gas	-	1 492	1 492
Google Inc	Technology	-	997	997
General Electric Co	Manufacturing	-	934	934
Microsoft Corp	Technology	-	925	925
Chevron Corp	Oil & Gas	-	818	818
Johnson & Johnson	Healthcare	-	817	817
Royal Dutch Shell PLC	Oil & Gas	-	803	803
Wells Fargo & Co	Financials	-	786	786
Nestlé SA	Consumer goods	-	775	775

Amounts in NOK millions

	Sector	Bonds	Equities	31 Dec. 2012 Total market value
Apple Inc	Technology	-	1 642	1 642
Exxon Mobil Corp	Oil & Gas	-	1 310	1 310
Royal Dutch Shell PLC	Oil & Gas	-	753	753
Microsoft Corp	Technology	-	742	742
General Electric Co	Manufacturing	-	737	737
International Business Machines Corp	Technology	-	726	726
Nestlé SA	Consumer goods	-	708	708
Chevron Corp	Oil & Gas	-	708	708
Samsung Electronics Co Ltd	Consumer goods	-	689	689
HSBC Holdings PLC	Financials	-	648	648

Volatility and correlation risk
For a discussion of techniques for measuring volatility and correlation risk in the long-term portfolio, see Note 25 GPFG Note 13 Risk.

Table 24.4 Portfolio risk in terms of expected volatility and expected relative volatility

	Expected volatility, in percent							
	31 Dec. 13	Min 2013	Max 2013	Avg. 2013	31 Dec. 2012	Min 2012	Max 2012	Avg. 2012
Portfolio	8.1	7.1	8.2	7.6	7.1	7.1	8.4	7.3
Equities	13.9	12.9	14.1	13.6	13.6	13.4	15.7	14.0
Bonds	9.8	9.8	10.4	10.1	1.2	1.1	12.3	10.7

	Expected relative volatility, in basis points							
	31 Dec. 13	Min 2013	Max 2013	Avg. 2013	31 Dec. 2012	Min 2012	Max 2012	Snitt 2012
Portfolio	8	8	56	28	47	43	71	50
Equities	14	5	98	18	7	5	11	6
Bonds	10	9	54	23	13	11	47	19

Risk measured by the risk model increased for the portfolio as a whole and in the equity portfolio in 2013. For the portfolio as a whole, measured risk at year-end was 8%. This means that for the portfolio, annual fluctuations in value of just above NOK 22bn can be expected under normal market conditions. The portfolio's expected relative volatility declined considerably through 2013.

For a discussion of strengths and weaknesses, as well as back testing, of the model for measuring volatility and correlation risk for the long-term portfolio, see Note 25 GPFG Note 13 Risk.

Credit risk
For a discussion of measuring credit risk for the long-term portfolio, see Note 25 GPFG Note 13 Risk. Table 24.6 shows that AAA bonds' share of the actual portfolio declined to 60.5% at year-end 2013, from 72% at year-end 2012. Correspondingly, AA bonds' share rose to 39.5% at year-end 2013, from 26.9% at year-end 2012. The reason was a downgrade of bonds issued by UK government bodies from AAA to AA. At year-end 2013, there were no holdings in the BBB category, while the category "Lower rating than BBB" was virtually eliminated in 2013.

Table 24.5 is a breakdown of the actual bond portfolio by credit rating category as at 31 December 2013.

Table 24.5 Bond portfolio specified by credit rating

Amounts in NOK millions

						31 Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	93 329	61 095	-	-	-	154 424
Government-related bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	43	43
Securitised bonds	-	-	-	-	-	-
Total bonds and other fixed income instruments	**93 329**	**61 095**	**-**	**-**	**43**	**154 467**

Amounts in NOK millions

						31 Dec. 2012
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	90 266	33 707	-	-	-	123 973
Government-related bonds	-	-	-	-	12	12
Corporate bonds	-	-	-	9	81	90
Securitised bonds	-	-	-	1 421	-	1 421
Total bonds and other fixed income instruments	**90 266**	**33 707**	**-**	**1 430**	**93**	**125 496**

Table 24.6 is a breakdown of the bond portfolio by credit rating and currency.

Table 24.6 Bond portfolio by credit rating and currency, in percent

						31. Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
US dollar	43.0	-	-	-	0.0	43.0
Euro	17.5	19.0	-	-	0.0	36.5
British pound	-	10.4	-	-	-	10.4
Japanese yen	-	10.1	-	-	-	10.1
Total	**60.5**	**39.5**	**-**	**-**	**0.0**	**100.0**

						31. Dec. 2012
	AAA	AA	A	BBB	Lower rating	Total
US dollar	44.0	-	-	-	0.0	44.0
Euro	17.4	18.0	-	1.1	0.0	36.5
British pound	10.6	-	-	-	-	10.6
Japanese yen	-	8.9	-	-	-	8.9
Total	**72.0**	**26.9**	**-**	**1.1**	**0.0**	**100.0**

Credit risk in the portfolio may be managed by the use of credit derivatives. At year-end 2013, there were no credit derivatives in the portfolio (see Note 13 Financial derivatives).

Counterparty risk

For a discussion of what counterparty risk is, and how it arises and is measured, managed and reported for the long-term portfolio, see Note 25 GPFG Note 13 Risk. Table 24.7 is a breakdown of exposure by type of activity/instrument regarded as having counterparty risk. Counterparty risk measured both as gross and net exposure were stable in 2013.

Table 24.7 Counterparty risk by type of position

Amounts in NOK millions

					31 Dec. 2013
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	48	39	-	-	39
OTC derivatives including foreign exchange contracts	-	2	2	-	-
Repurchase and reverse repurchase agreements*	-94	-	-	-	-
Securities lending transactions**	-383	687	-	330	357
Cash and bonds posted as collateral for derivative trades	208	220	-	-	220
Total		948	2	330	616

Amounts in NOK millions

					31 Dec. 2012
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	90	86	-	-	86
OTC derivatives including foreign exchange contracts	-3	3	1	-	2
Repurchase and reverse repurchase agreements*	-34	3	0	-	3
Securities lending transactions**	-209	600	-	290	310
Cash and bonds posted as collateral for derivative trades	202	223	-	-	223
Total		915	1	290	624

* The methodology for calculating counterparty exposure has been adjusted. Comparative amounts for 2012 have been restated.
** The column Carrying amount adjusted for collateral includes securities lent and collateral received.

Norges Bank's counterparties have a credit rating from an independent credit rating agency. Only in instances when the counterparty risk is considered very low can an internal credit evaluation be used as the basis for counterparty approval.

Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators. Table 24.8 shows Norges Bank's counterparties classified according to credit rating category.

Table 24.8 Counterparties by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
AAA	-	-	-	-
AA	21	30	23	29
A	55	46	65	56
BBB	3	-	30	21
BB	1	-	5	3
B	-	-	9	9
Total	80	76	132	118

* As counterparties are counted per legal entity, several counterparties may be included per corporate group.

Leverage

For a discussion of leverage in the long-term portfolio, see Note 25 GPFG Note 13 Risk. During 2013, the portfolio had no leverage.

Sale of securities Norges Bank does not own

Sale of securities not owned by Norges Bank (short sales) can only be done if the Bank has established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and at year-end 2013, no securities had been sold in this manner.

24.2 RISK IN THE MONEY MARKET PORTFOLIO

Purpose of the portfolio

The money market portfolio is to be invested in such a way that it can be used at short notice as a monetary policy instrument or to promote financial stability. The portfolio is also used to meet Norges Bank's international obligations, including transactions with the IMF and loans to individual.

Pursuant to the decision of the Executive Board in 2012, the size of the portfolio is to be between SDR 3.5bn and SDR 4.5bn and investments in government securities are to have residual maturity of less than one year. The benchmark portfolio is to comprise USD and EUR overnight money market indices and Treasury bill indices for the same currencies. The benchmark portfolio comprises 75% USD and 25% EUR.

Market risk

Market risk is risk related to changes in the value of the portfolio due to changes in interest rates and/or foreign exchange rates. Norges Bank measures the money market portfolio's absolute and relative market risk.

Absolute market risk

Absolute risk is estimated on the basis of the actual portfolio, as the standard deviation of the return. The model uses expected standard deviation, based on the composition of the portfolio and assumptions regarding sensitivities to fluctuations in relevant market factors and correlations between these factors. A parametric weighted method is employed. The standard deviation is a statistical term that indicates the magnitude of variation that can be expected in the return on the portfolio.

The expected annual standard deviation in the actual portfolio was 0.09% in local currency at year-end 2013. This means that in two out of every three years the value of the portfolio is expected to fluctuate within +/-0.09% of total market value in local currency at that time.

Market risk was at the same level as at year-end 2012, which is low compared with the historical market risk for comparable portfolios.

Relative market risk

Market risk in the money market portfolio is also measured by expected relative volatility. This is a statistically defined risk measure that indicates the size of the expected deviation that can normally be expected between the return on the benchmark portfolio and the return on the actual portfolio. Corresponding estimates of absolute market risk are parametrically weighted using a method of estimating relative market risk.

The Executive Board has issued guidelines for how much the actual portfolio may deviate from the benchmark portfolio. The limit for expected relative market volatility has been set at 1.0%, and the Bank uses a model that takes into account market fluctuations. Average expected relative volatility was measured at 0.05% in 2013.

Table 24.9 Key figures for risk and exposure

			Actual
Risk	**Limits**	**31 Dec. 2013**	**31 Dec. 2012**
Market risk	Maximum 1.0% relative volatility	0.05	0.02
	Alternative method	0.08	0.04
Asset allocation	Cash (Minimum 10%)	19.10	20.24
	Securities	80.90	79.76
Currency allocation	US dollar	74.94	74.94
	Euro	24.97	24.96
	Japanese yen	0.04	0.05
	British pound	0.05	0.05
Duration, benchmark portfolio		0.24	0.30

Norges Bank uses daily observations to calculate expected relative volatility where recent observations are given greater weight than older observations. With this method, in the event of abrupt increases in market volatility, relative volatility will promptly indicate that risk exposure in the portfolio should be reduced. Exponentially weighted daily observations have a half-life of 33 days.

In addition to the calculation using weighted daily observations, Norges Bank also calculates historical relative volatility based on unweighted monthly observations.

CREDIT RISK

Credit risk is the risk that issuers of financial instruments will default on their payment obligations. Credit risk does not include changes in credit spreads. Credit risk for Norges Bank is the risk related to financial instruments that Norges Bank owns and does not include credit risk related to financial instruments that Norges Bank manages on behalf of other parties.

COUNTERPARTY RISK

Counterparty risk is the risk of losses incurred when a counterparty becomes insolvent or for other reasons cannot meet his obligations. Counterparty risk includes risk relating to counterparty insolvency, settlement risk and depository risk.

Risk exposure as a consequence of counterparty risk is defined as the cost of replacing one or more transactions with a counterparty necessitated by that counterparty's failure to meet of his obligations. A counterparty is defined as a financial institution or company that executes trades with Norges Bank or has been approved by Norges Bank for trading in financial instruments. Depositories, settlement banks and clearing houses are considered counterparties.

Under Norges Bank's guidelines, minimum credit ratings are required for counterparties. In addition, exposure limits and collateral requirements have been set.

Table 24.10 shows third party agreements, investments and collateral.

Table 24.10 Third party agreements, investments and collateral

Amounts in NOK millions

	Rating S & P	31 Dec. 2013	31 Dec. 2012
Market value third party agreements		5 628	3 360
Collateral			
	AAA	3 104	2 298
Sovereigns	AA+	2 024	-
	AA	2	19
	AA-	92	52
Supranational bodies		619	1 160
Total collateral		5 841	3 529

24.3 RISK IN THE PETROLEUM BUFFER PORTFOLIO

The purpose of the petroleum buffer portfolio is to ensure the GPFG an adequate supply of fresh capital. Funds accumulate in the portfolio though transfers of foreign currencies from the State's Direct Financial Interest in petroleum activities (SDFI) and through foreign exchange purchases Norges Bank undertakes in the markets on the basis of the Ministry of Finance's monthly allocations to the GPFG. Funds are normally transferred each month. No benchmark index has been set for the petroleum buffer portfolio.

24.4 OTHER RISK

Liquidity risk

Liquidity risk is the risk that Norges Bank will encounter difficulties meeting its obligations associated with financial liabilities to be settled in cash or another financial asset. As a central bank, Norges Bank is not exposed to this type of liquidity risk in local currency.

Credit risk associated with lending to banks

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

Norges Bank stipulates more detailed terms for pledging securities and fund units as collateral for loans in Norges Bank pursuant to Section 9 of the Regulation on banks' access to loans and deposits in Norges Bank etc. The current guidelines have been issued in Norges Bank's Circular No. 1/8 February 2012.

The rules for pledging collateral are intended to limit Norges Bank's risk associated with lending to banks and facilitate appropriate levels of bank borrowing. Risk is limited, since only high quality securities are eligible and since the amount of the borrowing facility is lower than the market value of the collateral (haircut).

At 31 December 2013, there was no such lending to banks.

Credit risk associated with loans to the International Monetary Fund (IMF)

Norges Bank's loans to the IMF have been made to bolster the IMF General Arrangements to Borrow (GAB), which follow IMF guidelines. Norges Bank is not directly exposed to risk in the loan portfolio managed by the IMF. The IMF has never realised a loss on its loans under the GAB. The IMF has preferred creditor status, which means that the IMF has priority over all other creditors. If the IMF should incur a loss on its loans, this will initially affect the IMF's own assets and, if necessary, paid-in quota subscriptions. In Norges Bank's assessment, the risk related to IMF loans is minimal, and no loan loss provisions have been recognised with regard to these loans.

Credit risk associated with the loan to Iceland

The loan is guaranteed by the Icelandic and Norwegian governments. Norges Bank has no appreciable credit risk associated with the loan.

NOTE 25 GPFG

Income Statement

Amounts in NOK millions

	Note	2013	2012
Profit/loss on the portfolio excluding foreign exchange gains and losses			
Interest income and interest expense from bank deposits		61	102
Interest income, lending associated with reverse repurchase agreements		150	219
Net income/expenses and gains/losses from:			
- Equities and units		681 787	349 779
- Bonds and other fixed-income instruments		5 897	98 337
- Financial derivatives		1 590	- 269
- Financial assets real estate	10	915	514
- Investment properties	10	707	67
- Jointly controlled entities and associates real estate	10	1 846	- 250
Interest expense, borrowing associated with repurchase agreements		- 34	- 130
Other interest income and interest expense		2	1
Tax expense	4	- 1 291	- 864
Other expenses	5	- 100	- 80
Profit/loss on the portfolio before foreign exchange gains and losses	**3**	**691 530**	**447 426**
Foreign exchange gains and losses		287 771	- 219 559
Profit/loss on the portfolio		**979 301**	**227 867**
Management fee	5	- 2 889	- 2 193
Profit/loss for the period		**976 412**	**225 674**

Statement of Comprehensive Income

Amounts in NOK millions

	Note	2013	2012
Profit/loss for the period		976 412	225 674
Translation reserve arising from consolidation of foreign subsidiaries that may be reclassified to the income statement		3 657	- 5
Total comprehensive income		**980 069**	**225 669**

Balance sheet

Amounts in NOK millions

	Note	31 Dec. 2013	31 Dec. 2012
ASSETS			
Financial assets			
Deposits in banks		5 294	5 864
Lending associated with reverse repurchase agreements	8	89 189	61 440
Unsettled trades		1 125	1 677
Equities and units	6	2 972 317	2 212 951
Equities lent	6, 7	161 150	115 041
Bonds and other fixed-income instruments	6	1 804 456	1 428 687
Bonds lent	6, 7	75 807	23 820
Financial derivatives	9	1 618	1 447
Financial assets real estate	10	7 426	4 841
Jointly controlled entities and associates real estate	10	32 261	7 431
Other financial assets	11	3 917	4 411
Total financial assets		5 154 560	3 867 610
Non-financial assets			
Investment properties	10	11 267	9 777
Other non-financial assets		8	5
Total non-financial assets		11 275	9 782
TOTAL ASSETS	13, 14	5 165 835	3 877 392
LIABILITIES AND OWNER'S CAPITAL			
Financial liabilities			
Short-term borrowing		29	202
Borrowing associated with repurchase agreements	7	69 147	19 013
Cash collateral received	8	48 064	33 001
Unsettled trades		7 654	4 442
Financial derivatives	9	2 357	2 600
Other financial liabilities	11	849	2 365
Management fee payable		2 889	2 193
Total financial liabilities	13, 14	130 989	63 816
Owner's capital		5 034 846	3 813 576
TOTAL LIABILITIES AND OWNER'S CAPITAL		5 165 835	3 877 392

Statement of cash flows

Amounts in NOK millions, received (+) / paid (-)

	2013	2012
Operating activities		
Net cash flow arising from interest received from deposits in banks and interest paid on short-term borrowing from banks***	1 396	95
Net cash flow in connection with repurchase agreements and reverse repurchase agreements***	27 128	19 989
Net cash flows arising from purchase and sale of equities and units	-24 851	-229 436
Net cash flows arising from purchase and sale of bonds and other fixed-income instruments	-361 384	-166 501
Payments made to acquire financial assets real estate	-1 189	-205
Payments made to acquire investment properties	-21	-6 102
Payments made to acquire jointly controlled entities and associates real estate	-21 547	-5 404
Net cash flows arising from financial derivatives	1 219	-3 090
Dividends received from investments in equities and units	72 637	65 431
Interest received on bonds and other fixed-income instruments	49 511	49 077
Income received in connection with equity and bond lending	2 620	2 424
Income received from investments in financial assets real estate	162	177
Dividends received from investments in jointly controlled entities and associates real estate	837	84
Income received from investments in investment properties	502	244
Cash collateral received/paid related to securities lending, derivatives and reverse repurchase agreements	15 063	-3 926
Net cash flow related to other financial assets, other financial liabilities and other non-financial assets***	1 655	999
Net cash flow arising from tax payments and refunds	-2 806	-1 044
Management fee paid to Norges Bank*	-2 193	-2 539
Net cash outflow from operating activities	**-241 261**	**-279 727**
Financing activities		
Inflow from the Norwegian government**	240 934	277 862
Net cash inflow from financing activities	**240 934**	**277 862**
Net change in cash and cash equivalents		
Cash and cash equivalents at 1 January	5 662	7 265
Net cash payments in the period	-327	-1 865
Net foreign exchange gains and losses on cash and cash equivalents	-70	262
Cash and cash equivalents at 31 December	**5 265**	**5 662**
Cash and cash equivalents comprise:		
Bank deposits	5 294	5 864
Short-term borrowing	-29	-202
Total cash and cash equivalents at 31 December	**5 265**	**5 662**

* Management fee shown in the cash flow statement for a period is the settlement of the fee that was accrued and expensed in the previous year.

** The inflow includes only the transfers that have been settled during the period. Inflows in the statement of changes in owner's capital are based on accrued inflows.

*** As from the annual report for 2013 some items have been merged.

Statement of changes in owner's capital

Amounts in NOK millions

	Inflows from owner	Retained earnings	Translation reserve foreign subsidiaries**	Deposits in krone account*
1 January 2012	2 778 866	530 170	- 3	3 309 033
Total comprehensive income	.	225 674	- 5	225 669
Inflows during the period*	278 874	.	.	278 874
31 December 2012	**3 057 740**	**755 844**	**- 8**	**3 813 576**
1 January 2013	3 057 740	755 844	- 8	3 813 576
Total comprehensive income	.	976 412	3 657	980 069
Inflows during the period*	241 201	.	.	241 201
31 December 2013	**3 298 941**	**1 732 256**	**3 649**	**5 034 846**

* Of the total inflows to the krone account of the Government Pension Fund Global in 2013, NOK 2.2bn was used to pay the 2012 accrued management fee to Norges Bank and NOK 239.0bn was transferred into the investment portfolio. Comparative amounts for 2012 are NOK 2.5bn and NOK 276.4bn, respectively.

** The increase in the Translation reserve foreign subsidiaries is due to an increase in real estate investments.

The Government Pension Fund Global forms part of the central government accounts. The fund's assets are placed for asset management as a deposit with Norges Bank. In the central government accounts the following explanation of differences that arise between these accounts and the financial reporting of the investment portfolio as part of the financial statements of Norges Bank is included:

Due to different accounting frameworks, owner's capital for the Government Pension Fund Global (GPFG) according to Norges Bank's financial statements will deviate slightly each year from the equity capital of the GPFG as stated in the central government accounts. This is because the transfers to the GPFG through the year are based on estimates of income to the GPFG. Actual recognised income (net accrual) in the central government accounts will not be known until after year-end. In the central government accounts, the difference between the net accrual and the transfers is shown as receivables/payables between the GPFG and the Treasury. In cases of excessive transfers to the GPFG, the Treasury has a receivable from the GPFG, and, correspondingly, the equity capital for the GPFG as stated in the central government accounts is lower than as reported in Norges Bank's financial statements. On the other hand, in cases of insufficient transfers to the GPFG compared to recognised income, the GPFG has a receivable from the Treasury, and, correspondingly, equity capital for the GPFG as stated in the central government accounts is higher than reported in Norges Bank's financial statements. See Chapter 3 of the central government accounts for further information.

GPFG NOTE 1

The accounting policies for the financial reporting for the GPFG appear in GPFG Note 1 Accounting policies.

GPFG NOTE 2

Significant estimates and critical accounting judgements for the financial reporting for the GPFG appear in GPFG Note 2 Significant estimates and critical accounting judgements.

GPFG NOTE 3 PROFIT/LOSS ON THE PORTFOLIO BEFORE FOREIGN EXCHANGE GAINS AND LOSSES AND RETURNS PER ASSET CLASS

Table 3.1 Specification profit/loss on the portfolio before foreign exchange gains and losses

Amounts in NOK millions

	2013					
	Interest	**Dividends**	**Net income/ expense**	**Realised gains/ losses****	**Unrealised gains/ losses**	**Total**
Interest income and interest expense from bank deposits	61	.	.	.	.	61
Interest income, lending associated with reverse repurchase agreements	150	.	.	.	.	150
Net income/expense and gains/losses from:						
- Equities and units*	.	73 329	2 564	87 490	518 404	681 787
- Bonds and other fixed-income instruments*	52 279	.	51	9 537	-55 970	5 897
- Financial derivatives	-232	.	0	2 070	-248	1 590
- Financial assets real estate	0	.	99	.	816	915
- Investment properties	0	0	502	0	205	707
- Jointly controlled entities and associates real estate	0	837	.	0	1 009	1 846
Interest expense, borrowing associated with repurchase agreements	-34	0	0	0	0	-34
Other interest income and interest expense	2	0	0	0	0	2
Tax expense	0	0	-1 291	0	0	-1 291
Other expenses	0	0	-100	0	0	-100
Profit/loss on the portfolio before foreign exchange gains and losses	**52 226**	**74 166**	**1 825**	**99 097**	**464 216**	**691 530**

Amounts in NOK millions

	2012					
	Interest	**Dividends**	**Net income/ expense**	**Realised gains/ losses****	**Unrealised gains/ losses**	**Total**
Interest income and interest expense from bank deposits	102	.	.	.	.	102
Interest income, lending associated with reverse repurchase agreements	219	.	.	.	.	219
Net income/expense and gains/losses from:						
- Equities and units*	-	63 295	2 439	-11 079	295 124	349 779
- Bonds and other fixed-income instruments*	46 612	.	11	32 908	18 806	98 337
- Financial derivatives	-204	.	0	-3 395	3 330	-269
- Financial assets real estate	.	.	170	.	344	514
- Investment properties	0	0	244	0	-177	67
- Jointly controlled entities and associates real estate	0	30	.	0	-280	-250
Interest expense, borrowing associated with repurchase agreements	-130	0	0	0	0	-130
Other interest income and interest expense	1	0	0	0	0	1
Tax expense	0	0	-864	0	0	-864
Other expenses	0	0	-80	0	0	-80
Profit/loss on the portfolio before foreign exchange gains and losses	**46 600**	**63 325**	**1 920**	**18 434**	**317 147**	**447 426**

* Net income/expense equities and units and bonds and other fixed-income instruments are from security lending activities.
** Tax and fee related transaction costs arising as part of the management are deducted from the profit/loss line for the relevant investment. Typically these comprise stamp duties and transaction fees.

Table 3.2 Specification of returns per asset class

Amounts in percent

	2013	2012	4Q 2013	Q3 2013	Q2 2013	Q1 2013
Returns in international currency						
Return on equity investments	26.28	18.06	7.41	7.64	0.89	8.25
Return on fixed-income investments	0.10	6.68	0.13	0.32	-1.40	1.06
Return on real estate investments	11.79	5.77	3.67	4.09	3.94	-0.34
Return on fund	15.95	13.42	4.66	4.99	0.06	5.45
Return on equity and fixed-income investments	15.97	13.45	4.67	5.00	0.03	5.49
Return on benchmark equity and fixed-income indices	14.98	13.24	4.55	4.87	-0.28	5.16
Relative return on equity and fixed-income investments	0.99	0.21	0.12	0.13	0.31	0.32
Relative return on equity investments	1.28	0.52	0.15	0.27	0.34	0.32
Relative return on fixed-income investments	0.25	-0.29	-0.02	-0.25	0.29	0.22
Returns in kroner						
Return on equity investments	36.26	11.07	8.30	8.54	4.59	10.83
Return on fixed-income investments	8.01	0.36	0.96	1.15	2.22	3.46
Return on real estate investments	20.62	-0.50	4.53	4.96	7.75	2.03
Return on fund	25.11	6.70	5.53	5.86	3.73	7.96
Return on equity and fixed-income investments	25.14	6.73	5.54	5.87	3.70	8.00

Returns in the table above are a reproduction of return information in table 1-1 in the annual report chapter Results for 2013. Norges Bank uses a time-weighted monthly rate of return methodology in the return calculations. The fair value of holdings is determined on the day of cash-flows into and out of the asset classes and interim returns are geometrically linked. All returns are calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains. Withholding taxes are recognised when incurred. Interest income and dividends are recognized when accrued. Performance is reported in terms of an international currency basket following from the investment portfolio's benchmark index, as well as in Norwegian kroner, where the currency basket is weighted based on the currency composition of the equities and fixed income benchmark indices. Returns on the benchmark indices for equities and fixed income are calculated as the geometrical difference between the fund's returns measured in Norwegian kroner and the return of the currency basket. Returns on the benchmark indices for equities and fixed income are calculated by weighting the monthly returns of the benchmark portfolio for equities and fixed income respectively with actual ingoing markets capitalization weights for the month.

GPFG NOTE 4 TAX EXPENSE

Tax expense comprises income tax and deferred tax, that will not be refunded under local tax rules or tax treaties to Norges Bank, on behalf of the Government Pension Fund Global.

Table 4.1 shows the different types of income/gains that trigger tax expenses, the tax deducted upon recognition of income, the tax refunded, net change deferred tax and the net tax expense. Both income before tax (gross) and income after tax (net) are presented.

Table 4.1 Tax expense per asset class and type of income

Amounts in NOK millions

	2013					
	Gross income before taxes**	Income taxes deducted	Income taxes refunded	Net change deferred tax	Tax expense	Net income after taxes**
Dividends from equities – withholding tax	73 329	-2 684	1 634	.	-1 050	72 279
Realised/unrealised gains/losses from equities – capital gains tax*	605 894	-	-	-39	-39	605 855
Interest income from bonds and other fixed-income instruments – withholding tax	52 279	-148	143	.	-5	52 274
Realised/unrealised gains/losses from bonds and other fixed-income instruments – capital gains tax	-46 433	-	-	-	-	-46 433
Income tax in real estate subsidiaries	1 547	-15	-	.	-15	1 532
Change in deferred tax – unrealised fair value change real estate***	1 401	.	.	-182	-182	1 219
Tax expense		-2 847	1 777	-221	-1 291	

Amounts in NOK millions

	2012					
	Gross income before taxes**	Income taxes deducted	Income taxes refunded	Net change deferred tax	Tax expense	Net income after taxes**
Dividends from equities – withholding tax	63 295	-2 011	1 258	.	-753	62 542
Realised/unrealised gains/losses from equities – capital gains tax*	284 045	0	-	-101	-101	283 944
Interest income from bonds and other fixed-income instruments – withholding tax	46 612	-63	58	.	-5	46 607
Realised/unrealised gains/losses from bonds and other fixed-income instruments – capital gains tax	51 715	-	-	.	-	51 715
Income tax in real estate subsidiaries	550	-5	-	.	-5	545
Change in deferred tax – unrealised fair value change real estate***	77	.	.	-1	-1	76
Tax expense		-2 078	1 316	-102	-864	

* The provision is reclassified from the line Dividends from equities – withholding tax and the column Income taxes deducted. Comparative amounts for 2012 have been restated.
** Unrealised gains/losses are included in the gross and net income. Comparative amounts for 2012 have been restated.
*** Change in deferred tax is included from 2013. Comparative amounts for 2012 have been restated.

Table 4.2 shows the gross change in deferred tax payable and deferred tax receivable for the period split on portfolios.

Table 4.2 Change in carrying amounts deferred tax payable and deferred tax receivable

Amounts in NOK millions

	Deferred capital gains tax – equities	Deferred tax payable -real estate	Total deferred tax payable	Deferred tax receivable – real estate	Total deferred tax receivable	Net deferred tax payable and receivable
Carrying amounts deferred tax payable and receivable 1 Jan. 2013	-102	-1	-103	0	0	-103
Change in deferred tax for the period	-39	-200	-239	18	18	-221
Carrying amounts deferred tax payable and receivable 31 Dec. 2013	**-142**	**-201**	**-343**	**18**	**18**	**-325**

Amounts in NOK millions

	Deferred capital gains tax – equities	Deferred tax payable -real estate	Total deferred tax payable	Deferred tax receivable – real estate	Total deferred tax receivable	Net deferred tax payable and receivable
Carrying amounts deferred tax payable and receivable 1 Jan. 2012	-1	0	-1	0	0	-1
Change in deferred tax for the period	-101	-1	-102	0	0	-102
Carrying amounts deferred tax payable and receivable 31 Dec. 2012	**-102**	**-1**	**-103**	**0**	**0**	**-103**

Carrying amounts Deferred capital gains tax – equities comprise of net provision for future taxes payable on gains on sale of equities. Carrying amounts Deferred tax payable and receivable – real estate are calculated based on the difference between the tax base and the fair value of the properties.

GPFG NOTE 5 MANAGEMENT COSTS AND OTHER EXPENSES

Management costs comprise operating expenses relating to the management of the investment portfolio of the Government Pension Fund Global. Management costs incurred by Norges Bank as the asset manager are specified in table 5.1. Real estate subsidiaries will also incur administrative expenses. These expenses are charged directly to the profit/loss of the portfolio, see specification in table 5.2.

Management costs are covered by the Ministry of Finance up to a certain limit . The limit for management costs is 9 basis points for 2013, and includes from 2013 both mentioned elements excluding Performance-based fees to external managers and Property management expenses in real estate subsidiaries.

Operating expenses real estate subsidiaries which are included in the limit, but not charged to Norges Bank as the asset manager, are deducted from the refunded amount (Management fee).

Total management costs excluding performance-based fees, which are measured against the limit, amount to NOK 2 266m for 2013. This comprises NOK 2 205m in Norges Bank operating expenses excluding performance-based fees and NOK 61m in Operating expenses, real estate subsidiaries. This corresponds to 5.2 basis points of assets under management on an annual basis.

Total management costs including performance-based fees amount to NOK 2 950m for 2013, and comprises NOK 2 889m in total Norges Bank operating expenses related to the management of the Government Pension Fund Global and NOK 61m in operating costs in real estate subsidiaries. This corresponds to 6.7 basis points of assets under management on an annual basis.

Table 5.1 gives a specification of Norges Bank's operating expenses relating to the management of the Government Pension Fund Global, which are covered by the management fee from the Ministry of Finance.

Table 5.1 Specification management fee

Amounts in NOK millions

	2013		2012	
		Basis points		Basis points
Salary, social security and other personnel related costs	709		587	
Custody and settlement costs	423		351	
IT-services, systems and data*	454		432	
Research, consulting and legal fees*	99		64	
Other costs	103		90	
Allocated common costs Norges Bank	104		90	
Base fees to external managers	313		272	
Management fee excluding performance-based fees	**2 205**	**5.0**	**1 886**	**5.3**
Performance-based fees to external managers	684		307	
Total management fee	**2 889**	**6.6**	**2 193**	**6.2**

* As of third quarter Outsourced IT and analysis costs are moved and presented as IT-services, systems and data and Research, consulting and legal fees. Comparative amounts for 2012 have been restated.

Fees to external managers and custody and settlement fees are invoiced directly and paid individually for each portfolio managed by Norges Bank Investment Management. All other costs included in the basis for calculation of the management fee are costs that are common to the management, and are allocated to the individual portfolio using a cost allocation model based primarily on market values and asset class composition. Performance-based fees to external managers are covered outside of the set limit, as part of the management fee. The management fee is a function of expenses presented in Norges Bank's income statement.

Table 5.2 specifies operating expenses in real estate related subsidiaries that are included in Norges Bank's management fee limit, and other expenses charged directly to the portfolio and not included in Norges Bank's management fee limit.

Table 5.2 Specification operating expenses, real estate subsidiaries and other expenses

Amounts in NOK millions

	2013	2012
Salary, social security and other personnel related costs	20	12
IT-services, systems and data, outsourced administrative services	6	6
Research, consulting and legal fees	14	9
Fees related to real estate asset management (external)	11	10
Other costs, subsidiaries	10	8
Total operating expenses, real estate subsidiaries included in Norges Bank's management fee limit	**61**	**45**
Property management expenses in real estate subsidiaries	12	9
Other expenses, investment portfolio	27	26
Total other expenses not included in Norges Bank's management fee limit	**39**	**35**
Total other expenses	**100**	**80**

EXPENSES INCLUDED IN NORGES BANK'S MANAGEMENT FEE LIMIT

The expenses in table 5.2 are consolidated into the income statement of the Government Pension Fund Global, and paid with cash belonging to the investment portfolio. Operating expenses in subsidiaries of Norges Bank is not included in Norges Bank's operating expenses as they are not consolidated in Norges Bank and are paid by the subsidiaries, as per the accounting regulation for Norges Bank § 2-3, paragraph 4. The operating expenses totals NOK 61m for 2013 and are presented as part of *Other expenses* in the income statement for the Government Pension Fund Global. The operating expenses are charged directly to the portfolio result.

EXPENSES NOT INCLUDED IN NORGES BANK'S MANAGEMENT FEE LIMIT

Within the asset class real estate there are additional costs relating to property management, which are included in the income statement lines *Net income/expenses – gains/losses on investment properties and Jointly controlled entities and associates real estate*.These costs are incurred by the company that owns the property, and are considered to be expenses linked directly to the income from and the management of the properties. In some cases such expenses, in the form of fees related to property management, will be incurred by the subsidiaries and be presented as *Other expenses* and are shown in the second part of table 5.2.

The second part of table 5.2 also shows other expenses in the investment portfolio and includes mainly transaction related expenses that arise as part of the management and relates to all asset classes.

Other expenses are paid for with cash belonging to the Government Pension Fund Global and charged to the portfolio profit/loss directly.

GPFG NOTE 6 EQUITIES AND UNITS / BONDS AND OTHER FIXED-INCOME INSTRUMENTS

Table 6.1 Specification equities and units

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities and units				
Listed equities and units	3 133 467	3 215	2 327 992	2 523
Total equities and units	**3 133 467**	**3 215**	**2 327 992**	**2 523**
Of which equities lent	*161 150*		*115 041*	

Table 6.2 Specification bonds and other fixed-income instruments

Amounts in NOK millions

	31 Dec. 2013			31 Dec. 2012		
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends	Fair value incl. accrued interest	Acrued interest
Government bonds						
Government bonds issued in local currency	1 134 335	1 180 774	9 896	771 983	853 876	7 338
Total government bonds	1 134 335	1 180 774	9 896	771 983	853 876	7 338
Government related bonds						
Sovereign bonds	11 294	12 264	253	8 161	9 318	187
Bonds issued by local authorities	53 721	56 214	610	32 557	34 289	433
Bonds issued by supranational bodies	45 842	47 865	526	30 316	33 755	439
Bonds issued by federal agencies	105 664	110 065	1 130	81 857	89 056	1 128
Total government related bonds	216 521	226 408	2 519	152 891	166 418	2 187
Inflation-linked bonds						
Inflation-linked bonds issued by government authorities	25 933	30 318	154	30 642	41 755	235
Total inflation-linked bonds	25 933	30 318	154	30 642	41 755	235
Corporate bonds						
Bonds issued by utilities	29 644	31 901	462	18 005	20 970	333
Bonds issued by financial institutions	53 953	53 684	930	60 720	62 312	1 100
Bonds issued by industrial companies	153 987	160 703	1 778	102 216	113 158	1 396
Total corporate bonds	237 584	246 288	3 170	180 941	196 440	2 829
Securitised bonds						
Covered bonds	182 985	194 334	3 152	175 318	186 670	3 515
Mortgage-backed securities	3	0	0	5 518	3 317	13
Asset-backed securities	61	0	0	2 794	1 158	2
Commercial mortgage-backed securities	2 000	2 141	9	9 424	2 873	13
Total securitised bonds	185 049	196 475	3 161	193 054	194 018	3 543
Total bonds and other fixed-income instruments	1 799 421	1 880 263	18 900	1 329 511	1 452 507	16 132
Of which bonds lent		*75 807*			*23 820*	

* Nominal value comprises the principal translated into NOK at the exchange rate on the balance sheet date.

GPFG NOTE 7 TRANSFERRED FINANCIAL ASSETS

SECURITIES LENDING

Norges Bank has entered into agreements with external agents regarding securities lending, giving these agents the right to lend securities held by Norges Bank to other market participants with borrowing needs. Both equities and bonds are lent. The purpose of the lending activity is to create additional returns for the Government Pension Fund Global from its securities holdings. Norges Bank earns a net income based on these securities lending programmes. Net income comprises the pure lending fee, from which costs related to cash collateral received are deducted, as well as interest income and realised returns from reinvestments. The agent's portion, which is a consideration for carrying out the transactions, is also deducted. For income details, see GPFG Note 3 Profit / loss on the portfolio before foreign exchange gains and losses and returns per asset class.

Table 7.1 shows the total of lent securities and associated liabilities in the form of cash collateral.

REPURCHASE AGREEMENTS

Norges Bank uses the markets for repurchase agreements in its financing activities. At any time, Norges Bank will have lent part of its holdings in bonds through repurchase agreements, against receiving cash (repos and sell buy backs). This may be in the form of financing of asset management (borrowing of cash), or lending of securities with the aim of reinvesting received cash at higher interest and thus creating additional income/returns. These securities are presented on separate lines in the balance sheet.

Table 7.1 shows the total of bonds transferred through repurchase agreements and associated liabilities. The transferred securities are presented at fair value. Total exposure on these contracts is showed in table 8.4 in GPFG Note 8 Collateral and offsetting.

Table 7.1 Transferred financial assets

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Securities lending program				
Equities	161 150	161 150	115 041	115 041
Bonds	7 124	7 124	5 325	5 325
Repurchase agreements				
Bonds	68 682	68 682	18 495	18 495
Additional collateral related to repurchase agreements	1	1	-	1
Total transferred assets still recognized in the balance sheet	**236 956**	**236 956**	**138 861**	**138 862**
Associated liabilities				
Cash collateral received in connection with securities lending	47 766	47 766	32 688	32 688
Borrowing associated with repurchase agreements	69 147	69 147	19 013	19 013
Total associated liabilities	**116 913**	**116 913**	**51 701**	**51 701**

GPFG NOTE 8 COLLATERAL AND OFFSETTING

COLLATERAL

Within the Government Pension Fund Global, Norges Bank engages in different types of transactions where there is collateral received or posted. This includes securities lending transactions, derivative transactions and repurchase and reverse repurchase agreements, see tables 8.1 to 8.3, GPFG Note 7 Transferred financial assets and GPFG Note 9 Financial derivatives. For details on monitoring counterparty risk in connection with collateral, see GPFG Note 13 Risk.

Securities lending

When a security is lent, the borrower transfers collateral to the agent in the form of cash or securities. The collateral includes a margin and is held on behalf of Norges Bank. Agreements with agents have provisions reducing the Bank's counterparty risk in cases where collateral has been received in the form of cash or government bonds. These provisions ensure that the Bank will be compensated if the counterparty is unable to return the borrowed securities or if the collateral posted for the loan is insufficient to cover losses in the event of borrower default. The Government Pension Fund Global bears this risk itself in cases where collateral has been received in the form of equities.

Financial derivatives

Norges Bank posts or receives cash collateral in accordance with positions in foreign exchange contracts and unlisted (OTC) financial derivatives (interest rate swaps, credit default swaps and equity swaps) and futures contracts.

Repurchase and reverse repurchase agreements

Through repurchase and reverse repurchase agreements the Government Pension Fund Global receives or posts collateral in securities in return for cash. Norges Bank is part to repurchase agreements where the counterparty has transferred bonds or equities to the Bank and where the Bank has transferred cash to the counterparty (reverse repo, buy sell backs and triparties). Such contracts are used in connection with placing liquidity and also through agency securities lending as reinvestments of cash collateral received in connection with securities lending. Norges Bank is also party in repurchase agreements, see GPFG Note 7 Transferred financial assets.

Tables 8.1 to 8.3 show an overview of securities received and posted as collateral together with received or posted cash collateral.

Table 8.1 Securities received as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Equities received as collateral in connection with securities lending	-	97 746	-	76 679
Bonds received as collateral in connection with securities lending	-	30 275	-	17 254
Equities received as collateral in connection with reverse repurchase agreements	-	28 793	-	3 562
Bonds received as collateral in connection with reverse repurchase agreements	-	57 552	-	55 392
Additional collateral related to repurchase and reverse repurchase agreements	-	8	-	-
Total securities received as collateral	-	214 375	-	152 887

Securities received in connection with securities lending program or (reverse) repurchase agreements can be sold or pledged. As per 31 Dec. 2013 and 31 Dec. 2012 no securities are sold or pledged.

Table 8.2 Securities lent or posted as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Equities lent in connection with securities lending	161 150	161 150	115 041	115 041
Bonds lent in connection with securities lending	7 124	7 124	5 325	5 325
Bonds lent in connection with repurchase agreements	68 682	68 682	18 495	18 495
Bonds posted as collateral for futures contracts (initial margin)	1 926	1 926	1 301	1 301
Additional collateral related to repurchase agreements	1	1	-	1
Total securities lent or posted as collateral	**238 883**	**238 883**	**140 162**	**140 163**

Table 8.3 Cash posted or received as collateral

Amounts in NOK millions

	31 Dec. 2013		31 Dec. 2012	
	Received	Posted	Received	Posted
Related to reverse repurchase agreements (liquidity placing)	.	89 189	.	61 440
Related to repurchase agreements	69 147	.	19 013	.
Related to securities lending program*	47 766	.	32 688	.
Related to derivative transactions	298	1 681	313	166
Total cash collateral	**117 211**	**90 870**	**52 014**	**61 606**

* Reinvested in reverse repurchase agreements NOK 53 399m, of which unsettled trades made up NOK 5 643m.

OFFSETTING

Table 8.4 shows an overview of financial assets and liabilities, the effects of legally enforceable netting agreements and related collateral to reduce credit risk. The column Assets/Liabilities in the balance sheet subject to netting shows the carrying amounts of financial assets and liabilities that are subject to legally enforceable netting agreements. These amounts are adjusted for effects of potential netting with the same counterparty of recognised financial assets and liabilities together with posted or received cash collateral that results in a net exposure in column Assets/Liabilities after netting and collateral.

For various counterparties and transaction types there will be both posted and received cash collateral to and from the same counterparty. Therefore received cash collateral can be netted against posted cash collateral and the other way around.

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

No financial assets or liabilities are presented net in the balance sheet as criteria for netting in the balance sheet are not met, see GPFG Note 1 Accounting policies. Therefore there is no need to adjust for this in the table.

In the event of counterparty default a collective settlement between Norges Bank and the bankruptcy estate could be performed for certain groups of instruments irrespective of whether the instruments belong to the Government Pension Fund Global or Norway's foreign exchange reserves. Such cross nettings will be settled between these portfolios and are hence not adjusted for in the table.

Table 8.4 Assets and liabilities subject to netting agreements

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements: Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Securitiy collateral received (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforceable netting agreements	31 Dec. 2013: Gross financial assets as recognised in the balance sheet
ASSETS							
Derivatives	1 236	818	162	-	**256**	382	1 618
Lending associated with reverse repurchase agreements	72 089	-	44 062	28 014	**13**	17 100	89 189
Total	73 325	818	44 224	28 014	269	17 482	90 807

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements: Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	31 Dec. 2013: Gross financial liabilities as recognised in the balance sheet
LIABILITIES							
Derivatives	2 357	818	1 229	-	**310**	-	2 357
Borrowing associated with repurchase agreements	53 511	-	14 975	38 531	**5**	15 636	69 147
Cash collateral received	48 064	162	29 087	18 585	**230**	-	48 064
Total	103 932	980	45 291	57 116	545	15 636	119 568

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements						31 Dec. 2012
	Assets in the balance sheet subject to netting	Financial liabilities related to same counterparty	Cash collateral received (recognised as liability)	Securitiy collateral received (not recognised)	Assets after netting and collateral	Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
ASSETS							
Derivatives	1 447	863	308	-	**276**	-	1 447
Lending associated with reverse repurchase agreements	50 355	-	20 774	29 557	**23**	11 085	61 440
Total	51 802	863	21 082	29 557	299	11 085	62 887

Amounts in NOK millions

Description	Amounts subject to enforceable master netting agreements						31 Dec. 2012
	Liabilities in the balance sheet subject to netting	Financial assets related to same counterparty	Cash collateral posted (recognised as asset)	Security collateral posted (not derecognised)	Liabilities after netting and collateral	Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
LIABILITIES							
Derivatives	2 600	863	-	-	**1 737**	-	2 600
Borrowing associated with repurchase agreements	14 216	-	5 591	8 624	**2**	4 797	19 013
Cash collateral received	33 001	308	15 183	17 187	**323**	-	33 001
Total	49 817	1 171	20 774	25 810	2 062	4 797	54 614

GPFG NOTE 9 FINANCIAL DERIVATIVES

Financial derivatives are used in asset management to adjust the exposure in various portfolios, as a cost efficient alternative to trading in the underlying securities. This may be to adjust the exposure to equities, bond or the fixed-income markets in general, or to specific markets or companies.

Table 9.1 is a specification of financial derivatives holdings at market value as at 31 December 2013 and 31 December 2012, classified as assets or liabilities. Table 9.2 shows exposure expressed as the notional amount of financial derivatives for long and short positions. Notional amounts (the nominal values of the underlying) are the basis for the calculation of any cash flows and gains/losses for the contracts. The sum of the absolute amount of long and short positions is the gross exposure, which provides information about the extent to which different types of financial derivatives are used. The net position is the difference resulting from subtracting short positions from long positions. This is an indication of the total risk exposure from each type of financial derivative.

Table 9.1 Specification financial derivatives

Amounts in NOK millions

	Fair value					
	31 Dec. 2013			31 Dec. 2012		
	Asset	Liability	Net	Asset	Liability	Net
Foreign exchange contracts	460	273	187	88	145	-57
Listed futures contracts	147	1 033	-886	221	91	130
Interest rate swaps	574	699	-125	703	2 120	-1 417
Credit default swaps	-	-	-	-	-	-
Equity swaps	55	352	-297	435	244	191
Total swap contracts	629	1 051	-422	1 138	2 364	-1 226
Options	382	-	382	-	-	-
Total financial derivatives	1 618	2 357	-739	1 447	2 600	-1 153

Table 9.2 Financial derivatives – exposure

Amounts in NOK millions

	Exposure							
	31 Dec. 2013		Average 2013		31 Dec. 2012		Average 2012	
	Long	Short	Long	Short	Long	Short	Long	Short
Foreign exchange contracts	46 504	-	53 068	-	49 729	-	81 006	-
Listed futures contracts*	8 964	26 214	5 352	15 566	4 067	20 190	3 605	19 050
Interest rate swaps	2 226	16 430	3 307	13 698	4 293	13 271	5 333	15 849
Credit default swaps	-	-	-	-	-	-	728	5
Equity swaps*	131	1 265	1 664	1 008	4 660	822	2 759	1 161
Total swap contracts	2 357	17 695	4 971	14 706	8 953	14 093	8 820	17 015
Options	382	-	263	-	-	-	-	-
Total financial derivatives	58 207	43 909	63 654	30 272	62 749	34 283	93 431	36 065

* Amounts for 2012 have been restated due to change in calculation method.

EXCHANGE-LISTED FUTURES CONTRACTS

Futures contracts are listed contracts to exchange a specified asset (security, index, interest rate or other) at an agreed price, with future delivery, normally settled in cash, and with initial and daily margin settlement of gains and losses. Exposure is the notional amount of the contracts, and reflects whether Norges Bank receives (long positions) or pays (short positions) payments in the event of the underlying increasing in value.

OVER-THE-COUNTER (OTC) FINANCIAL DERIVATIVES

Foreign exchange contracts

This item consists of foreign currency exchange contracts (forwards) with normal settlement for future delivery. Contract exposure is the sum of the notional amount of the contracts at any given point in time. With a foreign exchange contract both a long and a short position are held, as one buys one currency and sells another. All positions are shown as long positions.

Interest rate swaps

Interest rate swaps are agreements between two parties to exchange interest payment streams based on different interest rate calculation methods; typically one party pays a floating rate of interest and the other pays a fixed rate.

Exposure is the notional amount of the contract and the direction (long/short) indicates whether Norges Bank is receiving (long) or is paying (short) a fixed rate of interest.

Credit default swaps

In a credit default swap, the seller of protection receives a periodic premium or lump sum from the purchaser of protection as compensation for assuming the credit risk. The purchaser receives payment from the seller only if the credit protection of the underlying credit is triggered (a credit event). A credit event might, for example, be a default on the underlying credit or bond loan. The protection normally expires after the first credit event.

The underlying credit for credit default swaps are corporate bonds, securities issued by sovereigns and corporate bond indices.

Exposure direction (long/short) indicates whether Norges Bank has purchased or sold protection for all or part of the credit risk associated with the various types of underlying assets.

Equity swaps

Equity swaps are agreements between two counterparties to exchange cash flows based on changes in the underlying security (the equity leg) and normally a floating interest rate. In addition to the periodic cash flow, the buyer will receive payments in connection with dividends and corporate events. A variant of equity swaps are Contracts for Difference (CFD), where the buyer and the seller on an on-going basis will settle between them the difference between the present value of the underlying equity or index, and the value at the transaction date. If the difference is positive the seller will pay to the buyer, while if the difference is negative the buyer will pay to the seller.

Exposure corresponds to the notional amount of the contracts, and reflects whether Norges Bank shall receive (long) or pay (short) the return from the underlying equity, or for CFDs whether Norges Bank is receiving (long) or is paying cash as the value of the equity or index increases compared with the value at the transaction date.

Options

The buyer of an option pays for the right to buy or sell an asset at an agreed price at or within a certain time in the future, while the seller has the obligation to buy or sell the asset at the agreed price and time. Options include swaptions which are agreements which grant the buyer the right to enter into a swap.

Exposure is the fair value of the contracts. Options written by Norges Bank are reported as sold. Options where Norges Bank has paid a premium are reported as purchased contracts.

GPFG NOTE 10 REAL ESTATE

The real estate asset class in the investment portfolio of the Government Pension Fund Global comprises unlisted investments classified as financial assets, jointly controlled entities and associates and investment properties.

Tables 10.1 and 10.2 show the profit/loss on the portfolio and assets and liabilities for the asset class.

Table 10.1 Income statement – real estate asset class

Amounts in NOK millions

	2013	2012
Profit/loss on the portfolio excluding foreign exchange gains and losses, real estate asset class		
Interest income from bank deposits	0	0
Net income/expenses and gains/losses from:		
- Financial derivatives	-23	0
- Financial assets real estate	915	514
- Investment properties	707	67
- Jointly controlled entities and associates real estate	1 846	-250
Other interest income and interest expense	0	25
Tax expense	-197	-5
Other expenses	-75	-56
Profit/loss on the portfolio before foreign exchange gains and losses, real estate asset class	3 173	296

Table 10.2 Assets and liabilities – real estate asset class

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
ASSETS		
Financial assets		
Deposits in banks	737	253
Financial derivatives	190	0
Financial assets real estate	7 426	4 841
Jointly controlled entities and associates real estate	32 261	7 431
Other financial assets	413	2 911
Total financial assets	41 027	15 437
Non-financial assets		
Investment properties	11 267	9 777
Other non-financial assets	8	5
Total non-financial assets	11 275	9 782
TOTAL ASSETS	52 302	25 219
Financial Liabilities, excl. management fee payable		
Other financial liabilities	508	96
Total financial liabilities, excl. management fee payable	508	96
Net assets before management fee payable, real estate asset class	51 794	25 123

Table 10.3 shows a specification of the main income statement lines for this asset class, specified by net rental income, fair value changes and other income and expenses at company level.

Table 10.3 Specification Net income/expenses and gains/losses from Financial assets real estate, Investment properties and Jointly controlled entities and associates real estate

Amounts in NOK millions

2013	Financial assets real estate	Investment properties*	Jointly controlled entities and associates real estate**	Total
Gross rental income	162	507	1 646	2 315
Direct property expenses	0	-5	-95	-100
Net rental income	**162**	**502**	**1 551**	**2 215**
Expensed transaction costs Financial assets real estate***	-63	.	.	-63
Net income/expenses	**99**	**502**	**1 551**	**2 152**
Fair value changes – properties****/ financial asset real estate	816	205	380	1 401
Fair value changes – financial liabilities	.	.	336	336
Other income/expenses in jointly controlled entities and associates real estate	.	.	-421	-421
Net income/expenses – gains/losses	**915**	**707**	**1 846**	**3 468**

Amounts in NOK millions

2012	Financial assets real estate	Investment properties*	Jointly controlled entities and associates real estate**	Total
Gross rental income	177	270	255	703
Direct property expenses	0	-27	-19	-46
Net rental income	**177**	**244**	**236**	**657**
Expensed transaction costs Financial assets real estate***	-7	.	.	-7
Net income/expenses	**170**	**244**	**236**	**650**
Fair value changes – properties****/ financial asset real estate	344	-177	-90	77
Fair value changes – financial liabilities	.	.	-327	-327
Other income/expenses in jointly controlled entities and associates real estate	.	.	-69	-69
Net income/expenses – gains/losses	**514**	**67**	**-250**	**331**

* Income, expenses, gains and losses from directly held investment properties.
** Share of income, expenses, gains and losses in jointly controlled entities and associates real estate.
*** These transaction costs are expensed on recognition and classified as expenses, as the asset is designated as at fair value through profit or loss.
**** For investment properties and jointly controlled entities and associates real estate transaction costs are presented as fair value changes.

The values used for properties and the financial asset at the end of 2013 resulted in recognition of a positive value change of NOK 1 401m for 2013. This included expensed transaction costs of NOK 138m. Recognised fair value changes for newly acquired properties equals transaction costs related to each property. In addition, a gain of NOK 336m was recognised related to the fair value measurement of liabilities in jointly controlled entities and associates.

For additional information on fair value measurement, see GPFG Note 2 Significant estimates and critical accounting judgements and GPFG Note 12 Fair value measurement.

Table 10.4 shows a specification on company level of the changes in the carrying amounts for the main balance sheet items within the real estate asset class; *Financial assets real estate, Investment properties* and *Jointly controlled entities and associates real estate*.

Table 10.4 Changes in carrying amounts for the main balance sheet items within the real estate asset class

Amounts in NOK millions

				2013
	Financial assets real estate	Jointly controlled entities and associates real estate	Investment properties	Total
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2013	**4 841**	**7 431**	**9 777**	**22 049**
Additions and improvements	1 189	21 547	21	22 757
Fair value changes – properties/financial asset real estate	816	380	205	1 401
Fair value changes – financial liability	.	336	.	336
Fair value changes – other*	.	197	.	197
Foreign currency translation effect	580	2 370	1 264	4 214
Carrying amounts for the main balance sheet items within the real estate asset class as at 31 Dec. 2013	**7 426**	**32 261**	**11 267**	**50 954**

Amounts in NOK millions

				2012
	Financial assets real estate	Jointly controlled entities and associates real estate	Investment properties	Total
Carrying amounts for the main balance sheet items within the real estate asset class as at 01.01.2012	**4 415**	**2 546**	**4 062**	**11 023**
Additions and improvements	199	5 404	6 102	11 705
Fair value changes – properties/financial asset real estate	344	-90	-177	77
Fair value changes – financial liability	.	-327	.	-327
Fair value changes – other*	.	46	.	46
Foreign currency translation effect	-117	-149	-210	-476
Carrying amounts for the main balance sheet items within the real estate asset class as at 31 Dec. 2012	**4 841**	**7 431**	**9 777**	**22 049**

* Fair value changes – other comprises net changes in contributed and withheld capital in the company structures.

The table shows that investments (additions) and improvements amounting to NOK 22 757m were made in 2013, compared to NOK 11 705m in 2012. Of this total, new investments amounted to NOK 22 460m and comprises Financial assets real estate of NOK 969m and *Jointly controlled entities and associates* of NOK 21 491m. The investments were made in United Kingdom, Germany, France and The US, and a European portfolio of logistics properties. In addition, fair value changes of properties and liabilities of NOK 1 737m formed a significant part of the increased recognised balance sheet values.

In addition to new investments that were recognised in the balance sheet by year end, agreements were signed during the fourth quarter of 2013 to acquire an office building and a number of logistics properties in the US. An agreement was signed in the first quarter 2014 to acquire another office building in the US. The transactions were completed and recognised in the first quarter 2014.

An overview of subsidiaries, jointly controlled entities and associates is given in GPFG Note 14.

GPFG NOTE 11 OTHER FINANCIAL ASSETS / OTHER FINANCIAL LIABILITIES

The tables 11.1 and 11.2 specifies *Other financial assets* and *Other financial liabilities* respectively.

Table 11.1 Other financial assets

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Withholding tax	2 100	355
Deferred tax receivable*	18	-
Accrued income from external agency securities lending	128	132
Other receivables, subsidiaries real estate	395	2 911
Other receivables	1 276	1 013
Total Other financial assets	**3 917**	**4 411**

Table 11.2 Other financial debt

Amounts in NOK millions

	31 Dec. 2013	31 Dec. 2012
Other liabilities abroad	378	128
Other liabilities, subsidiaries real estate	20	95
Liabilities to other portfolios under common management**	108	2 039
Deferred tax payable*	343	103
Total Other financial liabilities	**849**	**2 365**

* The items Deferred tax receivable and Deferred tax payable appear for the first time in the annual financial statements for 2013. Amounts for 2012 have been restated.

** Liabilities to other portfolios under common management comprise the net value of deposits and repurchase and reverse repurchase agreements vis-a-vis other portfolios managed by Norges Bank. These related party transactions were carried out at arm's length.

GPFG NOTE 12 FAIR VALUE MEASUREMENT

CONTROL ENVIRONMENT

The control environment for fair value measurement of financial instruments and investment property is organised around a formalised and documented accounting and valuation policy and guidelines which are supported by work and control procedures. The policy document lays down valuation policies and outlines treatment procedures by the Norges Bank Investment Management's valuation committee.

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

In general, all holdings and investments are valued by external, independent valuation providers. They have been chosen on the basis of thorough analyses performed by the Norges Bank units responsible for the valuation. Valuation providers are followed up on an ongoing basis through regular discussions, controls and price challenges for individual securities. For a large portion of holdings, prices from independent price providers are based on quoted market prices. For holdings that are insufficiently liquid for valuation to be based on quoted prices, widely accepted models are used. Observable inputs are used to the degree possible, but in some cases, owing to illiquid markets, unobservable inputs are used.

The valuation process is subject on a daily basis to numerous controls by Norges Bank's valuation departments as well as by the external fund accountant. Controls are based on defined thresholds and sensitivities, which are monitored and adjusted in accordance with prevailing market conditions. At each month-end for financial instruments and at the end of each quarter for real estate investments, more extensive controls are performed to ensure valuation in accordance with fair value. As part of this review, particular attention is paid to illiquid financial instruments and real estate investments, i.e. investments deemed to pose valuation challenges. Illiquid instruments are identified using sector and currency classifications, price differences between different external price providers, degree of coverage of the instrument by external price vendors, credit rating indicators, bid/ask spreads, and activity in the market.

A valuation memo and report are prepared at each quarter end documenting the results of the controls performed and the most important sources of uncertainties in the valuations.

The valuation committee, which comprises the Norges Bank Investment Management's leader group, meets every quarter prior to the publication of the financial reporting. The committee reviews the documentation, discusses major pricing issues and approves the valuation.

VALUATION TECHNIQUES

Equities and units, bonds and other fixed income instruments, and other financial assets and liabilities measured at fair value

Norges Bank has defined hierarchies for which price sources that will be used for valuation. Holdings that are included in the benchmark index are normally priced in accordance with the index providers' prices, while the remaining holdings of equities and bonds are priced almost exclusively through the use of other reputable external price providers' prices. In Norges Bank, analyses are done as part of the extended controls at month-end in which prices according to the hierarchy are compared with alternative price sources. Adjustments are made when alternative prices are considered to be more representative of fair value.

In the price hierarchy, equities are valued almost exclusively (99.9%) on the basis of official closing prices from stock exchanges or last traded exchange prices. These are thus quoted market prices. The remaining holdings are valued through the use of models and observable market inputs.

The majority (73%) of the holdings in bonds are also valued using observable quoted prices from active markets and only 0.08% of the bond portfolio now comprises instruments that are priced through models or based on not directly verifiable prices.

Portions of the bond portfolio and most interest rate derivatives are valued by price providers using models because the instruments are not traded in active markets. Observable inputs are used in the models as much as possible. The models are generally a combination of market standard and proprietary models but based on standard valuation principles. Model types vary according to the asset class or sub-class. For bonds these will include credit spreads based on quoted prices for comparable instruments, non-adjusted and option-adjusted discounted cash flow models for bonds containing embedded options, and models with discount margins for floating-rate bonds. In the OTC derivative market, option pricing models as well as implicit yield curves and credit spreads are mainly used. For other financial assets and liabilities measured at fair value the valuation is based on observable market inputs.

Inputs used in the different valuation models, observable as well as unobservable, include the following elements:

- Bond prices – prices based on price quotes and relevant market activity.
- Credit spreads – obtained from the credit derivative market as well as trades of more liquid bonds.
- Yield curves – often the foundation of the valuation model obtained from various fixed-income markets.
- Foreign exchange rates – obtained from exchanges and trading markets for use in the valuation of spot, forward and futures contracts.
- Equity prices – obtained from exchanges or standard data sources.
- Prepayment rates – early repayment of principal. Estimates based on both historical and expected levels can have a material effect on the valuation of individual types of bonds, obtained from various market sources.
- Default and recovery estimates – assumptions regarding expected default and loss given default are important inputs in the models that price structured instruments. Data sources are the same as for prepayment rates.
- Structuring and cash flow details per tranche – analysis of structured bonds produces estimated cash flows which are an essential input for such instruments. Data sources are the same as for prepayment rates.
- Volatility – the extent to which the price of a security fluctuates is a key input in the valuation of options. Data sources are the same as for prepayment rates.
- Correlation – the extent to which changes in one variable are interdependent with changes in another variable. Data sources are the same as for prepayment rates.
- Counterparty risk – prices are based on an assumption of risk-free counterparties. This is a reasonable assumption, owing to the existence of netting agreements and the use of collateral.

Real estate investments

Investments in the real estate asset class comprise financial assets real estate, investment property, associates and jointly controlled entities, see GPFG Note 10 Real estate for further information. All investments are measured at fair value. At each reporting date, real estate investments' carrying amounts are adjusted to reflect their fair values as estimated by external independent valuation specialists using the discounted cash flow method or the income method, unless it is deemed that a recent transaction price is a better estimate of fair value. For valuation of any liabilities or financial derivatives in the real estate asset class, reference is made to the section above.

Real estate valuations are by their nature predisposed to significant forward looking judgements. These include key assumptions and estimates in respect of the individual property type, location, expected future cash flows (such as tenants' contracts, future revenue streams, and the condition of the property) as well as discount rates. Such estimates generally reflect recent comparable market transactions of properties having similar location, characteristics and quality. In addition, and where relevant, development risks (such as future construction costs and letting risks) are considered when determining the fair value of properties under development. Standard assumptions are used that are in accordance with international valuation standards. As a result, the valuations reflect best local market estimates at the valuation date and are sensitive to fluctuations to key assumptions. Events of assumptions not being achieved may have a material effect on the value of the real estate portfolio.

The discounted cash flow method involves the projection of a series of periodic cash flows to either an operating or a development property. To this projected cash flow series, an appropriate risk adjusted market discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income, less vacancy, collection losses, direct and indirect operating expenses and other obligations, to arrive at the net operating income. A series of periodic net operating incomes, along with an estimate of the terminal value are discounted to present value. The terminal value is the capitalised estimate of the net cash flow at disposition that is anticipated at the end of the projection period. The aggregate of these net present values equals the market value of the property or the financial asset.

The income method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of a market yield or return requirements. Properties valued using this method capitalise rental income using a market yield from the purchase moment, and the method may include market adjustments of rental income for vacancies, lease incentives, and refurbishments.

VALUATION UNCERTAINTY

All balance sheet items measured at fair value are allocated to categories reflecting assessed valuation uncertainty. Level 1 comprises investments that are valued on the basis of quoted prices in active markets and are considered to have very limited valuation risk. Investments allocated to Level 2 are valued using models with observable inputs. These holdings have some valuation uncertainty. Holdings allocated to Level 3 are valued using models with considerable use of unobservable inputs. This implies substantial uncertainty regarding the establishment of fair value. These investments, too, are valued by external professional valuers who are regarded as giving the best estimate of fair value and where the total valuation from different pricing providers varies only to a limited extent.

Table 12.1 allocates investments in categories for assessed valuation uncertainty and includes all balance sheet items except *Other non-financial assets* and *Management fee payable*.

Table 12.1 Specification of investments by level of valuation uncertainty

Amounts in NOK millions

	Level 1		Level 2		Level 3		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31.12. 2012	31 Dec. 2013	31 Dec. 2012
Equities and units	**3 130 980**	**2 325 185**	**734**	**1 184**	**1 753**	**1 623**	**3 133 467**	**2 327 992**
Government bonds	1 021 481	759 914	159 293	93 962	-	-	1 180 774	853 876
Government-related bonds	173 767	122 187	52 134	43 652	507	579	226 408	166 418
Inflation-linked bonds	26 676	40 050	3 642	1 705	-	-	30 318	41 755
Corporate bonds	2 062	5 239	243 194	190 764	1 032	437	246 288	196 440
Securitised bonds	153 273	113 739	43 170	76 293	32	3 986	196 475	194 018
Total bonds	**1 377 259**	**1 041 129**	**501 433**	**406 376**	**1 571**	**5 002**	**1 880 263**	**1 452 507**
Financial derivatives (assets)	339	221	1 279	1 226	-	-	1 618	1 447
Financial derivatives (liabilities)	-1 033	-91	-1 324	-2 509	-	-	-2 357	-2 600
Total financial derivatives	**-694**	**130**	**-45**	**-1 283**	**-**	**-**	**-739**	**-1 153**
Financial assets real estate	.	.	.	.	7 426	4 841	7 426	4 841
Associates and jointly controlled entities real estate	.	.	.	.	32 261	7 431	32 261	7 431
Investment properties	.	.	.	.	11 267	9 777	11 267	9 777
Total real estate	**.**	**.**	**.**	**.**	**50 954**	**22 049**	**50 954**	**22 049**
Deposits in banks	.	.	5 294	.	.	.	5 294	.
Lending associated with reverse repurchase agreements	.	.	89 189	.	.	.	89 189	.
Other financial assets	.	.	3 917	.	.	.	3 917	.
Unsettled trades (asset)	.	.	1 125	.	.	.	1 125	.
Unsettled trades (liability)	.	.	-7 654	.	.	.	-7 654	.
Short-term borrowing	.	.	-29	.	.	.	-29	.
Borrowing associated with repurchase agreements	.	.	-69 147	.	.	.	-69 147	.
Cash collateral received	.	.	-48 064	.	.	.	-48 064	.
Other financial liabilities	.	.	-849	.	.	.	-849	.
Total other			**-26 218**				**-26 218**	
Total	**4 507 545**	**3 366 444**	**475 904**	**406 277**	**54 278**	**28 674**	**5 037 727**	**3 801 395**

Almost all equity holdings are classified as Level 1. Equities classified as Level 2 mainly comprise relatively illiquid holdings, which are priced on the basis of either similar more liquid shares issued by the same company, or on price indications from counterparties. Equities classified as Level 3 comprise a small number of holdings for which the valuation is particularly uncertain due to a lack of market activity, suspension of companies and unlisted equities of companies whose board of directors have stated an intention to make an initial public offering of shares.

Valuation of bonds is more uncertain and complex than valuation of equities. Norges Bank carries out analyses for each reporting date to identify the extent to which there have been transactions and price transparency with related market liquidity for different types of bonds as well as for a number of individual securities. Most government bonds and inflation-linked bonds have been allocated to Level 1, and valuation is thus primarily based on quoted market prices. Some emerging market government bonds and bonds issued by a small number of European sovereigns with unresolved debt issues are allocated to Level 2. Extensive analyses of pricing and liquidity have been done for this segment. Government-related bonds are allocated to Levels 1, 2 and a few to Level 3 on the basis of variation in the degree of trading and price transparency in the markets. Most corporate bonds belong to Level 2, as they usually are not as liquid as Treasuries. Some corporate bonds however are classified as Level 1 or Level 3. Corporate bonds in Level 1 have a short maturity (less than two years) and meet requirements for liquidity, while corporate bonds in Level 3 are illiquid issues for which prices are difficult to verify. Covered bonds are primarily categorised in Level 1 at this year-end, owing to a high degree of liquidity and price transparency in the markets. Other securitised bonds are allocated to Levels 2 and 3 on the basis of varied and in part limited price transparency as well as that some of these are priced using models. At year-end 2013 90% of equity and bond investments of the Government Pension Fund Global are traded in active markets and are thus associated with low valuation risk.

All real estate investments have been allocated to Level 3, as key assumptions, estimates and judgements factor prominently in property valuation models. External valuations have been obtained for all properties and the financial asset as at 31 December 2013. All real estate investments are measured at the fair value estimated by the external valuers, with the exception of newly acquired properties where the purchase price excluding transaction cost is considered to be the best estimate of fair value. Received valuations for the newly acquired properties differ slightly from the purchase price, however factors indicating that the value of the properties has changed materially since the transaction date have not been observed. It is therefore the assessment of management that the consideration paid in the recent transactions is the best estimate of fair value as at 31 December 2013.

CHANGES IN LEVEL 3 HOLDINGS

Table 12.2 shows a reconciliation of changes in carrying amounts for all Level 3 holdings.

Table 12.2 Specification of changes in Level 3 holdings

Amounts in NOK millions

	1 Jan. 2013	Net gains/ losses	Purchases	Sales	Settlements	Transferred from Level 1 or 2	Transferred to Level 1 or 2	Foreign exchange gains and losses	31 Dec. 2013
Equities and bonds	6 625	-656	337	-4 641	-253	1 217	-491	1 186	3 324
Total real estate	22 049	1 934	22 757	.	.	.	.	4 214	50 954
Financial assets real estate*	4 841	816	1 189	.	.	.	.	580	7 426
Associates and jointly controlled entities real estate*	7 431	913	21 547	.	.	.	.	2 370	32 261
Investment properties*	9 777	205	21	.	.	.	.	1 264	11 267
Total	28 674	1 278	23 094	-4 641	-253	1 217	-491	5 400	54 278

Amounts in NOK millions

	1 Jan. 2012	Net gains/ losses	Pur-chases	Sales	Settle-ments	Trans-ferred from Level 1 or 2	Trans-ferred to Level 1 or 2	Foreign exchange gains and losses	31 Dec. 2012
Equities and bonds	12 448	1 530	3 498	-7 200	-1 996	378	-940	-1 093	6 625
Total real estate	11 023	-205	11 705	.	.	.	.	-475	22 049
Financial assets real estate*	4 415	344	199	.	.	.	.	-117	4 841
Associates and jointly controlled entities real estate*	2 546	-371	5 404	.	.	.	.	-149	7 431
Investment properties*	4 062	-177	6 102	.	.	.	.	-210	9 777
Total	23 471	1 325	15 203	-7 200	-1 996	378	-940	-1 568	28 674

* Net gains/losses from *Financial assets real estate, Investment properties* and *Jointly controlled entities and associates* are fair value changes recognised during the reporting period. For *Financial assets real estate,* purchases do not include transaction costs, because this investment has been classified under the fair value option, and Net gains/losses does not include expensed transaction costs.

Holdings allocated to Level 3 in the fair value hierarchy increased by NOK 25 604m to NOK 54 278m during 2013. The decrease in Level 3 bonds of NOK 3 431m is primarily due to disposals of Level 3 holdings of securitised bonds. The net increase in the value of Level 3 holdings of equities is primarily due to transfers of equities from Level 1 and Level 2 to Level 3 because companies have been suspended, delisted or not traded for other reasons. This has been somewhat offset by a decline in the price of other equities in this category. Overall there has been a significant increase in Level 3 holdings due to real estate investments amounting to NOK 22 757m.

SENSITIVITY FOR LEVEL 3 HOLDINGS

Table 12.3 Additional specification Level 3 and sensitivities

Amounts in NOK millions

	Specification of Level 3 holdings 31 Dec. 2013	Sensitivities 31 Dec. 2013		Specification of Level 3 holdings 31 Dec. 2012	Sensitivities 31 Dec. 2012	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities and units	1 753	-560	175	1 623	-486	178
Government related bonds	507	-44	29	579	-61	36
Corporate bonds	1 032	-107	118	437	-57	39
Securitised bonds	32	-5	3	3 986	-619	391
Total bonds	1 571	-156	150	5 002	-737	466
Financial assets real estate	7 426	-412	451	4 841	-257	261
Associates and jointly controlled entities real estate	32 261	-1 792	1 959	7 431	-459	582
Investment properties	11 267	-626	684	9 777	-363	888
Total real estate	50 954	-2 830	3 093	22 049	-1 079	1 731
Total	54 278	-3 546	3 418	28 674	-2 302	2 375

Norges Bank's analyses indicate that Level 3 valuation risk in the portfolio increased during 2013. The total exposure regarded as being particularly uncertain in relation to valuation (Level 3) increased by NOK 25 604m in 2013, to a year-end exposure of NOK 54 278m. This is primarily due to the increase in the size of the real estate portfolio during 2013. Downwards valuation risk has increased with NOK 1 330m to NOK 3 632m at year-end 2013 due to significant new real estate investments. The overall calculated sensitivity to favourable changes was slightly higher at year-end 2013 compared to year-end 2012, NOK 3 481m compared to NOK
2 375m respectively. Total valuation risk for Level 3 holdings is expected to be less than this as the valuation of all holdings will not move in the same direction on the basis of a change of a single unobservable input parameter. For example, while faster mortgage prepayments will have a positive impact on the valuation of some of the bonds held, they will have a negative impact on other bond values, so that the impacts on the total valuation will partly offset one another.

The valuation risk for equities has increased during 2013, and the table above shows a NOK 560m lower value in the event of unfavourable changes, and a NOK 175m higher value in the event of favourable changes. This is due to an increase in equity holdings classified as Level 3. The reason for the increase is that trading in some equity holdings was suspended during 2013, which resulted in an increase in the uncertainty regarding the valuation of these holdings. Equities make up 3.2% of Level 3 in the fair value hierarchy.

The technique used to calculate the sensitivity of bond values is based on the availability of independent price sources and begins with the highest and lowest available price for a specific bond. Where a higher or lower price was not available, a standard sensitivity parameter was used. The level of the resulting valuation change is based on the sector the bond is belonging to, and the availability, reliability and variation of prices.

Disposal of securitised bonds resulted in a decrease of NOK 614m in the event of unfavourable changes.

Property values are particularly sensitive to changes in the rate of return (discount rate) and assumptions impacting future revenues. In an unfavourable scenario, changing the discount rate by +0.2 percentage point, and future market rents by -2% will result in a decrease of the real estate portfolio's value with approximately 5.6% or NOK 2 830m. In a favourable scenario, a similar change in the discount rate of -0.2 percentage point and an increase in future market rents of 2% will increase the real estate portfolio's value with 6.1% or NOK 3 093m.

GPFG NOTE 13 RISK

GOVERNMENT PENSION FUND GLOBAL INVESTMENT MANDATE

See GPFG Note 1 for a description of the framework for management of the Government Pension Fund Global. Within the regulations of the mandate for management given by the Ministry of Finance, Norges Bank shall manage the krone deposit in its own name by investing the funds in a portfolio of equities, fixed-income securities and real estate, defined as the investment portfolio.

The Bank shall seek to obtain the highest possible return after expenses measured in the currency basket of the benchmark. The Ministry's strategic benchmark index is divided into asset classes. The fixed income benchmark specifies a defined allocation between government bonds and corporate bonds, and a sub benchmark for each. Bonds in the government bond benchmark are weighted based on the GDP of the relevant countries concerned, while the bonds in the benchmark for corporate bonds are weighted according to market capitalisation. The currency distribution follows from these weighting principles. The benchmark for equities is constructed on the basis of market capitalisation for shares in the countries included in the benchmark, where selected companies are excluded from the investment universe. The investment portfolio may not invest in securities issued by Norwegian entities or issued in Norwegian kroner. These securities are also excluded from the benchmark. Positions in financial derivatives are included in the relevant asset classes, but are shown separately in the income statement and balance sheet for the Government Pension Fund Global.

NORGES BANK'S GOVERNANCE STRUCTURE

The Executive Board of Norges Bank has delegated the responsibility for the management of the Government Pension Fund Global to the Chief Executive Officer (CEO) of Norges Bank Investment Management.

The CEO of Norges Bank Investment Management is authorised by a job description and an investment mandate. The Executive Board has issued principles for risk management principles for ownership management, principles for organisation and management, and principles for compensation to Norges Bank Investment Management employees. Norges Bank Investment Management must adhere to internationally recognised standards in the areas of valuation, performance measurement and management, measurement and control of risk. Reporting to the Executive Board is done monthly, and more extensively quarterly. The Governor of Norges Bank and the Executive Board should be notified without delay in the event of particular events or significant matters.

NORGES BANK INVESTMENT MANAGEMENT GOVERNANCE STRUCTURE

Within Norges Bank Investment Management, investment responsibilities are further delegated through investment mandates. Responsibility for processes and personnel is delegated through job descriptions, while process requirements are detailed in policies and guidelines. The composition of the leader group and the delegation of authority shall ensure segregation of duties between investment management, treasury and trading, operations, risk management and compliance.

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

Internal risk reporting requirements are issued by the CEO of Norges Bank Investment Management through job descriptions to personnel in the risk area. The CEO receives daily, weekly and monthly reporting. The CEO should be notified without delay of particular events or serious breaches of the investment mandate.

NORGES BANK INVESTMENT MANAGEMENT'S FRAMEWORK FOR INVESTMENT RISK

In the investment mandate for the Government Pension Fund Global given to Norges Bank, there are a number of limits and restrictions for the combined equity and bond asset class, as well as for the individual asset classes. Real estate investments are covered in the investment mandate by separate regulations. These regulations provide Norges Bank with a framework for establishing an asset class with diversified exposure to global real estate markets.

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

The Executive Board's principles for risk management are detailed further through policies and guidelines. Responsibility for an effective organisation and process related to risk management is delegated to the CRO to ensure a robust risk management process within Norges Bank Investment Management.

Risk management is defined as management of market risk, credit risk, counterparty risk, operational risk and risk related to environmental, social and governance factors. The first three items listed are defined as investment risk. In Norges Bank Investment Management the investment area has responsibility for managing the portfolio and individual mandate risk, while the risk management area independently measures, manages and reports investment risk across the portfolio, asset classes and other levels within the portfolio that reflect the investment process.

Investment risk – market risk

Norges Bank Investment Management defines market risk as the risk of a loss or a change in the market value of the portfolio or in parts of the portfolio as a result of changes in financial market variables. Market risk for the equities and fixed income portfolios is measured along the following dimensions: absolute and relative exposure as compared to the benchmark, volatility and correlation risk, systematic factor risk and liquidity risk. Market risk is actively taken to generate investment returns in line with the objectives of the investment mandates.

Investment risk – credit risk

Norges Bank Investment Management defines credit risk as the risk of loss due to an issuer being unable to meet its payment obligations. Norges Bank Investment Management measures both credit risk as single issuer credit risk where the probability of default and loss given default are taken into account, and portfolio credit risk where credit risk takes into account the correlation in credit losses between the instruments and the issuers. Credit risk is actively taken to generate investment returns in line with the investment mandates' objectives.

Investment risk – counterparty risk

Norges Bank Investment Management defines counterparty risk as the risk of loss related to the possible bankruptcy of a counterparty or other similar event leading to counterparty defaulting. Counterparty risk can be divided into credit risk associated with the bankruptcy of a counterparty, settlement risk and custodian risk. Counterparty risk is controlled and mitigated to the greatest extent possible, given the investment strategy.

Risk management process

Norges Bank Investment Management uses several measurements, processes and systems to control investment risk. Robust and widely accepted risk management systems and processes are complemented by internally developed measurement methods and processes.

MARKET RISK

Norges Bank measures risk in both absolute terms for the actual portfolio, and the relative market risk for investments in the Government Pension Fund Global.

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

Asset class by country and currency

The portfolio is invested across several asset classes, countries and currencies as shown in Table 13.1.

Table 13.1 Allocation by asset class, country and currency

Asset class	Market	Market value in percent by country and currency 31 Dec. 2013	Marked	31 Dec. 2012	Market value in percent by asset class 31 Dec. 2013	31 Dec. 2012	Assets minus liabilities excluding management fee 31 Dec. 2013	31 Dec. 2012
Equities	**Developed**	**90.2**	**Developed**	**90.1**				
	United States	29.2	United States	28.5				
	United Kingdom	14.8	United Kingdom	16.0				
	Japan	6.7	France	6.9				
	Germany	6.7	Switzerland	6.5				
	France	6.7	Germany	6.3				
	Total Other	26.1	Total Other	25.9				
	Emerging	**9.8**	**Emerging**	**9.9**				
	China	2.5	China	1.7				
	Taiwan	1.4	Brazil	1.5				
	Brazil	1.3	Taiwan	1.3				
	Russia	0.7	Russia	1.1				
	India	0.7	South Africa	0.7				
	Total Other	3.1	Total Other	3.6				
Total Equities					61.7	61.2	3 106 945	2 335 830
Fixed income	**Developed**	**88.0**	**Developed**	**89.8**				
	US dollar	38.4	US dollar	37.6				
	Euro	27.8	Euro	30.7				
	Japanese Yen	7.4	Japanese Yen	7.2				
	British Pound	5.2	British Pound	6.2				
	Canadian Dollar	3.5	Canadian Dollar	3.0				
	Total Other	5.8	Total Other	5.2				
	Emerging	**12.0**	**Emerging**	**10.2**				
	Mexican peso	1.7	Mexican peso	1.5				
	South Korean Won	1.6	South Korean Won	1.4				
	Brazilian Real	1.5	Russian Rouble	1.1				
	Russian Rouble	1.3	Brazilian Real	1.0				
	Polish Zloty	0.8	Polish Zloty	0.7				
	Total Other	5.1	Total Other	4.4				
Total Fixed Income					37.3	38.1	1 878 996	1 454 816
Real Estate	United Kingdom	27.0	France	32.9				
	France	22.5	United Kingdom	31.7				
	United States	18.7	Switzerland	24.2				
	Switzerland	13.8						
	Germany	8.5						
	Other	9.6	Other	11.2				
Total Real estate					1.0	0.7	51 794	25 123

Concentration risk

The Government Pension Fund Global comprises substantial investments in government issued bonds. The portfolio is also invested in private companies that issue both bonds and equities.

Table 13.2 shows the largest holdings in bonds issued by governments, including government bonds issued in local currency, sovereign bonds and inflation-linked bonds issued in local currency.

Table 13.2 Largest holdings within the segment government bonds

Amounts in NOK millions

	Market value 31 Dec. 2013
United States	437 306
Japan	139 475
Germany	97 534
United Kingdom	58 852
Mexico	36 001
Netherlands	35 844
Italy	35 336
France	31 370
South-Korea	31 162
Brazil	30 335

Amounts in NOK millions

	Market value 31 Dec. 2012
United States	323 983
Japan	103 001
Germany	63 926
United Kingdom	59 784
France	44 016
Italy	26 535
Netherlands	24 624
Mexico	22 569
Canada	22 141
South Korea	20 732

Table 13.3 shows the portfolio's largest holdings of non-government issuers across both bonds and equities. Covered bonds issued by financial institutions and debt issued by other underlying companies are included in the bonds column.

Table 13.3 Largest holdings excluding sovereigns, both bonds and equities

Amounts in NOK millions

	Sector	Bonds	Equities	31 Dec. 2013 Total
Nestlé SA	Consumer Goods	336	39 268	39 604
Kreditanstalt für Wiederaufbau	Government related	31 742	0	31 742
Royal Dutch Shell PLC	Oil & Gas	1 629	28 957	30 586
HSBC Holdings PLC	Financials	3 362	24 968	28 330
Novartis AG	Health Care	757	26 078	26 835
Lloyds Banking Group PLC	Financials	15 126	11 288	26 414
Vodafone Group PLC	Telecommunication	1 738	24 613	26 351
Roche Holding AG	Health Care	228	24 183	24 411
BP PLC	Oil & Gas	3 584	20 150	23 734
Apple Inc	Technology	1 909	21 075	22 984

Amounts in NOK millions

	Sector	Bonds	Equities	31 Dec. 2012* Total
HSBC Holdings PLC	Financials	3 190	27 272	30 462
Nestlé SA	Consumer Goods	0	30 061	30 061
Royal Dutch Shell PLC	Oil & Gas	989	28 829	29 818
Kreditanstalt für Wiederaufbau	Government related	25 884	0	25 884
Lloyds Banking Group PLC	Financials	18 967	4 551	23 518
Novertis AG	Health Care	602	21 218	21 820
Banco Santander SA	Financials	11 099	10 264	21 363
UBS AG	Financials	7 398	13 456	20 854
Apple Inc	Technology	0	20 698	20 698
BP PLC	Oil & Gas	3 368	16 546	19 914

* Table for 31 Dec. 2012 is restated to include total debt for underlying companies.

Table 13.4 shows the real estate portfolio per sector.

Table 13.4 Distribution of real estate investments per sector

Sector	Percent 31 Dec. 2013	Percent 31 Dec. 2012
Office buildings	62.4	58.2
Retail	17.1	31.0
Industrial	18.7	.
Other	1.7	10.8
Total	**100.0**	**100.0**

Volatility and correlation risk

Norges Bank uses risk modelling to quantify the risk of value changes associated with all or parts of the portfolio. These are standard risk measurement techniques based on statistical measures such as standard deviation, which take into account correlations between different instruments in the portfolio. This risk measure provides an estimate of expected change or fluctuation in the portfolio's value on the basis of markets conditions over the past three years. Expected volatility can be expressed in terms of the portfolio's absolute risk or relative risk. The model uses equally weighted weekly return data from the last three years and a parametric calculation methodology and is tailored to the long-term investment horizon of the Government Pension Fund Global's investments. The same model is used for both portfolio risk and relative volatility. In addition to the mentioned model, Norges Bank uses other models that to a greater extent capture the market dynamics of recent periods. Real estate investments are not included in the volatility calculations. This is consistent with the investment mandate issued by the Ministry of Finance and the Executive Board of Norges Bank in addition to internal guidelines for investment and risk management.

Tables 13.5 and 13.6 present risk both in terms of the portfolio's absolute risk and the relative risk.

Table 13.5 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	31 Dec. 2013	Min 2013	Max 2013	Average 2013	31 Dec. 2012	Min 2012	Max 2012	Average 2012
Portfolio	9.3	8.5	9.4	9.0	8.6	7.9	9.9	8.6
Equities	14.2	13.7	14.4	14.1	14.3	13.9	16.6	14.6
Fixed income	8.7	8.3	8.9	8.6	8.6	8.6	10.4	8.9

Table 13.6 Relative risk, expected relative volatility, in basispoints

	Expected relative volatility							
	31 Dec. 2013	Min 2013	Max 2013	Average 2013	31 Dec. 2012	Min 2012	Max 2012	Average 2012
Portfolio	59	32	81	53	48	31	57	43
Equities	64	33	76	51	37	32	61	41
Fixed income	56	50	75	64	64	40	77	58

Risk measured increased somewhat for the portfolio as a whole and in the asset class comprising interest bearing instruments in 2013. For equities a decrease was noticeable. At year-end the portfolio as a whole had a risk measured at 9.3%. This means that for the portfolio yearly value fluctuations of approximately NOK 470bn can be expected. Correspondingly, measured risk at year-end 2012 was 8.6% and value fluctuations of approximately NOK 330bn could be expected. Since the model uses 3 years of historical data the risk change can be explained by reduced diversification between the equity portfolio and fixed income portfolio since 2010 is no longer part of the calculation period.

The mandate for the Government Pension Fund Global outlines that Norges Bank shall facilitate management with the aim of not exceeding a limit of 100 basis points in expected relative volatility. Risk is measured and compliance with the limit monitored on the basis of the model described above. Expected relative volatility has been within the limit in 2013 and at the end of the year was at 0.6%, which is an increase from the end of 2012.

Stabilising and growing, but fragile economic growth characterized the global stock and bond markets in 2013. During the year, there were several signs that the recession in the euro zone was coming to an end. Italian, Spanish and Irish governmental interest rates declined and the strong euro from 2012 was significantly tapered. In the US particularly unemployment figures from the second half of a year showed a firm and declining trend and the US central bank adopted the first downscaling of bond purchases in December. While developments in the EU and the US showed signs of accelerating growth the picture was mixed for emerging markets. China, Brazil and India had continued strong growth throughout the year, but with clear signs of a declining pace.

Strengths and weaknesses

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

Model-based risk estimates are based on historical relationships and may provide reliable forecast in markets without significant changes in volatility. In periods marked by significant changes in volatility and correlation, estimates will be less reliable. Calculated volatility is a point estimate of risk and provides little information about the total risk profile and any tail risk. Annualisation means assuming that volatility and portfolio composition are constant over time. To compensate for these weaknesses, Norges Bank uses complementary models, methods and various stress tests. In addition, analyses are performed of concentration risk and realised return.

Back testing of models

Back testing of the models is performed to validate the model's ability to estimate risk. Both the risk model and the back testing takes into account the long term nature of the Government Pension Fund Global's investment horizon.

CREDIT RISK

Credit risk is the risk of losses resulting from defaults by issuers of fixed income instruments on their payment obligations. Fixed-income instruments in the portfolio's benchmark are all rated investment grade by one of the major credit rating agencies. Investments in bonds are made on the basis of internal assessments of expected return and risk profile.

Table 13.7 Bond portfolio specified by credit rating

Amounts in NOK millions

						31 Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	658 742	298 019	71 283	150 360	2 369	1 180 774
Government related bonds	105 869	85 439	11 294	21 271	2 535	226 408
Inflation-linked bonds	16 180	1 431	271	12 435	-	30 318
Corporate bonds	871	23 080	109 052	108 438	4 847	246 288
Securitised bonds	126 600	11 855	26 525	30 285	1 210	196 475
Total bonds and other fixed-income instruments	**908 262**	**419 825**	**218 425**	**322 789**	**10 961**	**1 880 263**

Amounts in NOK millions

						31 Dec. 2012
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	533 495	187 356	35 158	97 841	25	853 876
Government related bonds	88 803	46 689	9 740	18 082	3 103	166 418
Inflation-linked bonds	29 743	4 508	229	7 275	-	41 755
Corporate bonds	404	16 258	94 819	82 143	2 816	196 440
Securitised bonds	111 639	15 922	42 763	19 030	4 665	194 018
Total bonds and other fixed income instruments	**764 084**	**270 733**	**182 709**	**224 372**	**10 609**	**1 452 507**

The euro area came out of the economic recession during 2013, but there are still challenges related to growth, and debt levels for many countries remain high. In the US, growth strengthened in 2013, but there was a risk that the country would not pay interest and principal on government debt on time. The central bank warned that it would reduce the scope of quantitative easing if the economy showed sufficient signs of improvement. This resulted in increased credit risk premiums for most countries in emerging markets, especially for countries with a negative trade balance, such as Turkey, South Africa, Brazil, Indonesia and India. A continued fragile global economy led to credit rating agencies downgrading more countries and companies than they upgraded also in 2013. The bond portfolio's credit quality measured in credit rating was therefore

reduced and was only partly offset by the fact that a proportion of new bond investments in 2013 were in bonds with a high credit quality. Inflows of funds were invested in treasuries in emerging markets. Such holdings comprised at year-end 12.0% of the bond portfolio compared with 9.9% at year-end 2012.
The composition of the bond portfolio changed accordingly with the share of AAA bonds reduced and share of BBB increased. Holdings of BBB bonds increased to 17.2% of the bond portfolio at year-end 2013 from 15.4% of the bond portfolio at year-end 2012. At year-end 2013 holdings of defaulted bonds stood at NOK 11.8bn, up from NOK 7.4bn at year-end 2012. Defaulted bonds are grouped with Lower rating in the table above.

Table 13.8 Bond portfolio by credit rating and currency in percent

						31 Dec. 2013
	AAA	AA	A	BBB	Lower rating	Total
US dollar	27.3	2.1	4.1	4.7	0.1	38.3
Euro	13.1	4.9	3.2	6.3	0.4	27.9
Japanese Yen	-	7.4	-	-	0.0	7.4
British Pound	0.8	3.4	0.5	0.6	0.0	5.2
Canadian Dollar	2.2	0.7	0.2	0.3	0.0	3.4
Other currencies	4.9	3.7	3.7	5.4	0.1	17.8
Total	**48.3**	**22.3**	**11.6**	**17.2**	**0.6**	**100.0**

						31 Dec. 2012
	AAA	AA	A	BBB	Lower rating	Total
US dollar	26.5	1.7	4.0	4.1	0.3	36.6
Euro	13.9	6.4	5.4	5.1	0.4	31.2
Japanese Yen	-	7.1	-	-	0.0	7.1
British Pound	5.1	0.2	0.7	0.7	0.0	6.7
Canadian Dollar	2.2	0.5	0.1	0.1	0.0	3.0
Other currencies	4.9	2.8	2.3	5.5	0.0	15.5
Total	**52.6**	**18.6**	**12.6**	**15.4**	**0.7**	**100.0**

At year-end 2013 there were no credit default swaps in the portfolio (see GPFG Note 9 Financial derivatives).

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

COUNTERPARTY RISK

Counterparties are required to ensure efficient liquidity management and efficient trade and management of marked and credit risk. Norges Bank is exposed to counterparty risk related to trade in OTC derivatives and currency contracts, repurchase and reverse repurchase agreements, securities lending and securities posted as collateral in derivative trades and securities lending. Unsecured deposits in banks are also defined as counterparty risk. Norges Bank is further exposed to counterparty risk related to counterparties in international settlement and custody systems where transactions settle. This can occur both in currency trades and with purchase and sale of securities. Settlement risk and exposure from trades with long maturities are also defined as counterparty risk.

Norges Bank reduces counterparty risk by using several counterparties and by setting strict credit rating requirements. Rating requirements for counterparties with unsecured bank deposits are higher than in situations when collateral is posted. Changes in counterparty's credit ratings are monitored continuously.

To reduce counterparty risk netting agreements are in place for trades in OTC derivatives, currency contracts and repurchase and reverse repurchase agreements. Additional reduction of counterparty risk is ensured through collateral requirements for counterparty net positions with positive market value. For instruments where collateral is used minimum requirements have been set, relating to the credit quality, time to maturity and concentration of the collateral. Netting and collateral agreements are entered into for all of Norges Bank Investment Management's approved counterparties for these types of trades.

Counterparty risk is also reduced by setting exposure limits for individual counterparties. Exposure per counterparty is measured daily against limits set by the board and the CEO of Norges Bank Investment Management. The methods used to calculate counterparty risk are in accordance with internationally recognised standards. For OTC derivatives and currency contracts the current exposure method is used. For each contract the market value and a rate of future anticipated exposure is calculated. Netting agreements and collateral are taken into account in the calculation of net exposure. Only cash collateral is received for these contracts.

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

Norges Bank is exposed to counterparty risk related to counterparties in settlement and custody systems, both in derivative trades and in with purchase and sale of securities. For most currency trades Norges Bank has a low settlement risk. Through the use of currency settlement system CLS (Continues Linked Settlement) or by trading directly with settlement banks the settlement risk is reduced. In a few currencies Norges Bank is exposed to settlement risk when sold currency is delivered to the counterparty before the receipt of currency is confirmed. In table 13.9 this type of exposure is included on the line OTC derivatives including currency contracts.

In table 13.9 exposure is broken down by type of activity / instrument associated with counterparty risk. In addition to numbers according to the internal risk model, in terms of gross and net exposure, exposure risk is shown as in accordance with the balance sheet, adjusted for both recognised and off-balance sheet collateral.

Total counterparty risk measured in net exposure has been stable throughout the year. Gross exposure has increased somewhat mainly as a result of a higher volume of lent securities during 2013 (see GPFG Note 8 Collateral and offsetting). The majority of the increased securities lending is guaranteed by agents and the effect on the net exposure is little (see column Collateral and guarantees for the effects of guarantees).

Table 13.9 Counterparty risk by type of position

Amounts in NOK millions

					31 Dec. 2013
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	3 612	3 933	-	-	3 933
OTC derivatives including foreign exchange contracts	-235	4 354	1 997	298	2 059
Repurchase and reverse repurchase agreements	-3 272	660	86	-	575
Securities lending transactions**	-7 514	27 428	-	14 532	12 896
Cash and bonds posted as collateral for derivatives trades	3 607	3 344	-	-	3 344
Settlement risk towards broker and long settlement transactions	-	-	-	-	-
Total		39 719	2 082	14 830	22 806

Amounts in NOK millions

					31 Dec. 2012*
	Carrying amount adjusted for collateral	Gross exposure	Effect of netting	Collateral and guarantees	Net exposure
Time deposits and unsecured bank deposits	5 698	5 368	-	-	5 368
OTC derivatives including foreign exchange contracts	-1 283	5 926	3 030	313	2 583
Repurchase and reverse repurchase agreements	-89	927	5	-	923
Securities lending transactions**	-6 255	21 259	-	8 834	12 424
Cash and bonds posted as collateral for derivatives trades	1 557	1 772	-	-	1 772
Settlement risk towards broker and long settlement transactions	-	-	-	-	-
Total		35 252	3 035	9 147	23 070

* The methodology for calculation of counterparty exposure is adjusted. Comparatives for 2012 are restated.
** The column Carrying amount adjusted for collateral includes securities lent and collateral received.

The line OTC derivatives including foreign exchange contracts in the table comprises the net market value of foreign exchange contracts (NOK 187m) and swaps (NOK -422m). See also GPFG Note 9 Financial derivatives. Counterparty risk for derivative positions is followed-up on a net basis at Norges Bank.

Norges Bank's counterparties have a credit rating from independent credit rating agencies. Only in instances when the counterparty risk is considered very low can an internal credit evaluation be used as the basis for counterparty approval. Credit ratings of the Bank's counterparties are monitored and complemented by alternative credit risk indicators. Table 13.10 shows Norges Bank's counterparties classified according to credit rating category.

Table 13.10 Counterparties* by credit rating

	Norges Bank's counterparties (excluding brokers)		Brokers	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
AAA	-	-	-	-
AA	21	30	23	29
A	55	46	65	56
BBB	3	-	30	21
BB	1	-	5	3
B	-	-	9	9
Total	80	76	132	118

* As counterparties are counted per legal entity, several counterparties may be included per corporate group.

Leverage

Leverage may be used to ensure effective management of the investments, and not with the aim of increasing the economic exposure to risky assets. The use of leverage is regulated both in the investment management mandate issued by the Ministry of Finance to Norges Bank and in the investment mandate issued by the Executive Board of Norges Bank to Norges Banks Investment Management. Leverage is the difference between total net exposure and market value for the portfolio. Net exposure is determined by including securities in the calculation at market value and by including derivatives converted to underlying exposure. When exposure is greater than market value, the portfolio is leveraged.

The Government Pension Fund Global did not have any significant leverage in 2013. Leverage at the year-end 2013 was 0.1% of the marked value of the equity and bond portfolios.

Sale of securities Norges Bank does not own

Sale of securities not owned by Norges Bank (short sales) can only be done if the Bank has established borrowing agreements to cover a negative position. Such transactions are very rarely undertaken, and at year-end 2013, no securities had been sold in this manner.

GPFG NOTE 14 SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Norges Bank's ownership interests within the investment portfolio of the Government Pension Fund Global in subsidiaries, jointly controlled entities and associates are given in Table 14.1.

Table 14.1 Subsidiaries, jointly controlled entities and associates

Company	Business address	Ownership share and voting rights in percent	Recognised from
United Kingdom			
Burlington Number 1 Limited	London	100	2011
NBIM George BTLP Limited	London	100	2011
NBIM George GP Limited	London	100	2011
NBIM George Partners LP	London	100	2011
NBIM George 1 Nominee Limited	London	100	2011
NBIM George 2 Nominee Limited	London	100	2011
Burlington Two Limited	London	100	2012
NBIM Victoria GP Limited	London	100	2012
MSC Property Intermediate Holdings Limited	London	50	2012
NBIM Victoria BTLP Limited	London	100	2012
NBIM Victoria Partners LP	London	100	2012
Luxembourg			
NBIM S.à r.l.	Luxembourg	100	2011
France			
NBIM Louis S.à r.l.	Luxembourg	100	2011
NBIM Louis SPPICAV	Paris	100	2011
NBIM Louis SAS	Paris	100	2011
SCI Matignon 16	Paris	50	2011
Champs Elysées Rond-Point SCI	Paris	50	2011
SCI PB 12	Paris	50	2011
NBIM Clement S.à r.l.	Luxembourg	100	2012
NBIM Clement OPCI SPPICAV	Paris	100	2012
NBIM Clement SCI	Paris	100	2012
SCI Malesherbes	Paris	50	2012
SCI 15 Scribe	Paris	50	2012
SAS 100 CE	Paris	50	2012
SCI Daumesnil	Paris	50	2012
SCI 9 Messine	Paris	50	2012
SCI Pasquier	Paris	50	2013
NBIM Monte S.à r.l.	Luxembourg	100	2013
NBIM Monte FCT	Paris	100	2013

Company	Business address	Ownership share and voting rights in percent	Recognised from
Germany			
NBIM Otto S.à r.l.	Luxembourg	100	2012
BVO Welle-Frankfurt & NKE-Berlin Immobilien GmbH	Køln	50	2012
GP – Die Welle & NKE Neues Kranzler Eck Immobillien Verwaltungs GmbH	Køln	50	2012
NBIM Otto W1 S.à r.l.	Luxembourg	100	2012
Die Welle 1 Frankfurt Immobilien GmbH & Co. KG	Køln	50	2012
NBIM Otto W3 S.à r.l.	Luxembourg	100	2012
Die Welle 3 Frankfurt Immobilien GmbH & Co. KG	Køln	50	2012
NBIM Otto NKE S.à r.l.	Luxembourg	100	2012
NKE Neues Kranzler Eck Berlin Immobilien GmbH & Co. KG	Køln	50	2012
NBIM Otto SZ S.à r.l.	Luxembourg	100	2012
Tower SZ Munich GmbH & Co. KG	Hamburg	50	2013
Switzerland			
NBIM Antoine S.à r.l.	Luxembourg	100	2012
NBIM Antoine CHF S.à r.l.	Luxembourg	100	2012
Europe			
NBIM Nerva S.à r.l.	Luxembourg	100	2012
Prologis European Logistics Partners S.à r.l.	Luxembourg	50	2013
United States			
NBIM Woodrow MM LLC	Wilmington, DE	100	2013
NBIM Woodrow Evening Star WDC LLC	Wilmington, DE	100	2013
T-C 1101 Pennsylvania Venture LLC	Wilmington, DE	49.9	2013
NBIM Woodrow Franklin Sq WDC LLC	Wilmington, DE	100	2013
T-C Franklin Square Venture LLC	Wilmington, DE	49.9	2013
NBIM Woodrow 33 Arch St BOS LLC	Wilmington, DE	100	2013
T-C Arch Street Venture LLC	Wilmington, DE	49.9	2013
NBIM Woodrow 470 PAS NYC LLC	Wilmington, DE	100	2013
T-C 470 Park Avenue South Venture LLC	Wilmington, DE	49.9	2013
NBIM Woodrow 475 Fifth Ave NYC LLC	Wilmington, DE	100	2013
T-C 475 Fifth Avenue Venture LLC	Wilmington, DE	49.9	2013
NBIM Walker MM LLC	Wilmington, DE	100	2013
NBIM Walker TST NYC LLC	Wilmington, DE	100	2013
No. 1 Times Square Development LLC	Wilmington, DE	45	2013

Company	Business address	Ownership share and voting rights in percent	Recognised from
NBIM Jefferson MM LLC	Wilmington, DE	100	2013
NBIM Jefferson OFC BOS LLC	Wilmington, DE	100	2013
OFC Boston LLC	Wilmington, DE	47.5	2013
NBIM Jefferson 425 Market SF LLC	Wilmington, DE	100	2013
425 MKT LLC	Wilmington, DE	47.5	2013
NBIM Jefferson 555 DC LLC	Wilmington, DE	100	2013
555 12th LLC	Wilmington, DE	47.5	2013
NBIM Reagan MM LLC	Wilmington, DE	100	2013
NBIM Reagan LLC	Wilmington, DE	100	2013

Companies with ownership share and voting rights of more than 50% are subsidiaries. Companies with ownership share and voting rights of 50% are jointly controlled entities. Companies with ownership share and voting rights of less than 50% are associates.

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Council of Norges Bank

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Norges Bank, which comprise the statement of financial position as at 31 December 2013, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

THE EXECUTIVE BOARD'S AND THE GOVERNOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Executive Board and the Governor are responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank. The regulation requires Norges Bank financial statements to be prepared in accordance with International Financial reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including investments in subsidiaries being part of the investment portfolio. The Executive Board and the Governor are also responsible for such internal control as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norges Bank as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with with the Accounting Act and the Regulation concerning annual financial reporting for Norges Bank. The regulation requires Norges Bank financial statements to be prepared in accordance with International Financial reporting Standards as endorsed by the EU, but sets certain specific presentation requirements for the investment portfolio of the Government Pension Fund Global, including investments in subsidiaries being part of the investment portfolio.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINION ON THE EXECUTIVE BOARD'S REPORT AND THE STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Executive Board's report concerning the financial statements, the statement on Corporate Social Responsibility and the proposal for the allocation of the comprehensive income is consistent with the financial statements and complies with the law and regulations.

OPINION ON REGISTRATION AND DOCUMENTATION

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 12 February 2014
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

RESOLUTION OF THE SUPERVISORY COUNCIL ON THE FINANCIAL STATEMENTS FOR 2013

In accordance with the current guidelines for the allocation and distribution of Norges Bank's profit, the Supervisory Council adopted the following decision at its meeting on 27 February 2014:

- The Supervisory Council takes note of the Annual Report of the Executive Board for 2013.
- The Supervisory Council takes note of the auditor's report for Norges Bank for 2013 and adopts Norges Bank's financial statements for 2013.
- In accordance with the guidelines, the profit after other allocations of NOK 53 359m is to be transferred to the Adjustment Fund. There is no capital in the Transfer Fund and no transfers will therefore be made to the Treasury

THE SUPERVISORY COUNCIL'S STATEMENT ON THE MINUTES OF THE MEETINGS OF THE EXECUTIVE BOARD AND ITS SUPERVISION OF THE BANK IN 2013

Under the Norges Bank Act, the Supervisory Council submits a separate report to the Storting concerning the minutes of the meetings of the Executive Board and its supervision of the Bank. The report for 2013 will be adopted by the Supervisory Council on 20 March 2014 and published upon submission to the Storting in April 2014.

NORGES BANK'S ACTIVITIES

CHAPTER 1

RESPONSIBILITIES AND ORGANISATION

PROMOTING ECONOMIC STABILITY IN NORWAY

The aim of Norges Bank is to promote economic stability in Norway. Norges Bank fulfils executive and advisory monetary policy functions and is tasked with maintaining payment systems and financial markets that are robust and efficient. Norges Bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The Bank's activities are regulated by the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc. (Norges Bank Act). The Act states that Norges Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. The Bank shall issue banknotes and coins, promote an efficient payment system domestically and vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets. The Act authorises the Bank to implement measures customarily or ordinarily taken by a central bank.

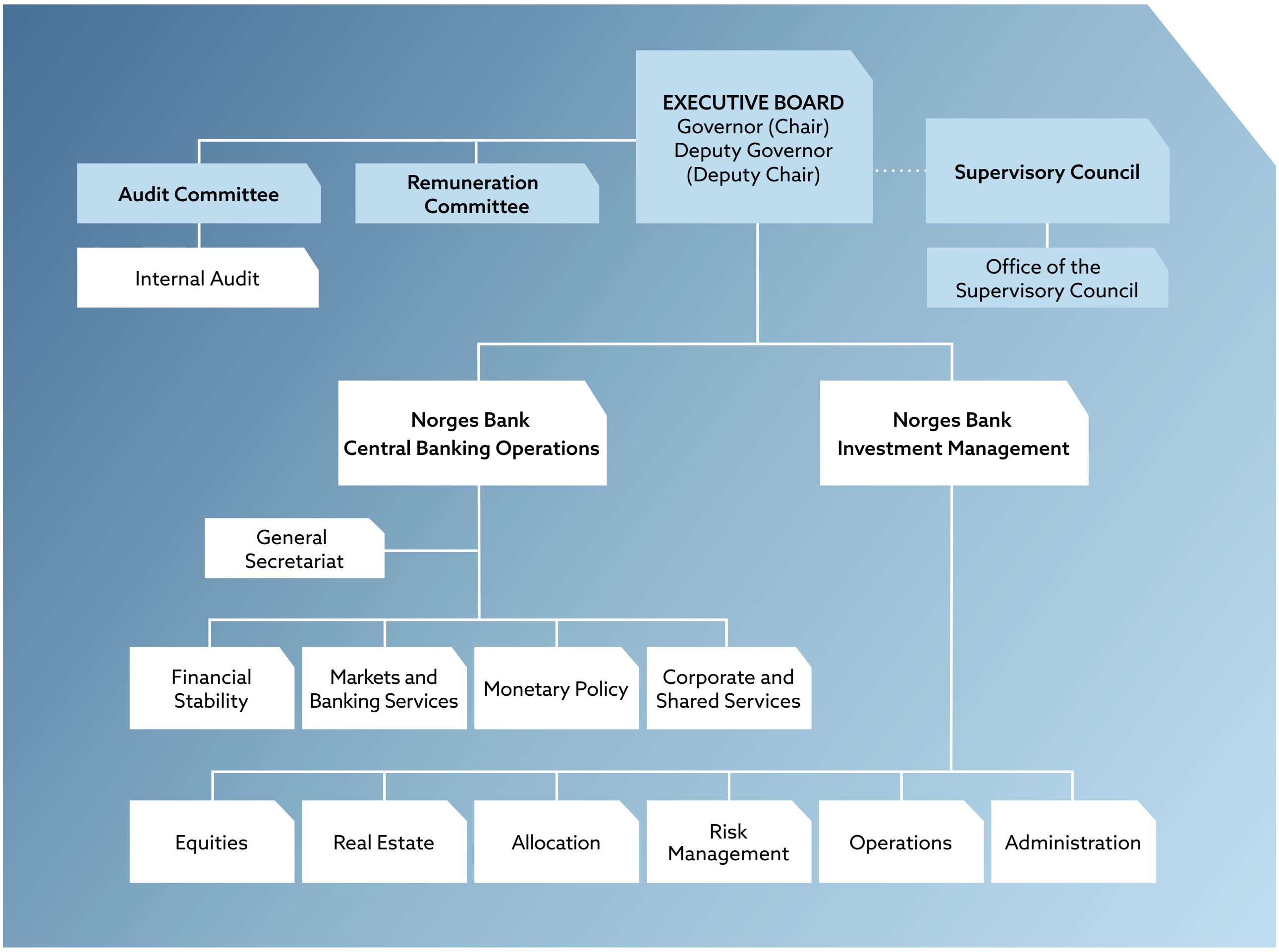
The Government has defined an inflation target for monetary policy in a regulation issued pursuant to the Norges Bank Act. Norges Bank's responsibilities with respect to the management of the GPFG are regulated by the Act relating to the Government Pension Fund Global and a management mandate laid down by the Ministry of Finance.

ORGANISATION

The highest decision-making bodies of Norges Bank are the Executive Board and the Supervisory Council. Executive and advisory authority is vested in the Executive Board, while the Supervisory Council ensures that the rules governing the Bank's activities are observed. The Executive Board consists of seven members, all appointed by the Government, with the Governor as chair and the Deputy Governor as deputy chair. For a more detailed description of the Executive Board's work, see Part I, Annual Report of the Executive Board. The Executive Board has laid down the mandate for the Internal Audit function, and the unit reports to the Executive Board through the Audit Committee.

Norges Bank's Supervisory Council comprises 15 members appointed by the Storting (the Norwegian parliament). The Council's mandate is to provide assurance to the Storting through its activities and reports that Norges Bank operates in a prudent and appropriate manner and in compliance with legislation and other standards, including in the management of the GPFG. The Supervisory Council has established the Office of the Supervisory Council to perform oversight and control tasks, administer the agreement with the external auditor and perform secretariat tasks for the Supervisory Council. The Office of the Supervisory Council also functions as a liaison between the Bank, the external auditor and the Office of the Auditor General, especially with regard to the GPFG, and is professionally and administratively independent of the Bank. The Supervisory Council submits an annual, independent report on its activities to the Storting.

Pursuant to the Norges Bank Act, the Governor is responsible for the day-to-day management of the Bank. The Deputy Governor acts for the Governor in his absence. Central Banking Operations (CBO) comprises the departments Markets and Banking Services, Monetary Policy, Financial Stability and Corporate and Shared Services, and a General Secretariat.



Figur 1.1 Organisasjonskart

In the case of Norges Bank Investment Management, the Executive Board has delegated decision-making authority directly to the Chief Executive Officer of Norges Bank Investment Management. Norges Bank Investment Management manages the GPFG and parts of Norway's foreign exchange reserves. Norges Bank Investment Management has some support functions of its own, but also receives support from CBO's Corporate and Shared Services. For more information on the management and organisation of Norges Bank Investment Management, see the Government Pension Fund Global Annual Report.

Norges Bank prepares three-year strategic plans describing its current status, challenges and priorities. Along with statutory requirements and internal guidelines, these strategic plans constitute the framework for the Bank's activities.

Norges Bank's internal policy documents define responsibilities and roles and establish frameworks for various activities. Policy documents are adopted at different levels and have varying degrees of detail, and may apply to all or parts of the Bank's activities. The policy documents are applied within the framework of the Norges Bank Act, the Executive Board's rules of order, the Bank's planning and follow-up processes and Board and management decisions.

CHAPTER 2

MONETARY POLICY AND FINANCIAL STABILITY

The financial crisis clearly demonstrated that developments in the real economy and financial markets are closely interwoven. In 2013, Norges Bank revised its analysis and reporting structure. The *Monetary Policy Report with financial stability assessment* was published four times in 2013. In the *Report*, Norges Bank analyses the current economic situation and provides forecasts of economic developments and the key policy rate. The *Report* also contains the decision basis for the Bank's advice on the countercyclical capital buffer, thus reinforcing the integration of financial stability into monetary policy decisions. At the same time, the advice on the countercyclical capital buffer is based on a broad review of macroeconomic developments and the build-up of systemic risk on the basis of a set of criteria. A broad assessment of the structure of and vulnerabilities in the Norwegian financial system is published annually in the *Financial Stability Report*.

MONETARY POLICY

MONETARY POLICY IN 2013

There were signs of a moderate pickup in activity internationally, but in most advanced economies growth remained weak. Among many of Norway's trading partners, policy rates were close to zero, and there were prospects that policy rates would be kept low for an extended period. Growth in the Norwegian economy slowed from 2012. Capacity utilisation fell somewhat and was assessed as being close to a normal level at year-end. The krone depreciated markedly in the course of 2013. The underlying rise in prices was estimated to have increased from between 1% and 1½% at the beginning of the year to between 1¾% and 2¼% towards year-end. The key policy rate remained unchanged at 1.5% throughout 2013. The outlook for the Norwegian economy weakened through the year, and the forecast for the key policy rate was revised down.

In autumn 2012, growth among trading partners was weak, and considerable uncertainty remained surrounding global economic developments. Growth prospects for advanced economies had been lowered over a longer period. The world economy appeared to be close to a cyclical trough, but growth was expected to remain low in advanced economies for an extended period. Many countries were facing a very difficult debt situation. Euro area countries had reached agreement on a number of measures that might improve the situation, but there was still considerable uncertainty linked to developments in Europe moving forward. Interest rates abroad were low, and both the ECB and the Federal Reserve had signalled their intention to keep key rates low for an extended period. Risk premiums in money and bond markets had moved down, and equity prices had risen.

Despite weakness abroad, growth in the Norwegian economy remained robust at the end of 2012. Employment rose at a brisk pace, and unemployment remained low and stable. Capacity utilisation was assessed to be above a normal level. There was vigorous activity in the construction industry and in oil-related industries, while other manufacturing segments were feeling the impact of weak external demand and high costs. Household consumption was growing at a moderate pace, and saving had increased further to high levels. Household debt and house prices were still rising slightly faster than income. The krone, as measured by the import-weighted exchange rate (I-44), had appreciated throughout autumn, and premiums in money and bond markets had also fallen in Norway. However, this had little impact on interest rates to households and enterprises.

Inflation in Norway remained low, and the underlying rise in prices ranged between 1% and 1½%. However, economic developments in Norway suggested a gradual pick-up in inflation. In the October 2012 *Monetary Policy Report*, the key policy rate was projected to remain at around 1.5% into 2013, followed by a gradual increase towards a more normal level.

THE MANDATE FOR MONETARY POLICY IN NORWAY

Monetary policy in Norway is conducted by Norges Bank. The Bank's activities are regulated by the Norges Bank Act of 1985. Pursuant to Sections 19 and 20 of the Act, Norges Bank sets the interest rates on banks' deposits and loans in the central bank.

The mandate for monetary policy was laid down by the Government in 2001. Section 1 of the Regulation on Monetary Policy states:

"Monetary policy shall be aimed at stability in the Norwegian krone's national and international value, contributing to stable expectations concerning exchange rate developments. At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.

Norges Bank is responsible for the implementation of monetary policy.

Norges Bank's implementation of monetary policy shall, in accordance with the first paragraph, be oriented towards low and stable inflation. The operational target of monetary policy shall be annual consumer price inflation of approximately 2.5 per cent over time.

In general, the direct effects on consumer prices resulting from changes in interest rates, taxes, excise duties and extraordinary temporary disturbances shall not be taken into account."

The monetary policy instrument is the key policy rate, which is the interest rate on banks' normal overnight deposits in Norges Bank. The key policy rate has an impact on the shortest money market rates, and the level of longer-term market rates depends on expectations regarding the future path of the key policy rate.

Market rates have an impact on the krone exchange rate, securities prices, house prices, credit demand and investment. Norges Bank's key policy rate can also influence expectations with regard to future inflation and economic developments. The interest rate operates through all these channels to influence overall demand and output as well as prices and wages.

Decisions concerning interest rates and other important changes are normally taken at the Executive Board's announced monetary policy meetings. In 2013, there were six monetary policy meetings. *Monetary Policy Report* was published four times on the same date as the interest rate decision was announced. On the basis of the analysis in the *Report*, the Executive Board adopts the monetary policy strategy in the form of an interval for the key rate for the period up to the next *Report*.

CRITERIA FOR AN APPROPRIATE INTEREST RATE PATH

Norges Bank operates a flexible inflation targeting regime, so that in interest rate setting weight is given to smoothing fluctuations both in inflation and in output and employment. Flexible inflation targeting builds a bridge between the long-term objective of monetary policy, which is to keep inflation low and anchor inflation expectations, and the objective of smoothing developments in output.

Expectations regarding future interest rates play an important role for developments in output, employment, income and inflation. Through its interest rate forecasts, Norges Bank influences the interest rate expectations of market participants, enterprises and households. The interest rate forecasts should meet the following main criteria:

1. The inflation target is achieved
The interest rate should be set with a view to stabilising inflation at target or to bring it back to target after a deviation has occurred.

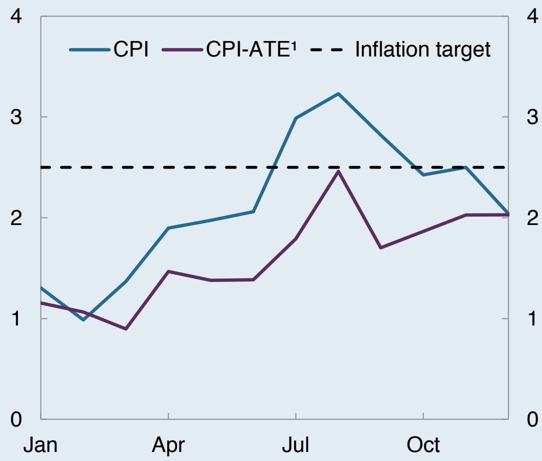
2. The inflation targeting regime is flexible
The interest rate path should provide a reasonable balance between the path for inflation and the path for overall capacity utilisation in the economy.

3. Monetary policy is robust
The interest rate should be set to mitigate the risk of a build-up of financial imbalances in the economy and such that acceptable developments in inflation and output are likely even under alternative assumptions concerning the functioning of the economy.

The interest rate forecast is an expression of Norges Bank's overall judgement and assessment based on the criteria above. The interest rate cannot always satisfy all the criteria simultaneously and imbalances must be weighed against each other in interest rate setting.

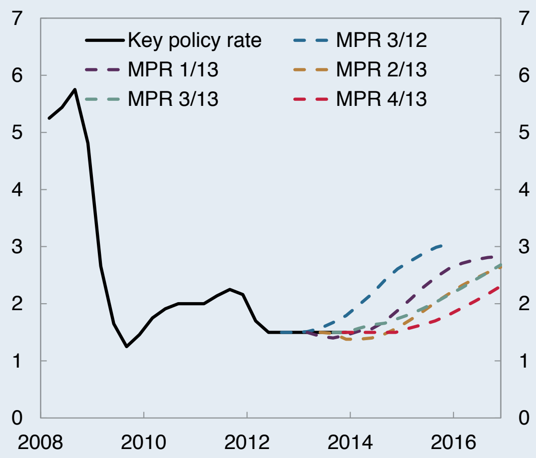
Forecasts of the key policy rate and other economic variables are based on incomplete information concerning the economic situation and the functioning of the economy. Should developments in the economy differ from assumptions or should the central bank change its view of the functioning of the economy, developments in the interest rate and other variables may deviate from the forecasts. *Monetary Policy Report* contains an account of any changes in the interest rate forecast and the factors underlying the change. The evaluations in the Norges Bank's policy reports are summarised in the Annual Report.

CHART 2.1 Consumer prices. Twelve-month change. Percent. 2013



1 CPI adjusted for tax changes and excluding energy products.
Source: Statistics Norway

CHART 2.2 Key policy rate in the baseline scenario MPR 3/12, MPR 1/13, MPR 2/13, MPR 3/13 and MPR 4/3. Percent. 2008 Q1 – 2016 Q4



Source: Norges Bank

Weaker outlook for growth and inflation through spring

At the beginning of 2013, the outlook for global economic growth had become somewhat weaker. Emerging economies were supporting overall global growth, but the growth outlook for Norway's trading partners overall had deteriorated. The euro area remained in recession, and the downturn appeared to be more prolonged than previously projected. Conditions in financial markets had continued to improve, largely due to measures implemented by central banks and authorities. Oil prices remained high.

The krone had continued to appreciate into 2013, but began to weaken in mid-February. Banks' lending spreads remained high. Several banks announced higher lending rates ahead owing to expectations of stricter capital requirements.

Also in Norway, growth had been somewhat weaker than expected. Employment growth had tapered off, but unemployment remained low. Capacity utilisation was assessed to be above a normal level, but slightly lower than assumed in the previous autumn.

Inflation had been slightly lower than expected. The weak impetus from external prices and the appreciation of the krone were keeping imported inflation low. At the same time, new analyses indicated that cost growth in household-oriented sectors had over a longer period been lower than previously assumed. High labour immigration and low wage growth in neighbouring countries were expected to restrain wage growth in Norway. These factors implied that there were prospects that it might take longer than previously projected for inflation to pick up.

At the monetary policy meeting in March, it was noted that both inflation and growth in the Norwegian economy had been slightly lower than expected. On the other hand, household debt and house prices continued to rise faster than income. The key policy rate was therefore left unchanged at 1.5%. A weaker growth outlook among trading partners and a weaker outlook for inflation suggested, however, that the key policy rate should be kept low longer than previously assumed. The forecast in the March 2013 *Monetary Policy* implied that the first rate increase would come in spring 2014, followed by a gradual rise towards a more normal level.

Ahead of the monetary policy meeting in May, growth prospects for the euro area had continued to weaken somewhat, while global growth remained robust. Interest rates abroad had fallen further. Prices for oil and other commodities had decreased, and the krone exchange rate had continued to weaken. Banks had increased lending rates for households and enterprises.

The Norwegian economy continued to grow at a solid pace. Information gathered from Norges Bank's regional network indicated that output had increased somewhat less than envisaged by network enterprises in January, but growth was still expected to be slightly higher ahead. At the same time, household consumption had picked up. The results of the wage settlement suggested that wage growth would be somewhat lower than projected in the March *Report*. Unemployment was still low, and employment continued to rise. The rise in house prices had slowed somewhat, while household debt continued to rise from a high level.

Inflation remained low, and the rise in consumer prices had been slightly lower than projected. Underlying inflation was estimated to be in the interval 1%–1½%.

At the monetary policy meeting in May, it was noted that growth prospects for the euro area had weakened somewhat and that external interest rates had declined further. Furthermore, inflation in Norway had been slightly lower than expected, and there were prospects that wages would rise somewhat less than projected. On the other hand, growth in the Norwegian economy was still solid and the krone had depreciated somewhat. It was decided to leave the key policy rate unchanged, in line with the interest rate forecast in the March *Report*.

Lower growth abroad and in Norway

Towards the summer, growth among our trading partners weakened further. In Europe, the downturn appeared likely to persist longer than previously projected, while in the US, growth was temporarily being dampened by tax increases and expenditure cuts. Growth remained robust in emerging economies, but was somewhat weaker than envisaged earlier. The oil price was just above USD 100 per barrel, about USD 10 lower than in March. Market expectations concerning policy rates abroad had edged back up, and in

June were at approximately the same level as assumed in March.

At the time of the June monetary policy meeting, the krone was weaker than projected in the March *Report*. Premiums in money and bond markets had edged down. At the same time, banks had increased interest rates on loans to households and enterprises.

Growth in the Norwegian economy had been lower than expected in the March *Report*. According to the enterprises in Norges Bank's regional network, output prospects had weakened somewhat in May. Unemployment had been slightly higher than expected. House prices had remained broadly unchanged in recent months, but household debt was still rising at a faster pace than income.

Consumer price inflation had been slightly higher than projected in March. Underlying inflation was estimated to range between 1¼% and 1¾%. Wage growth appeared to be slightly lower than projected earlier.

At the monetary policy meeting in June, it was noted that activity in the Norwegian economy appeared to be lower than previously assumed. On the other hand, inflation had been slightly higher, and the krone exchange rate slightly weaker than assumed in March. Furthermore, there was a substantial spread between the key policy rate and the interest rates facing households and enterprises. Therefore, the key policy rate was left unchanged at that meeting. At the same time, the forecast for the key policy rate was revised down in the June *Report*, primarily owing to prospects for lower growth in Norway and a continued decline in the outlook for inflation further out.

Unexpected rise in inflation and lower growth in Norway

Through summer, there were signs of rising growth in many advanced economies, approximately as expected. Activity had stopped declining in the euro area, but considerable challenges remained. At the same time, growth prospects for many emerging economies had weakened. The price of crude oil had edged up. Market expectations concerning policy rates abroad had risen somewhat since the publication of the June *Report*.

There had been wide fluctuations in the krone through summer. In the period ahead of the monetary policy meeting in September, the krone exchange rate had been about 2% weaker than assumed in the June *Report*. Banks' residential mortgage rates had risen in line with projections, and premiums in the money market had decreased slightly.

The Norwegian economy remained solid, but growth had slowed and had been lower than projected in the June *Report*. Capacity utilisation in the mainland economy was estimated to be close to a normal level, but somewhat lower than envisaged. Unemployment remained stable. House price inflation had abated and been lower than expected, while household debt growth remained high.

Consumer price inflation had picked up quickly over summer and had been clearly higher than projected in the June *Report*. Some of the increase was deemed temporary, and the uncertainty surrounding developments in consumer prices in coming months was considered to be higher than normal. Underlying inflation was estimated to range between 2% and 2½%.

At the monetary policy meeting in September, weight was given to the fact that consumer price inflation had been higher than expected and that the krone exchange rate had weakened. On the other hand, growth in the Norwegian economy had been lower than assumed earlier. It was therefore decided to keep the key policy rate unchanged. The forecast for the key policy rate in the September *Report* suggested a somewhat higher rate in 2014 and 2015 than in the June *Report*.

Decline in house prices and a weaker krone

In the period ahead of the monetary policy meeting in October, growth among Norway's main trading partners as a whole was approximately in line with Norges Bank's projections. In emerging economies, growth was slowing, while many advanced economies were showing a gradual improvement. The recovery in the euro area appeared to have taken hold to a certain extent, but unemployment remained high. In the US, the economy continued to recover at a moderate pace, but the federal budget situation had contributed to heightened uncertainty. The expected upward shift in key rates abroad had again been moved somewhat further out in time.

The krone had continued to depreciate, while money and bond market premiums were broadly unchanged in the same period.

Developments in the Norwegian economy did not seem to be substantially different from those assumed previously, but household demand appeared to have been somewhat weaker than expected. House prices had levelled off, while credit growth remained high. Nevertheless, banks reported that household credit demand had decreased. Developments in manufacturing were broadly in line with expectations and unemployment was stable.

Consumer price inflation showed wide variations. After two months of sharp increases in the twelve-month rise, the rise in consumer prices adjusted for tax changes and excluding energy products (CPI-ATE) was 1.7% in September, down from 2.5% in August. Underlying inflation was estimated to be between 1¾% and 2¼%.

At the monetary policy meeting in October, it was noted that consumer price inflation in September had been lower than expected, while the krone had depreciated since the previous monetary policy meeting. Otherwise, economic developments abroad and in Norway had been approximately in line with expectations. The key policy rate was therefore left unchanged.

Towards the end of the year, global growth prospects were slightly weaker than previously projected. Growth among trading partners remained moderate, but there was still considera-

CHANGES IN THE INTEREST RATE FORECAST THROUGH 2013

The interest rate projection published in *Monetary Policy Report* 3/12 indicated that the key policy rate would be kept unchanged at 1.5% until the beginning of 2013, followed by a gradual rise to a more normal level. The key policy rate was kept at a lower level through 2013 than projected at the end of 2012. At the same time, the forecasts for 2014 and 2015 were revised down by ¾ percentage point and 1¼ percentage points, respectively, from *Monetary Policy Report* 3/12 to *Monetary Policy Report* 4/13. The primary reason for the revision was weaker than expected developments in the Norwegian economy. Capacity utilisation and cost growth were both lower than projected. At the same time, there were prospects that growth ahead would be lower than previously assumed. Moreover, growth among Norway's trading partners and interest rates abroad were lower than projected, and banks' lending spreads were higher than expected. Conversely, a substantial depreciation of the krone through the year helped to keep the interest rate forecast from falling further. A decline in premiums in the money market also pulled in the same direction.

Chart 2.3 shows the changes in the key policy rate forecast from 31 October 2012 to 4 December 2013. The bars in the chart provide a technical illustration of how the various factors affected the changes in the forecast over the period as a whole.

The growth outlook for the Norwegian economy weakened in 2013. Developments in output and demand were both weaker than expected. Growth in employment was lower than projected, and unemployment somewhat higher than expected. Lower capacity utilisation pulled the interest rate path down markedly (blue bars).

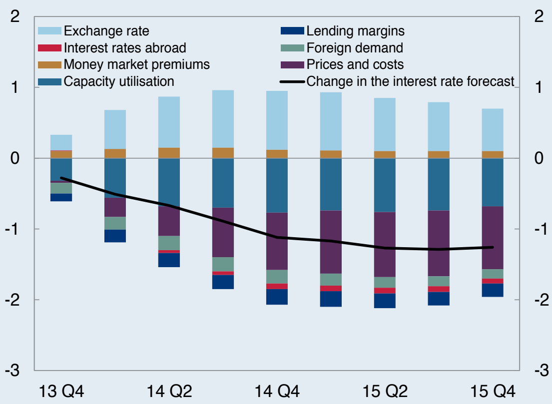
Price and cost developments overall also contributed to a marked downward revision of the interest rate forecast through spring (purple bars). Lower capacity utilisation, along with high labour immigration and low external wage growth, probably contributed to weaker than expected developments in wage growth. Consumer price inflation picked up through the year. Inflation varied substantially from month to month, and uncertainty surrounding inflation was assessed as being greater than normal. In *Monetary Policy Report* 2/13 and 3/13, inflation had been higher than expected, and contributed in isolation to a higher interest rate path, while it had the opposite effect in the first and last reports of 2013.

The direct impact on demand of lower growth prospects abroad also had an effect on the outlook for the Norwegian economy. This helped to pull down the interest rate forecast (green bars). Expectations with regard to external interest rates also fell on account of lower growth prospects. In isolation, a wider interest rate differential between Norway and trading partners would lead to a stronger krone and lower inflation. Hence, prospects for central bank key rates abroad remaining low for longer helped to keep down the interest rate in Norway (red bars).

Norwegian banks adjusted to increased future capital requirements. In isolation, higher lending spreads, defined as the difference between lending rates and money market rates, pulled the interest rate path down through 2013 (dark blue bars). At the same time, premiums in the money market continued to fall. This pulled in the opposite direction, suggesting in isolation a higher key policy rate (orange bars).

The krone depreciated substantially through 2013, and was weaker than assumed. The depreciation was larger than warranted by changes in the expected interest rate differential between Norway and trading partners. A weaker krone in isolation contributes to higher inflation and boosts economic activity, pulling in the direction of a higher key policy rate (light blue bars).

CHART 2.3 Factors behind changes in the interest rate forecast between MPR 3/12 and MPR 4/13. Percentage points. 2013 Q4–2015 Q4



Source: Norges Bank

ble uncertainty surrounding economic developments in Europe. The ECB had lowered its key policy rate by 0.25 percentage point in November, and market expectations concerning policy rates had fallen from their September levels. The first interest rate increases in major advanced economies were now expected in 2015.

The krone had continued to depreciate through autumn. In the period ahead of the monetary policy meeting, it had been on average about 3.5% weaker than projected in the September *Report*.

Growth in the Norwegian economy had slowed through the year, and appeared to be lower than projected in the September *Report*. Growth had slackened in most industries and the number of enterprises in Norges Bank's regional network reporting capacity constraints had decreased. Registered unemployment had increased slightly more than expected, but remained low. House prices had declined in the preceding period and had been lower than expected. Growth in household debt remained high.

Consumer price inflation had been somewhat lower than expected at the time of the September *Report*. Underlying inflation was estimated at between 1¾% and 2¼%.

At the monetary policy meeting in December, it was noted that consumer price inflation had been lower than projected and that growth in the Norwegian economy might be lower than previously projected. On the other hand, the krone had depreciated considerably. Following an overall assessment, the key policy rate was left unchanged. The interest rate forecast for the period ahead was revised down somewhat in the December *Report*

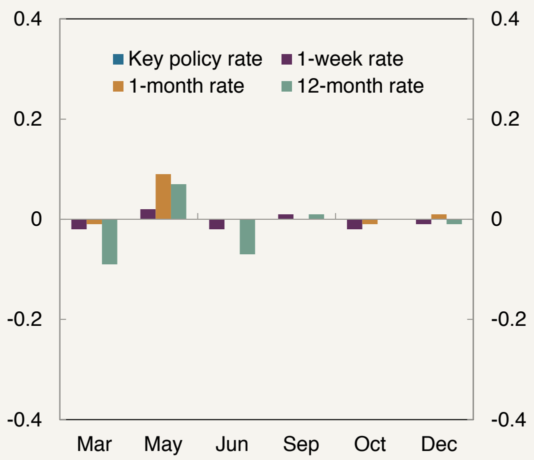
MINOR FLUCTUATIONS IN THE MONEY MARKET

Norges Bank's monetary policy communication primarily aims to stabilise inflation expectations by providing an account of and explaining interest rate setting. The aim of publishing the Bank's interest rate forecasts and monetary policy strategy is to make it easier for others to anticipate and evaluate monetary policy. When market participants understand the central bank's response pattern, market rates can react with a stabilising effect to new information on economic developments.

Changes in market rates after monetary policy meetings are an indicator of whether the decision is anticipated by money market participants. Large changes may indicate that the decision was unexpected. In the five-year period from 2008 to 2012, the average change in the 1-week rate after a monetary policy meeting was 4 basis points (0.04 percentage point). The 1-month rate and 12-month rate changed, on average, by 6 and 5 basis points respectively. In 2013, the average change in the 1-week rate and 1-month rate was 2 basis points, while the 12-month rate changed by 4 basis points on average (see Chart 2.4). Overall, changes in 2013 were somewhat lower than the historical average. This may indicate that the interest rate decision was largely expected by market participants. However, in the first half of 2013, changes were somewhat higher than average, especially for the 12-month rate.

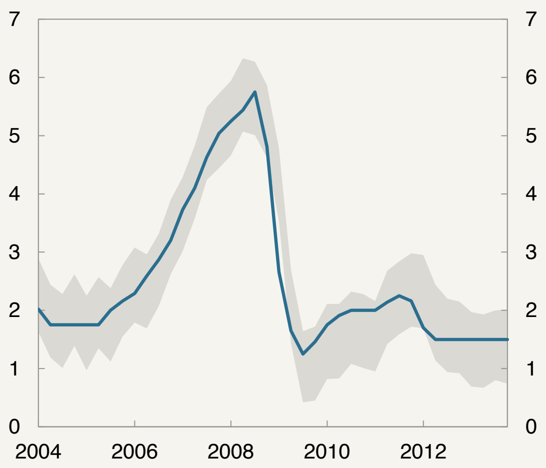
There were no changes in the key policy rate in 2013, but the interest rate forecast was revised down at the monetary policy meetings in March and June. The changes were more considerable that market participants had expected ahead of the meetings, and money market rates fell by up to 9 basis points. After the monetary policy meeting in May, short-term market rates edged up. This may indicate that some market partici-

CHART 2.4 Change in the key policy rate and effect on money market rates following monetary policy meetings in 2013. Percentage points



Source: Norges Bank

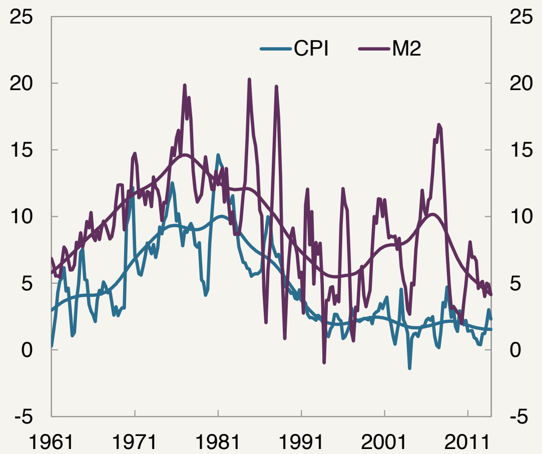
CHART 2.5 Key policy rate and interest rate developments following from Norges Bank's average pattern of interest rate setting[1]). Percent. 2004 Q1–2013 Q4



1 Interest rate movements are explained by developments in inflation, mainland GDP growth, wage growth and 3-month money market rates among trading partners. See Norges Bank's Staff Memo 3/2008 for further discussion.

Source: Norges Bank

CHART 2.6 Consumer prices (CPI) and money supply (M2). Estimated trend rise[1]. Four-quarter change. Percent. 1961 Q1–2013 Q4



1 Trend calculated using HP-filter. See Norges Bank's Staff Memo 2005/2 for further discussion.

Sources: Statistics Norway and Norges Bank

pants were taken by surprise by the decision at, or the communication surrounding, this meeting. After the other monetary policy meetings in 2013, short-term money market rates were otherwise largely unaffected.

HISTORICAL RESPONSE PATTERN

Market participants will attempt to form an idea of how the central bank responds to new information and how the key policy rate is set as a result of developments in economic variables. Norges Bank has estimated an interest rate rule that seeks to explain historical interest rate changes on the basis of changes in a few macroeconomic variables. The rule includes inflation developments, wage growth, mainland GDP and money market rates abroad. The interest rate in the previous period is also taken into account. Of course, such an estimated reaction function does not capture all the elements that are given weight, and can only provide an indication.

Between autumn 2008 and summer 2009, Norges Bank reduced the key policy rate more rapidly than indicated by the historical response pattern (see Chart 2.5). Since autumn 2009, Norges Bank has raised the key policy rate four times, in line with the historical response pattern.

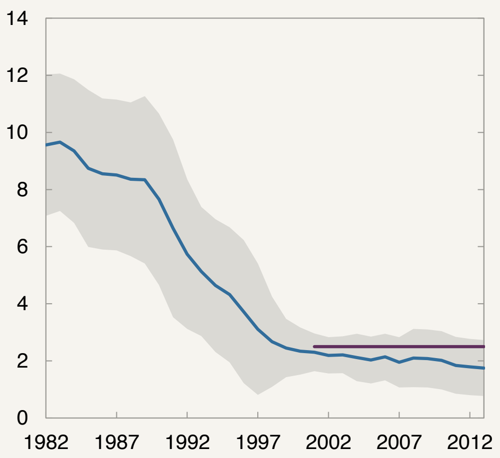
In December 2011 and March 2012, Norges Bank lowered the key policy rate, partly as a result of high risk premiums in the money market. Premiums are not included in the historical response pattern, and the interest rate is therefore in the lower part of the average pattern of interest rate setting around the turn of the year 2011-2012. As from March 2012, the key policy rate was 1.5%, approximately in the middle of the interval.

MONETARY GROWTH AND INFLATION

Historically, there has been a relationship between inflation and growth in the money supply (M2)[1] (see Chart 2.6). There is a tendency for stronger monetary growth to accompany higher inflation and vice versa. The ten years up to 2008 saw an increase in trend monetary growth despite wide annual fluctuations. Strong growth in the Norwegian economy and high credit growth drove up monetary growth to a particularly high level in the period from 2006 to 2008. Monetary growth fell quickly beginning in the second half of

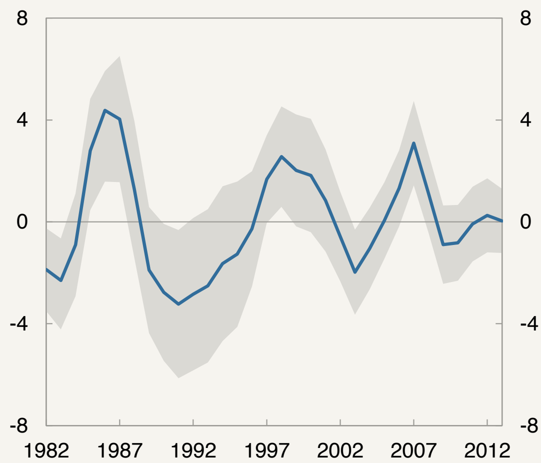
1 The money supply M2 consists of notes and coins, redeemable bank deposits, certificates of deposit and units in money market funds owned by the money-holding sector (households, non-financial enterprises, municipalities and financial enterprises other than state lending institutions, banks and money market funds).

CHART 2.7 Inflation. 10-year moving average[1] and variation[2] in CPI. Percent. 1982–2013



1 The moving average is calculated 10 years back.
2 The band around the CPI is the variation in the CPI adjusted for taxes and excluding energy products in the average period, measured by +/– a standard deviation.
Sources: Statistics Norway and Norges Bank

CHART 2.8 Estimated output gap.[1] Level and variation[2]. Percent. 1982–2013



1 The output gap measures the percentage difference between actual mainland GDP and projected potential mainland GDP.
2 The band shows the variation in the output gap measured by +/- a standard deviation. The standard deviations are calculated over a 10-year period.
Source: Norges Bank

2008, but picked up again in 2011. In 2012 and 2013, annual monetary growth was fairly stable at around 5%. In the years prior to 2008, consumer price inflation was low as a result of favourable supply-side conditions in Norway and abroad. In 2008, inflation picked up, but fell again in the years following the global financial crisis. From the end of 2012 and through 2013, inflation rose again.

INFLATION IS LOW AND STABLE

Inflation stabilised in the early 1990s after falling from a high level in the previous decade. Viewed over time, inflation has been low and stable at somewhat below 2.5%.

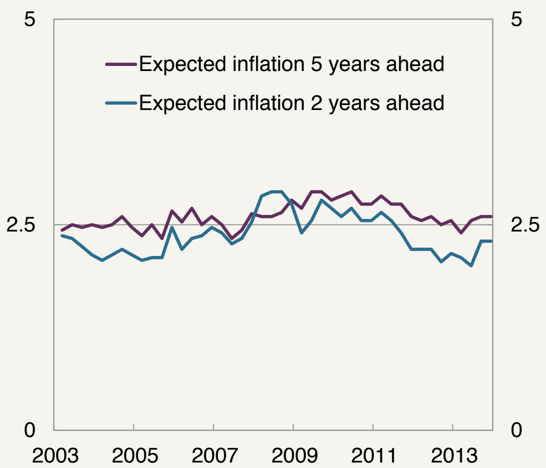
In accordance with Norges Bank's mandate for monetary policy, the operational target of monetary policy is an annual rise in the consumer price index (CPI) of close to 2.5% over time. CPI inflation over a short period does not provide an adequate basis for assessing whether monetary policy objectives have been achieved over time. Chart 2.7 shows the 10-year moving average for annual CPI inflation.

Over the past ten years, average annual CPI inflation has been 1.8%. The deviation from the inflation target of 2.5% is the result of a number of favourable supply-side shocks to the economy earlier in the decade, including strong growth in productivity, ample labour supply from other countries and lower price rises for imported goods. This is reflected in strong growth in the Norwegian economy coupled with a period of lower-than-expected inflation.

Under a flexible inflation targeting regime, weight is also given to stabilising developments in output and employment in the conduct of monetary policy. Chart 2.8 shows the movements in the output gap since 1982. The output gap shows the difference between the actual level and the estimated normal level of mainland GDP. By this measure, fluctuations in the economy have, on average, been somewhat less pronounced over the past ten years than around 1990. Nevertheless, the impact on output in autumn 2008 and spring 2009 was more pronounced than it had been for several years.

The band around average inflation in Chart 2.7 shows inflation variability. Over a longer time horizon, inflation variability has decreased. Moreover, variability in the output gap shown in Chart 2.8 appears to have been diminishing since the end of the 1990s.

CHART 2.9 Expected consumer price inflation 2 and 5 years ahead.[1] Percent. Q1 2003–Q4 2013



1 Average of expectations of employer/employee organisations and economists in the financial industry and academia.

Sources: TNS Gallup and Opinion Perduco

CONFIDENCE IN THE INFLATION TARGET

Confidence in achieving the inflation target is a precondition for the stabilising effect of monetary policy on developments in output and employment. Inflation will not be at target at all times, but if there is confidence in monetary policy, expected inflation will be close to the inflation target over time, which in itself helps to stabilise inflation.

Opinion Perduco has been commissioned by Norges Bank to carry out quarterly surveys of inflation expectations. According to these surveys, inflation expectations in 2013 Q4 were fairly close to 2.5% (see Chart 2.9). Expected inflation two years ahead is slightly below the target of 2.5%, and at target five years ahead. Consensus Economics Inc. compares different institutions' forecasts of consumer price inflation in Norway. Both five years and ten years ahead, consumer price inflation is expected to be somewhat below, but close to target.

FINANCIAL STABILITY

Banks continued to increase their capital ratios through 2013. Except for the period of speculation through summer over when the Federal Reserve would begin to scale back its asset purchasing programme, risk premiums continued to decline in 2013. Norwegian banks used the ample access to funding to make their funding structures more robust. Deposit-to-loan ratios also increased. In Norges Bank's assessment, financial imbalances had built up that could trigger or amplify an economic downturn. Norges Bank recommended that banks' countercyclical capital buffer rate be set at 1% as from 1 January 2015.

SOLID EARNINGS AND HIGHER CAPITAL RATIOS

Risk premiums in financial markets fell both abroad and in Norway through the first half of 2013. There was ample access to wholesale funding for Norwegian banks, and maturities lengthened. The positive trend internationally came to a halt in May, when the Federal Reserve signalled that a tapering of its asset purchase programme might be imminent. Bond yields rose. From late summer, risk premiums receded, but sovereign bond yields in countries with the lowest credit risk (the US, Germany, the UK and Japan) remained at a higher level. Norwegian banks continued to have favourable access to wholesale funding and at better terms than banks in most other countries. Solid deposit growth had reduced the need for wholesale funding somewhat. A considerable portion of deposit growth came from international sources, which cannot be regarded as stable.

Banks reported solid earnings and high return on equity in 2013. Losses were low, and lending rates were raised is spring. The reason cited was a need to boost earnings to meet higher capital requirements from the authorities. The spread between money market rates and banks' lending rates continued to widen and approached 3 percentage points. This is approximately a two-fold increase over the past two years. Banks can raise their capital ratios by paying less than their stated long-term ambition in dividend. A few banks chose to raise fresh equity capital. All banks met the 9% minimum Tier 1 capital requirement by an ample margin. At year-end 2013, it appeared that all banks might have Common Equity Tier 1 (CET1) capital ratios above 11%.

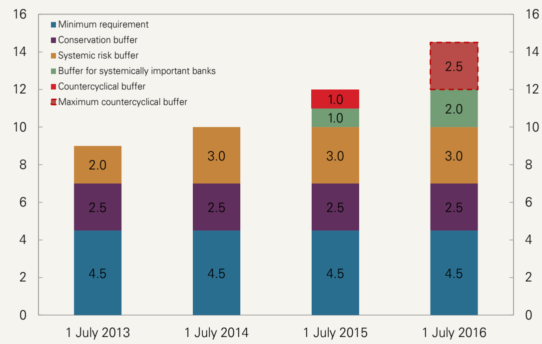
The *Financial Stability Report* included a stress test of the six largest Norwegian banks. The test showed that Norwegian banks would weather a severe global downturn, provided that they have access to funding and that credit tightening does not amplify the downturn. If banks are to prevent a marked decline in capital ratios, they must be capable of increasing their interest margins and cutting new lending, especially to enterprises. Higher capital ratios would reduce the risk of such tightening.

Norway implemented the new legislative package on capital requirements for the EEA (CRD IV/CRR) in national law earlier than other countries. The new rules are based on the international Basel III framework and were adopted by the EU in summer 2013. The most important requirements entered into force for Norwegian banks on 1 July 2013 (see Chart 2.10). All banks shall have a CET1 ratio of 4.5%. In addition to a capital conservation buffer, systemic risk buffer, a buffer for systemically important banks and a countercyclical capital buffer. All buffer requirements shall be met with CET1 capital. The CET1 capital requirement for a systemically important bank will be between 12% and 14.5%, depending on the level of the countercyclical capital buffer. If the capital ratio falls below the buffer requirements, the Bank will face sanctions from the authorities.

In May, the Ministry of Finance requested that Finanstilsynet, in collaboration with Norges Bank, formulate draft criteria for identifying systemically important financial institutions. In a letter of 4 November, Finanstilsynet notified the Ministry that following an overall assessment, it had identified DNB Bank, Nordea Bank Norge, SpareBank 1 Nord-Norge, SpareBank 1 SR-Bank, SpareBank 1 SMN, Sparebanken Vest, Sparebanken Sør and Sparebanken Pluss as systemically important institutions. The last two had decided on a merger. While Norges Bank agreed with Finanstilsynets proposed method, it questioned two of the identification criteria. Under Norges Bank's proposal, the regional savings banks would not have been listed as systemically important.

Pursuant to a regulation of 4 October 2013, Norges Bank has been assigned a special responsibility to prepare a decision basis for and advise the Ministry of Finance on the countercyclical capital buffer. The regulation was issued pursuant to Section 2 of the Norges Bank Act (among other legislation). This was the second time this provision was applied. The first time was when the Regulation on Monetary Policy was issued in 2001. Under this provision, the Bank shall be given the opportunity to state its opinion, and that the Storting should be notified of decisions as soon as possible. Norges Bank supported the proposal to establish a countercyclical capital buffer, and had no objections to the arrangement whereby the Ministry of Finance makes a decision on the countercyclical capital buffer based on advice from Norges Bank. The Bank pointed out that a number of factors indicated that the advice should be made public when the advice is submitted to the Ministry and not be kept secret until the Ministry makes its decision. In the opinion of the Bank, transparency concerning this advice would give financial markets a sounder basis for forming expectations. The interest of avoiding speculation and reducing uncertainty in the equity market suggested that both the decision basis and the advice should be made public simultaneously, on a date announced in advance. Nevertheless, after discussions with the Ministry of Finance, Norges Bank took note of the Ministry's wishes that the advice from the Bank be exempt from public disclosure until the Ministry makes its decision public, and the Bank accepted the task of formulating a decision basis and advice on the level of the countercyclical capital buffer.

CHART 2.10 Common Equity Tier 1 capital requirements in the new regulatory framework. Percent. 1 July 2013–1 July 2016



Sources: Ministry of Finance and Norges Bank

NORGES BANK'S RESPONSIBILITY FOR FINANCIAL STABILITY

One of Norges Bank's primary objectives is maintaining financial stability, which is set out in the Norges Bank Act. Section 1 states that the Bank "shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets." Section 3 states that the Bank "shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy." Four other sections of the Act are also relevant: Section 13 gives Norges Bank the sole right to issue Norwegian banknotes and coins. Section 17 requires Norges Bank to carry out banking transactions for the government. Under Section 19, Norges Bank may extend credit to and make deposits with commercial and savings banks, while Section 20 states that Norges Bank accepts deposits from these banks. It follows from the Act that Norges Bank has a particular responsibility for ensuring that the banking system functions as required. Under the Payment Systems Act, Norges Bank is the licensing and supervisory authority for interbank clearing and settlement systems.

Norges Bank oversees the financial system as a whole. Letters containing the Bank's assessment of the financial stability outlook and advice on measures to counteract the build-up of systemic risk are regularly sent to the Ministry of Finance. The analyses on which these assessments are based are explained in regular reports that are published at the same time as a letter is submitted to the Ministry.

Norges Bank manages banking sector liquidity on a daily basis by supplying credit or accepting deposits. This gives Norges Bank a special responsibility for monitoring liquidity risk in the banking system. As lender of last resort, Norges Bank has a key role in managing crises in the financial system.

REGULATION ON THE COUNTERCYCLICAL CAPITAL BUFFER

The Regulation on the Countercyclical Capital Buffer was laid down by the Government on 4 October 2013.

Section 1
The purpose of the countercyclical capital buffer is to strengthen the financial soundness of banks and their resilience to loan losses in a future downturn and mitigate the risk that banks will amplify a downturn by reducing their lending.

Sections 1- 4 of the regulation pertain to the competent authorities' work on the countercyclical capital buffer. Section 5 pertains to financial institutions that are subject to the countercyclical capital buffer requirement under Section 2-9 e of the Financial Institutions Act.

Section 2
The Ministry of Finance shall set the level of the countercyclical capital buffer. The countercyclical capital buffer shall consist of Common Equity Tier 1 capital. The level shall ordinarily be between 0 and 2.5%. In special cases, the level may be set higher than 2.5%.

A decision on the level of the countercyclical capital buffer shall be made each quarter. The first decision on the level of the buffer and a decision to increase the level shall normally enter into force no earlier than 12 months after the decision has been made. In special cases, an earlier entry into force can be decided. A decision to reduce the level of the buffer may enter into force immediately. The level shall be changed in increments of 0.25 percentage point or multiples thereof.

Section 3
Each quarter, Norges Bank shall draw up a basis for the decision on the level of the countercyclical capital buffer. In drawing up the basis, Norges Bank shall exchange relevant information and assessments with Finanstilsynet (Financial Supervisory Authority of Norway). The decision basis shall contain an overview of the credit-to-GDP ratio and the extent to which it deviates from the long-term trend, as well as other indicators, and Norges Bank's assessment of systemic risk that is building up or has built up over time.

Four times a year, and no later than at the end of each quarter, Norges Bank shall provide advice to the Ministry of Finance regarding the decision on the level of the countercyclical capital buffer, including advice on the extent to which Norwegian financial institutions should meet the countercyclical capital buffer requirement for that portion of their activities carried out in another state. The advice shall be based on Norges Bank's decision basis and any guidance from the European Systemic Risk Board (ESRB).

If Norges Bank issues advice to reduce the buffer, the decision basis shall also contain an estimate of when Norges Bank will issue advice to increase the buffer.

CRITERIA FOR AN APPROPRIATE COUNTERCYCLICAL CAPITAL BUFFER[1]

The countercyclical capital buffer should satisfy the following criteria:

1. Banks should become more resilient during an upturn
2. The size of the buffer should be viewed in the light of other requirements applying to banks
3. Stress in the financial system should be alleviated

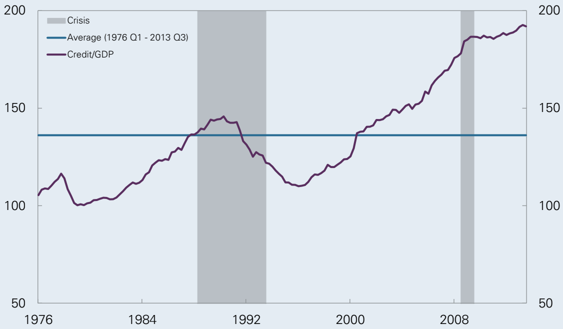
The countercyclical capital buffer should be increased when financial imbalances are building up or have built up over a period. Norges Bank's advice to build up a countercyclical capital buffer will primarily be based on four key indicators: i) the ratio of total credit (C2 households and C3 mainland enterprises) to mainland GDP, ii) the ratio of house prices to household disposable income, iii) commercial property prices[2], and iv) the wholesale funding ratio of Norwegian credit institutions.

>>

1 Sjå òg *Norges Bank Memo 1/2013: Kriterier for en god motsyklisk buffer.*

2 The indicator is based on selling prices for office premises in Oslo calculated by OPAK using *Dagens Næringsliv*'s (Norwegian financial daily) commercial property price index.

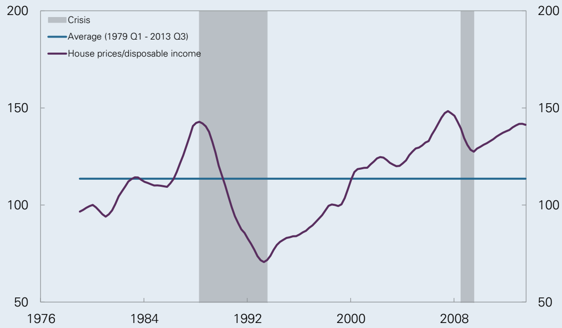
CHART 2.11 Total credit[1] mainland Norway as a percentage of mainland GDP. Percent. 1976 Q1–2013 Q3



1 The sum of C3 non-financial enterprises in mainland Norway (total economy pre-1995) and C2 households.

Sources: Statistics Norway, IMF and Norges Bank

CHART 2.12 House prices[1] relative to disposable income[2]. Indexed. 1998 Q4 = 100. 1979 Q1–2013 Q3

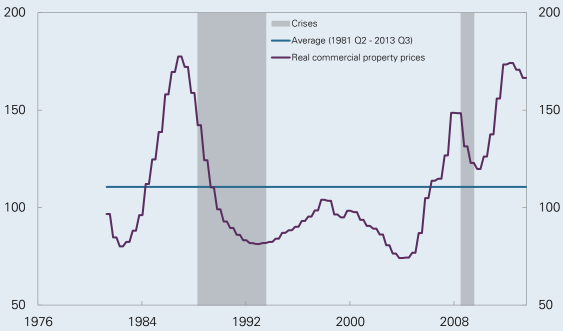


1 Quarterly figures pre-1990 are calculated by linear interpolation of annual figures.

2 Adjusted for estimated reinvested dividend income for 2000 – 2005 and redemption/reduction of equity capital for 2006 Q1 – 2012 Q3.

Sources: Statistics Norway, Norwegian Association of Real Estate Agents (NEF), Eiendomsmeglerforetakenes forening (EFF), Finn.no, Eiendomsverdi and Norges Bank

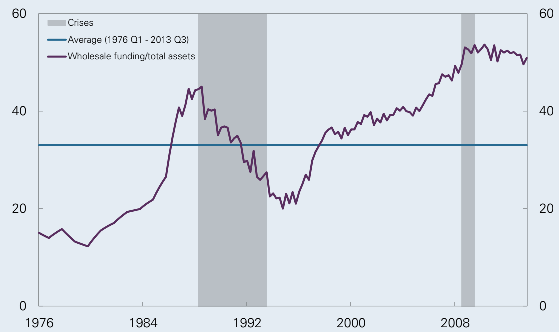
CHART 2.13 Real commercial property prices.[1] Indexed. 1998 = 100. 1981 Q2–2013 Q3



1 Estimated market prices for office premises in Oslo deflated by the GDP deflator for mainland Norway.

Sources: Dagens Næringsliv (financial daily newspaper), OPAK, Statistics Norway and Norges Bank

CHART 2.14 Banks'[1] wholesale funding ratio.[2] Percent. 1976 Q1–2013 Q3



1 All banks and covered bond mortgage companies excluding branches and subsidiaries of foreign banks in Norway.

2 Quarterly figures pre-1989 are calculated by linear interpolation of annual figures.

Source: Norges Bank

>> As part of the basis for advice on the countercyclical capital buffer, Norges Bank will analyse developments in the key indicators and compare the current situation with historical trends (see Charts 2.11 – 2.14). The gap between the indicators and their estimated trends can serve as a measure of financial imbalances. Owing to uncertainty, different methods for calculating trends are used. Moreover, Norges Bank's advice will be based on recommendations from the European Systemic Risk Board (ESRB).

There will not be a mechanical relationship between changes in the indicators and advice on the countercyclical capital buffer. As experience and insights are gained with regard to the countercyclical buffer, the set of indicators can be developed further. The advice will be based on the Bank's professional judgement. The size of the buffer will be viewed in the light of other requirements applying to banks, particularly when new requirements are introduced.

The countercyclical capital buffer is not an instrument for fine-tuning the economy. In the interest of robustness, the buffer should not be reduced automatically even if there are signs that financial imbalances are receding. In long periods of low losses and rising asset prices and credit growth, banks should normally hold a countercyclical buffer.

Banks will be allowed to draw on the buffer in the event of an economic downturn and large bank losses. This may mitigate the procyclical effects of tighter bank lending.

The key indicators are not well suited to signalling whether the buffer should be reduced. Other information, such as market turbulence and loss prospects for the banking sector, will then be more relevant. If Norges Bank's assessment suggests an abrupt tightening of bank lending owing to the capital requirements, the Bank would issue advice that banks should be allowed to draw on the buffer. The buffer will not be released to alleviate isolated problems in some banks.

ADVICE ON THE COUNTERCYCLICAL CAPITAL BUFFER

In *Monetary Policy Report with financial stability assessment*, Norges Bank gave an account of the decision basis for setting the countercyclical capital buffer in 2013.

The first advice on the level of the buffer was submitted to the Ministry of Finance in connection with the publication of the December 2013 *Monetary Policy Report*. In the letter to the Ministry, weight was given to the fact that the overall credit-to-GDP ratio was at a historically high level. Norwegian enterprises on the whole were highly leveraged, and household debt continued to grow faster than income. Other indicators of systemic risk, such as house prices and commercial property prices and banks' wholesale funding ratios, were also at high levels in 2013 (see Charts 2.11 – 2.14). The indicators were higher than estimated long-term trends. This indicated that financial imbalances that could trigger or amplify an economic downturn had built up. Banks should therefore hold a countercyclical capital buffer. At the same time, it was noted that the level of the buffer must be considered in the light of other capital requirements that will be gradually increased over the coming years. Uncertainty regarding how banks' adjustments to the package of requirements will impact developments in the Norwegian economy ahead suggested that capital requirements should not be raised too quickly. Consequently, Norges Bank recommended that the countercyclical capital buffer rate be set at 1% as from 1 January 2015. On 12 December, the Ministry of Finance decided that the countercyclical capital buffer rate should be set at 1% as from 30 June 2015.

HIGHER CAPITAL-TO-LOAN RATIOS FOR BANKS' RESIDENTIAL MORTGAGES

Norges Bank pointed out that the new internal ratings based (IRB) models that major banks have used to calculate capital requirements resulted in excessively low risk weights for banks' residential mortgages. Calculations done at Norges Bank indicate that risk weights for residential mortgages should be around 20%-30%. In a letter to the Ministry of Finance on 31 May 2013, Norges Bank pointed out that any changes in the calculation of risk weights should not result in lower risk weighted assets compared with the current system and that the transitional arrangement from Basel I (the Basel I floor) must remain in force until a new capital floor is in place. In October, the Ministry of Finance decided to raise the minimum Loss Given Default (LGD) parameter in IRB models from 10% to 20%. The Basel I floor remains in force.

REGULATORY REFORM

The regulatory framework for banks and other financial institutions is being reformed internationally. The reforms are broad-ranging. The table below shows important processes that are underway. With the exception of changes in the area of supervision, the new regulations are expected to be incorporated into Norwegian law and have a direct impact on Norwegian financial institutions.

Regulatory area		Progress
Tools for banking crisis resolution	Financial Stability Board (FSB) – Key attributes of effective resolution regimes for financial institutions	The work on living wills for the largest global systemically important banks (GSIBs) is underway. The list consists of 29 banks today and is updated yearly.
	EU – Bank Recovery and Resolution Directive	Draft directive put forward in June 2012, with planned introduction 1 January 2015. The European Council and the European Parliament agreed on a compromise on 12 December 2013. First plenary vote by the Parliament is planned for April 2014.
	EU – Deposit Guarantee Schemes Directive	The Council and the Parliament reached provisional agreement on harmonised deposit guarantee rules on 17 December 2013. The coverage level shall be EUR 100 000, with a transitional period of five years (until 2018) for countries with a higher coverage level
Requirements relating to banks' capital adequacy, risk management and liquidity	EU – Capital Requirements Regulation and Capital Requirements Directive IV (CRR and CRD IV)	Agreement was reached between the Parliament and the Council in March 2013. CRD IV/CRR became EU law on 17 July 2013. Rules were implemented from 1 January 2014.
	Implementation of EU rules in Norwegian law	On 22 March 2013, the Government put forward a bill to transpose CRD IV/ CRR into Norwegian law. The bill was passed by the Storting on 14 June 2013, with entry into force on 1 July 2013. The legislation contains provisions on new minimum Common Equity Tier 1 and Tier 1 capital ratios, a capital conservation buffer, a systemic risk buffer, a buffer for systemically important banks, a countercyclical capital buffer, non-risk-based Tier 1 leverage ratio, liquidity reserve and stable funding. In addition, a timetable is provided for the gradual phase-in of the systemic risk buffer and the buffer for systemically important banks.
	Risk weights for residential mortgages	On 13 October, the Ministry of Finance raised the minimum Loss Given Default (LGD) risk model parameter from 10% to 20% in the Capital Requirements Regulation..
	Regulation on the Countercyclical Capital Buffer	On 4 October 2013, the Government issued the Regulation on the Countercyclical Capital Buffer. Each quarter, the Ministry of Finance shall set the level of the countercyclical capital buffer on the basis of advice from Norges Bank. In drawing up this decision basis, Norges Bank shall exchange relevant information and assessments with Finanstilsynet. Norges Bank's advice is exempt from public disclosure until the Ministry of Finance has announced its decision. On 12 December 2013, the Ministry of Finance decided that the buffer rate should be set at 1% as from 30 June 2015.
	Quantitative liquidity standards	The Liquidity Coverage Ratio (LCR) requirement will be introduced in the EU from 2015 and phased in stepwise by 2018. The Basel Committee's revised draft Net Stable Funding Ratio (NSFR) requirement was circulated for comment on 12 January 2014. By 31 December 2016, the European Commission shall submit a legislative proposal on the introduction of NSFR by 2018.
Requirements for systemically important banks	FSB Policy Measures to address systemically important financial institutions	Put forward by the FSB in November 2011.
	Finanstilsynet's press release from 4 November 2013, with link to letter and draft consultation response	On 4 November, Finanstilsynet submitted proposed criteria for identifying "other (i.e. nationally) systemically important institutions" (O-SIIs) to the Ministry of Finance. Finanstilsynet recommends that the following institutions be designated O-SIIs and be subject to a capital buffer of 2% in addition to other special requirements: DNB Bank, Nordea Bank Norge, SpareBank 1 Nord- Norge, SpareBank 1 SR-Bank, SpareBank 1 SMN, Sparebanken Vest, Sparebanken Sør and Sparebanken Pluss.
Supervisory structure	New EU supervisory structure	New supervisory structure for the EU financial sector from 2011. Not yet implemented in Norwegian law.
	EU Banking Union	The Single Supervisory Mechanism (SSM), which transfers much of the supervisory responsibility in the euro area to the ECB, entered into force on 3 November 2013. The SSM will thus begin to function in practice in November 2014. On 10 July 2013, the European Commission proposed a Single Resolution Mechanism (SRM) for the Banking Union. In December, the Council agreed on proposed amendments to be negotiated with the Parliament.

OTHER CONSULTATIVE STATEMENTS

After banks were allowed to issue covered bonds, this market grew very quickly. At the request of the Ministry of Finance, in a letter dated 28 February 2013, Norges Bank provided an assessment of the covered bond rules and whether covered bond mortgage companies should be given access to the central bank lending facilities. Norges Bank endorsed the view of Finanstilsynet and the Ministry of Finance that restrictions should be considered on funding residential and commercial property lending with covered bonds. To reduce incentives to collateralise ever more assets, it was pointed out that the premium to the Norwegian Banks' Guarantee Fund could reflect the extent to which a banking group's residential mortgage and commercial property loans are encumbered. The risk of payments from the Fund rises with the extent of asset encumbrance. It was also pointed out that more publicly available information regarding the extent of asset encumbrance would better enable creditors to assess the risk in their claims on banks.

Norges Bank also concluded that covered bond mortgage companies should not be given general access to the central bank lending facilities. Norges Bank's liquidity facilities are not intended to limit an individual institution's liquidity risk or function as a funding source but are instruments designed to implement monetary policy and payment settlement. Mortgage companies play no role in these areas. However, mortgage companies are qualified for emergency liquidity assistance under Section 22 of the Norges Bank Act.

Norges Bank and Finanstilsynet submitted joint comments on the Basel Committee's consultative documents: "The regulatory framework: balancing risk sensitivity, simplicity and comparability" and "Liquidity Coverage Ratio disclosure standards". More disclosure and more transparency were underscored as responses to the increasing complexity of banking activities and regulation. There was also support for the notion of introducing simplicity as an additional objective for financial sector regulation.

RESEARCH IN 2013

Research at Norges Bank forms part of the basis for the Bank's decisions. Research at the Bank focuses on monetary policy and financial stability and is anchored in the international and Norwegian research community. The quality of research at the Bank meets the required standards for publication in peer-reviewed, recognised international or national journals.

PUBLISHED RESEARCH

In 2013, 21 articles were accepted for publication in peer-reviewed journals. This is the highest number in Norges Bank's history. The average for the past three years is 14 articles. The articles cover a wide range of subjects, such as monetary policy, forecasts, the residential property market, oil prices, public finances and economic cycles. An overview of approved and published articles is provided on the Bank's website. The Research Council of Norway divides peer-reviewed journals into two levels, "Level 1" and "Level 2", where "Level 2" was higher. Of the articles by Bank economists approved in 2013, 16 (76%) were published in Level 2 journals.

Current research activity is documented in the Bank's *Working Papers* series. Twenty-eight papers were published in this series in 2013, while the average for the past three years is 24 papers. *Working Papers* are published on the Bank's website and the Internet portals *Research Papers in Economics* (RePEc) and *Social Sciences Research Network* (SSRN). In 2013, Norges Bank's Working Papers were downloaded 2 525 times from RePEc.

CONFERENCES, WORKSHOPS AND SEMINARS

In 2013, Norges Bank arranged several conferences. The largest was held in September, with title "The Role of Monetary Policy Revisited". This conference focused on topical issues concerning the degree to which central banks can and should stabilise the economy. All conference participants were world leaders in their specialities, and among the audience were economists from central banks in Europe and North America. The other conferences arranged by the Bank were: "The Annual ESOBE Meeting", with the Nobel laureate Christopher Sims (Princeton University) among the participants, and "Household Finance. Norges Bank Workshop" which was a part of the priority project "Household Saving, House Prices, Debt and Risk".

Three workshops were held in 2013 aimed at the Bank's staff, which included participants from such institutions as Finanstilsynet and the Ministry of Finance as well as PhD students at Nordic universities. Workshops focused on relationships between monetary and fiscal policy (E. Leeper), household saving and consumption (C. Carroll) and modelling banks (D. Corbae).

In 2013, Bank research units had extensive contact with colleagues at universities and other central banks as part of their day-to-day activities through joint projects and by presenting work-in-progress at Norwegian and international conferences and seminars. Seminars are held at the Bank each week. In 2013, Norges Bank arranged 83 seminars with invited lecturers who presented their research and participated in meetings and discussions with Bank staff. A list of research seminars held in 2013 is published on Norges Bank's website.

SUPPORT FOR ECONOMIC RESEARCH AND EDUCATION

The endowed chair established by Norges Bank at the University of Oslo fosters greater awareness about macroeconomics and monetary policy issues.

In 2012, Norges Bank established its PhD scholarship program to motivate the best young Norwegian economics students to pursue doctoral studies at a top-ranked international research institution. The program comprises a financial scholarship, which is awarded to students admitted to an approved institution, and support during the application process during an internship in the Bank's Research Unit. During the 2012-2013 academic year, there were three such interns at the Bank, and all three were admitted to a top-ranked institution (Princeton University, Northwestern University and the University of Minnesota), which qualified them for a financial scholarship award.

Norges Bank's Economic Research Fund provides financial support for researchers studying abroad or attending international conferences to present their own work and for research conferences in Norway.

John Cochrane, University of Chicago Booth School of Business

Professor Chris Sims, Princeton University

Charles Evans, President and Chief Executive Officer, Federal Reserve Bank of Chicago

NORGES BANK'S BICENTENARY PROJECT

In connection with Norges Bank's bicentenary in 2016, the Executive Board decided in December 2007 to launch a major research project to be published in book form. "Norges Bank's bicentenary project 1816–2016" will be a joint project with contributions from both Norwegian and international research communities. The steering committee comprises the international experts Professor Michael Bordo of Rutgers University, New Jersey, and Professor Marc Flandreau of the Graduate Institute in Geneva, Deputy Governor of Norges Bank Jan F. Qvigstad and Director Øyvind Eitrheim.

The goal is to produce three books dealing with various aspects of Norges Bank's activities over the past 200 years by the beginning of the bicentenary year. The project will also serve to highlight the role of Norges Bank as a public institution from a historical perspective.

The three books have the following working titles:

- The History of Norges Bank 1816–2016
- The Monetary History of Norway 1816-2016
- Of the Uses of Central Banks: Lessons from History

The books are also intended to meet the required standards of an internationally recognised academic publisher. The Bank appointed Professor Einar Lie, University of Oslo, and Professor Jan Tore Klovland, Norwegian School of Economics (in collaboration with Øyvind Eitrheim of Norges Bank), as project coordinators for the first two books. The third book will contain contributions from the conference "Of the Uses of Central Banks: Lessons from History", to be held at Norges Bank from 5 to 6 June 2014.

In 2013, researchers at Norges Bank, the Norwegian School of Economics, Vestfold University College and the University of Oslo conducted research into various aspects of the history of Norges Bank. Norges Bank has also provided funding for a three-year doctoral project on the initial decades of the history of Norges Bank in collaboration with the 1814-project at the University of Oslo. In preparation for the conference "Of the Uses of Central Banks: Lessons from History" Norges Bank arranged a workshop in Geneva from 26 to 27 April in collaboration with the Graduate Institute. In 2013, international cooperation was strengthened through the international workshop "Interest rates and credit allocation in post-WWII Europe 1945-1970", which was held at Vindåsen from 27 to 28 June.

Two research papers were published as Norges Bank *Working Papers* in 2013, and one paper written in connection with the Bank's bicentenary was published on the Bank's website in the series Norges Bank *Staff Memo*. In 2013, Norges Bank's timeline on the Bank's website was also reformatted so that the history of Norges Bank can be read on a PC, tablet or smart phone.

CHAPTER 3

MARKETS AND INVESTMENT MANAGEMENT

MANAGING LIQUIDITY IN THE BANKING SYSTEM

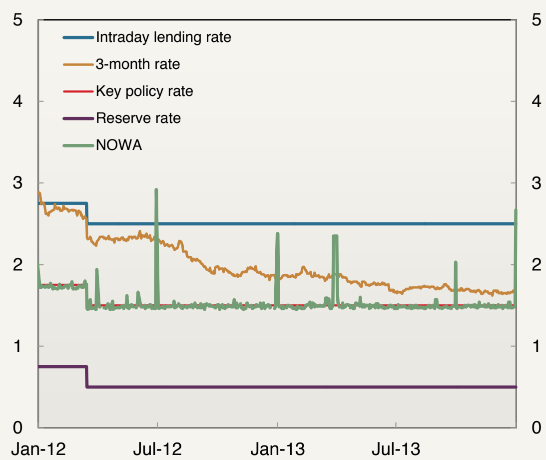
In its conduct of monetary policy, Norges Bank manages bank reserves, i.e. banks' deposits with the central bank, to ensure that the level of short-term money market rates is close to the key policy rate as set by the Executive Board. To achieve this, reserves are supplied to or drained from the banking system by the central bank through various forms of market operations. Chart 3.1 shows developments in Norges Bank's interest rates, the overnight rate and the three-month money market rate.

The aim of Norges Bank's liquidity management is to ensure that total reserves in the banking system remain stable around a certain level. In order to steer reserves towards the desired level, Norges Bank prepares forecasts of structural liquidity in the banking system. Structural liquidity refers to the total reserves banks hold on account at Norges Bank before the supply or withdrawal of reserves through market operations. Structural liquidity is influenced by current incoming and outgoing payments over the government's account in Norges Bank, government borrowing transactions, Norges Bank's transactions in the foreign exchange and government securities markets and changes in the volume of notes and coins in circulation. When structural liquidity is lower than the desired level of bank reserves, Norges Bank provides loans to banks. When structural liquidity is high, Norges Bank accepts banks' surplus liquidity as fixed-rate deposits.

In 2013, Norges Bank sought to maintain bank reserves in the banking system at an average NOK 35bn with a target range of ±5bn around this level. The sum of banks' quotas was NOK 45bn. When bank reserves rise towards the top end of the target range, Norges Bank offers banks F-deposits. Similarly, when reserves fall towards the lower end of the target range, banks are offered F-loans (against collateral in the form of approved securities). F-loans and F-deposits are fixed-rate loans and deposits with specified maturities extended to banks established in Norway. The interest rate is usually determined by multi-price auction. Maturities vary from one day to several weeks and depend on the liquidity situation.

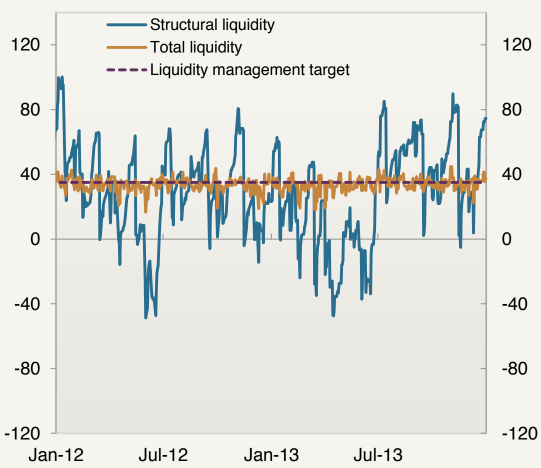
The total quota for bank reserves is set at NOK 45bn. Each quota is calculated on the basis of a bank's total assets. The banks have been divided into three groups with all the banks in a group assigned the same quota, with the exception of settlement banks, which are assigned an additional amount in their quota. The quotas are reviewed twice a year, and Norges Bank did not make changes in quota levels in 2013.

CHART 3.1 Norges Bank's interest rates and short-term money market rates (money market rate 1 day ahead and 3 months ahead). Nominal rates. Percent. 1 January 2012–31 December 2013



Sources: Thomson Reuters and Norges Bank

CHART 3.2 Structural liquidity and surplus liquidity in the market. In billions of NOK. 1 January 2012–31 December 2013



Source: Norges Bank

CHART 3.3 Spread between money market rates and expected key policy rate. Percentage points. 5-day moving average. 1 January 2012–31 December 2013

Sources: Thomson Reuters and Norges Bank

BANKS' KRONE LIQUIDITY AND NORGES BANK'S MARKET OPERATIONS IN 2013

In 2013, structural liquidity averaged NOK 27.5bn (see Chart 3.2). A total of 59 F-loan auctions and 35 F-deposit auctions were held. Total liquidity, i.e. structural liquidity plus Norges Bank's market operations, averaged NOK 33.8bn in 2013.

SWAP ARRANGEMENT

A swap arrangement was established in 2008 to ensure banks' access to longer-term funding, under which banks could obtain Treasury bills from the government in exchange for covered bonds (OMF). Banks utilised a total of NOK 230bn. No auctions have been held under the swap arrangement since 2009.

Under the swap arrangement, swap agreements were initially valid for up to three years. In March 2009, the term of the agreements was extended to up to five years. Under the agreements, loans cannot be redeemed before the final maturity date. In a submission to the Ministry of Finance dated 29 September 2010, Norges Bank recommended an offer of early termination of agreements for the banks taking part in the swap arrangement. The Ministry of Finance decided to follow this advice and offer early termination of swap agreements. In 2013, just under NOK 21bn was utilised for early termination. At end-2013, government securities in the swap arrangement with a nominal value of NOK 78.1bn were still outstanding.

MONEY MARKET PREMIUMS

Money market premiums[2] in the Norwegian money market fell throughout 2013. Premiums in the Norwegian money market fell in pace with international premiums through the year. In addition, a high level of structural liquidity in the second half of the year pushed down premiums in the Norwegian money market further. In the course of the year, premiums fell from somewhat above to somewhat below a normal level. Chart 3.3 shows developments in premiums for 1-month, 3-month and 12-month money market rates.

Since autumn 2011, Norges Bank has calculated and published a new overnight rate, the NOWA rate[3]. NOWA is defined as a weighted average of completed unsecured overnight loan transactions

2 Money market rates minus expected key policy rate over the same horizon.
3 Norwegian Overnight Weighted Average.

between Norwegian banks. The average spread between NOWA and Norges Bank's key policy rate was approximately zero in 2013. The average daily reported volume of transactions for overnight interbank loans was NOK 12.2bn in 2013.

GOVERNMENT DEBT IN 2013 AND ACCOUNT MANAGEMENT FOR THE GOVERNMENT

According to an agreement between the Ministry of Finance and Norges Bank, the Bank shall provide services as adviser, facilitator and payment agent in connection with raising and managing domestic government loans. The Ministry of Finance pays for bank-related services provided by Norges Bank to the Ministry in connection with government debt and liquidity management and for variable costs incurred by Norges Bank in its capacity as provider of services to the Ministry of Finance.

The government's schedule for the issue of short- and long-term securities in 2013 was published in an auction calendar in December 2012. A total of 21 auctions of government bonds and 14 auctions of short-term government paper (Treasury bills) were held in 2013. Ad hoc auctions were not held. The total volume issued, excluding the government's own purchases in the primary market, amounted to NOK 62bn in government bonds and NOK 70bn in Treasury bills.

The strategy for long-term government borrowing is based on maintaining a yield curve for government bonds with maturities of up to approximately 10 years. The pattern for government bond borrowing has been to issue a new 11-year bond every second year. A bond with an outstanding volume of NOK 66.5bn matured in May 2013.

According to the issue programme for short-term government securities, new Treasury bills are issued on IMM dates[4] and mature on the IMM date one year later. The loans are expanded through subsequent auctions.

The government securities auctions are held using the Oslo Børs trading system. The bid-to-cover ratio, which is the volume of bids in relation to the volume allocated in the auction, averaged 2.23 for government bonds and 2.54 for Treasury bills.

Norges Bank enters into agreements with primary dealers, which are under an obligation to furnish binding bid and offer prices for agreed minimum amounts of government bonds and Treasury bills on Oslo Børs. In 2013, Norges Bank entered into 4 agreements with primary dealers for government bonds and 5 agreements with primary dealers for Treasury bills. In return for furnishing these binding bid and offer prices, primary dealers may borrow government securities for a limited period. The lending limit for bonds was NOK 8bn. For Treasury bills, the lending limit was NOK 6bn for each loan. In addition, primarily dealers have the exclusive right to participate in auctions of government securities.

The government has used interest rate swaps in its domestic debt management since June 2005. An interest rate swap is an agreement between two parties to exchange future interest payments associated with a given principal. Use of interest rate swaps gives the government the flexibility to change the average period during which the interest rate on the debt portfolio is fixed without changing its borrowing strategy. The Ministry of Finance has entered into framework agreements with several counterparties. Norges Bank performs the operational functions in connection with entry into interest rate swap agreements on behalf of the Ministry of Finance. The commercial decisions are made by the Ministry. At end-2013, the average fixed-rate period for government debt was 3.9 years. If existing interest rate swaps are taken into account, the fixed-rate period was 2.4 years.

Total government domestic debt securities registered in the Central Securities Depository (VPS) at end-2013 amounted to NOK 451bn, calculated at face value. Of this, the volume of Treasury bills used in the swap arrangement amounted to NOK 78.1bn. Foreign investors hold approximately 47%, while life insurance companies and private pension funds hold approximately 12% of total government debt securities. For government bonds, the proportion of holdings is 62% for foreign investors and 9% for life insurance companies and private pension funds.

4 International Monetary Market dates: the third Wednesday in March, June, September and December.

ACCOUNT MANAGEMENT FOR THE GOVERNMENT

Norges Bank performs account management tasks relating to the management of the central government's liquid assets and debt in NOK. The legal basis for these responsibilities is provided for in the Norges Bank Act and they are regulated by means of agreements between Norges Bank and the Ministry of Finance. A primary function is to amass government liquidity each day in the government's sight deposit account with Norges Bank. At end-2013, government agencies had a total of 1 020 accounts with Norges Bank. The sum of the amounts in these accounts constitutes the balance of the government's sight deposit account. The government receives interest on these funds. The Ministry of Finance also sets internal interest rates for certain government-owned funds and deposits. The government represented by the Ministry of Finance pays an annual fee to cover the costs of the banking services that Norges Bank performs for the government.

Norges Bank has contracted with EVRY ASA to provide ICT services for the account system. Account management services for the government at Norges Bank continued to be stable in 2013.

Actual payment services for the government are performed by banks by agreement with the Norwegian Government Agency for Financial Management (DFØ). DFØ has agreements for payment and account services with DNB Bank ASA, Nordea Bank Norge ASA and the SpareBank 1 Alliance. Norges Bank has agreements with these banks on the transfer of government funds between banks and Norges Bank each day.

COLLATERAL FOR LOANS FROM NORGES BANK

Norges Bank extends loans to banks against collateral in the form of securities. Such loans contribute to the effective implementation of monetary policy and payment settlement. In order to be used as collateral, securities must satisfy a number of requirements. Access to borrowing facilities and collateral requirements are stated in regulations and guidelines issued by Norges Bank.

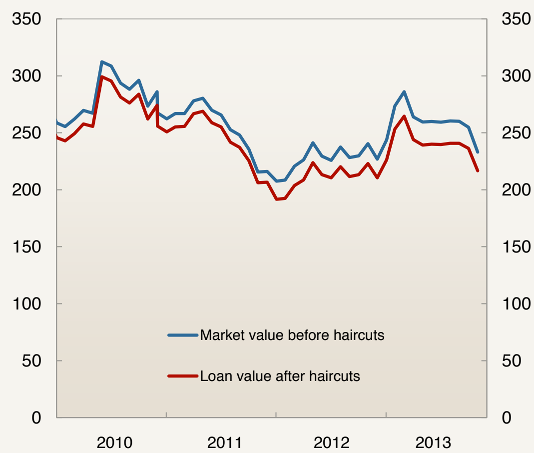
At end-2013, banks had a total stock of securities as collateral for loans from Norges Bank of NOK 217bn after haircuts, compared with NOK 223bn in 2012. The number of securities approved as collateral at Norges Bank was 621 at end-2013. Chart 3.1 shows banks' collateral for loans from Norges Bank in recent years.

Total loan value after haircuts was higher on average in 2013 than in 2012, though it varied through 2013 and decreased considerably towards the end of the year. The haircut, which is the difference between the market value and loan value of collateral, averaged 7.4% of the market value and showed little variation through the year.

Norges Bank accepts collateral registered in the Central Securities Depository (VPS) and the following central securities depositories abroad: Euroclear, Clearstream, Euroclear Sweden and VP Securities in Denmark. For the use of central securities depositories in the three Scandinavian countries, the central banks have an agreement whereby banks can pledge securities as collateral for loans from one of the other central banks. Three banks availed of this right in 2013. The total value of this type of collateral pledged for loans at Norges Bank was approximately NOK 4bn at year-end, against NOK 11bn in 2012.

In addition to ordinary borrowing facilities, the central banks of Denmark, Sweden and Norway allow banks to pledge deposits in one central bank as collateral for loans in one of the other

CHART 3.4 Banks' collateral for loans from Norges Bank 2010–2013. Last day of each month. In billions of NOK



Source: Norges Bank

central banks. This arrangement, called the Scandinavian Cash Pool (SCP), may only be used for intraday liquidity. Thus, the five banks that participate in the arrangement are better able to manage their liquidity across national borders. An average of approximately NOK 3bn was borrowed intraday from Norges Bank through the SCP in 2013, the same as in 2012. Banks only occasionally used deposits with Norges Bank as collateral for loans in another Scandinavian central bank.

In 2013, Norges Bank accepted tenders for a new ICT solution for calculating the loan value of banks' collateral for loans. The current system was developed internally in Norges Bank and the goal is to replace this system with a standard system.

FOREIGN EXCHANGE TRANSACTIONS

In 2013, Norges Bank's foreign exchange transactions mainly comprised foreign exchange purchases for the Government Pension Fund Global (GPFG).

The GPFG is built up through transfers of foreign exchange income from the State's Direct Financial Interest in petroleum activities (SDFI) and through Norges Bank's purchases of foreign exchange in the market.

The system for transferring foreign exchange from the SDFI and calculating Norges Bank's foreign exchange purchases was last changed in 2004. The Ministry of Finance determines the monthly allocation to the GPFG. Any foreign exchange required by Norges Bank in addition to the transfer from the SDFI is purchased in the foreign exchange market. Daily foreign exchange purchases are then fixed for a month at a time and are announced on the final working day of the previous month. The actual transfers may differ from the estimates. Adjustments are made for any differences when foreign exchange purchases are made in the following month. As a result, Norges Bank's foreign exchange purchases may vary somewhat from month to month.

Prior to 2012, capital was not transferred to the GPFG in December. In October 2012, the guidelines for managing the GPFG were amended so that foreign exchange is also transferred to the GPFG in December. As a result, the SDFI's foreign exchange income in December must be included when Norges Bank plans its foreign exchange purchases for the year. With a transfer to the GPFG in December, Norges Bank might also purchase foreign exchange for this purpose in December. However, there was no need to purchase foreign exchange in December 2013 on account of the substantial holdings in the petroleum buffer portfolio. Norges Bank's foreign exchange purchases in the market totalled NOK 47.4bn in 2013 (see Table 2). Transfers from the SDFI amounted to NOK 199.4bn.

TABLE 1 NORGES BANK'S DAILY FOREIGN EXCHANGE PURCHASES FOR THE GOVERNMENT PENSION FUND GLOBAL IN 2013

Month	Daily amount (in millions of NOK)	Total per month (in millions of NOK)
January	300	6 600
February	300	6 000
March	300	5 400
April	300	6 300
May	300	5 700
June	200	4 000
July	200	4 600
August	200	4400
September	100	2 100
October	100	2 300
November	0	0
December	0	0
2013		47 400

INVESTMENT MANAGEMENT

At the end of 2013, Norges Bank managed assets amounting to a total of NOK 5 389bn in international capital markets. The assets primarily comprise the GPFG, which is managed on behalf of the Ministry of Finance. The Bank also manages its own international reserves. Performance reports are published on Norges Bank's website.

FOREIGN EXCHANGE RESERVES AND CLAIMS ON THE IMF

Norges Bank's international reserves comprise foreign exchange reserves and claims on the International Monetary Fund (IMF). Foreign exchange reserves amounted to 93% of total international reserves at end-2013.

Foreign exchange reserves shall be available for transactions in the foreign exchange market as part of the implementation of monetary policy or to promote financial stability and to fulfil Norway's international commitments vis-à-vis the IMF or individual countries.

Norges Bank's Executive Board issues guidelines for the management of foreign exchange reserves and has delegated responsibility to the governor of Norges Bank for issuing supplementary guidelines. The reserves are divided into a long-term portfolio, a money market portfolio and a petroleum buffer portfolio. The long-term portfolio is managed by Norges Bank Investment Management, while the money market portfolio and the petroleum buffer portfolio are managed by Norges Bank Markets and Banking Services (NBMB). The purpose of the petroleum buffer portfolio is to ensure an adequate supply of fresh capital for transfer to the GPFG.

The foreign exchange reserves are invested in such a way that at least SDR 10bn, including all of the money market portfolio, can be used for transactions in the foreign exchange market within one trading day without having to realise any sizeable losses. The money market portfolio and the petroleum buffer portfolio contain only short-term money market instruments, while the long-term portfolio has a strategic allocation to equities of 40% and an allocation to fixed income instruments of 60%. The main strategy for both the long-term portfolio and the money market portfolio is defined by means of benchmark indices. These are hypothetical portfolios with given country or currency allocations and with specific securities or fixed income indices in various submarkets or currencies. The benchmark index provides the basis for managing and monitoring risk exposure and for evaluating the actual return Norges Bank achieves in its management of the foreign reserves.

The market value of the foreign exchange reserves at end-2013 Q4 was NOK 330bn, with equities and long-term fixed income investments totalling NOK 273bn, while the market value of money market investments and the petroleum buffer portfolio was NOK 38bn and NOK 18bn respectively. The reserves increased by NOK 62bn through the year, primarily as a result of return on equity investments and a weaker krone as measured against the currencies in which the reserves are invested.

The return on the foreign exchange reserves, measured in international currency, excluding the petroleum buffer portfolio, was equivalent to NOK 28bn, or 9.67% in 2013.

The return on equity and long-term fixed income investments is measured against the return on global benchmark indices based on indices compiled by the FTSE Group and Barclays Capital respectively. Equity investments had a return of 28.94% for the year, which was 0.60 percentage point higher than the return on the equity benchmark. In the same period, long-term fixed income investments had a return of negative 1.14%, which was 0.16 percentage point higher than the return on the benchmark for fixed income instruments.

Money market investments, excluding the petroleum buffer portfolio, returned 0.13% in 2013. The return is measured against the return on benchmark indices consisting of overnight money market instruments and government securities in USD and EUR. The return on money market investments for the year was 0.06 percentage point higher than the return on the benchmark index. The low return figures must be viewed in the context of the requirements regarding liquidity in money market investments and constraints on the investment universe.

Over the past 10 years, the annual nominal return on the foreign exchange reserves, excluding the petroleum buffer portfolio, has been 5.89%, measured in international currency. In 2013, the foreign exchange reserves outperformed the benchmark by 0.70 percentage point.

The deviation between the actual portfolios and the benchmark portfolios is subject to a limit. The portfolios must be managed in such a way that expected relative volatility does not exceed 1 percentage point. As expected relative volatility is a measure of overall risk, a model based on historical market fluctuations is used to calculate this figure. In 2013, expected relative volatility was measured at an average 0.29 percentage point for equities and long-term fixed income investments and at 0.04 percentage point for money market investments.

Gross revenues in foreign currency from the State's Direct Financial Interest in the petroleum sector (SDFI) are transferred to Norges Bank and placed in the petroleum buffer portfolio. Norges Bank also purchases foreign exchange directly in the market in periods in order to cover the amount that is to be allocated to the GPFG. The petroleum buffer portfolio is invested in money market instruments. At the end of 2013, the market value of the petroleum buffer portfolio was NOK 18.0bn. Funds are normally transferred from the petroleum buffer portfolio to the GPFG each month.

CLAIMS ON THE IMF

The IMF requires contributions from member countries according to the member country's relative size in the global economy. The contribution is also called a quota. The quota determines a member's voting power in the IMF, the amount of financial resources in SDR[5] the member is obliged to provide and the amount of financing the member country can obtain from the IMF. Up to 25% must be paid in SDRs or widely accepted currencies (such as the US dollar, euro, yen, or pound sterling), while the rest is paid in the member's own currency. Norway´s quota as at 31 December 2013 was NOK 17 624m (SDR 1 884m).

SDRs have been allocated to member countries based on the size of their IMF quotas on several occasions, most recently in 2009. Member countries can change their SDR holdings through transactions with the IMF or by buying from or selling to member countries willing to be counterparties in SDR transactions. Norges Bank has volunteered to be such a counterparty up to a limited amount. In addition, members with strong external positions can be designated by the IMF to buy SDRs from members with weak external positions, although the IMF has never made use of this mechanism. Norges Bank's SDR holdings amounted to NOK 13 909m (SDR 1 487m) as at 31 December 2013, which is lower than Norway's allocation (SDR 1 563m).

Norges Bank has provided funds to the IMF or to trusts managed by the IMF through the following facilities:

- loans under the New Arrangements to Borrow (NAB)
- bilateral loans
- loans to the Poverty Reduction and Growth Trust (PRGT)

The primary source of funding for the IMF's loans to countries experiencing payment problems is member countries' quotas. In addition, the IMF finances its lending by borrowing from wealthy member countries through the NAB. A total of 38 countries, including Norway, participate in the NAB. Norges Bank's loans to the IMF through the NAB totalled NOK 4 706m (SDR 503m) as at 31 December 2013. Norway has pledged a total of NOK 36 211m (SDR 3 871m) through the NAB.

The need for financial support from the IMF increased considerably after the financial crisis. In 2010, IMF lending was 10 times higher than prior to the onset of the financial crisis in 2008. During the sovereign debt crisis in Europe, the EU took the initiative for providing additional resources to

5 Special Drawing Rights - SDR - is an international reserve asset, created by the IMF in 1969. Its value is based on a basket of four key international currencies, the US dollar, euro, pound sterling and Japanese yen. The weights of the currencies in the SDR basket are reviewed every five years.

the IMF. In December 2011, EU countries committed to providing up to NOK 1 500bn (EUR 200bn) in the form of bilateral loans to the IMF and urged other countries to make a similar contribution. Norway responded promptly and offered to provide the IMF with loan resources that same month, in the form of a drawing arrangement of up to NOK 56bn (SDR 6bn). The arrangement enables the IMF to finance loans with a maturity of up to 10 years. The IMF can draw on these loans if quota resources and the NAB fall below a given threshold. As at 31 December 2013, the IMF had not drawn funds under this arrangement.

The Ministry of Finance and the IMF signed an agreement in June 2010 under which Norway has pledged loans of up to SDR 300m to the Poverty Reduction and Growth Trust (PRGT), which is managed by the IMF. The PRGT is used for lending to low-income countries. Norges Bank acts as agent for Norway's loans to the PRGT and fulfils Norway's obligations pursuant to Section 25 of the Norges Bank Act. At 31 December 2013, the IMF had drawn a total of NOK 2 191m (SDR 234m) under this agreement.

GOVERNMENT PENSION FUND GLOBAL

Norges Bank is responsible for the operational management of the Government Pension Fund Global (GPFG) on behalf of the Ministry of Finance. At end-2013, the market value of the GPFG was NOK 5 038bn before deduction of Norges Bank's management fee. The Ministry of Finance transferred a total of NOK 239bn to the GFPG in 2013.

Investment management is conducted pursuant to the regulation "Mandate for the management of the Government Pension Fund Global". The Ministry of Finance has established a strategic benchmark index with a 60% allocation to equities and 40% to fixed income instruments. The benchmark index reflects the Ministry's investment strategy for the GPFG and is an important basis for managing the risk associated with the operational management of the GPFG and for evaluating Norges Bank's management performance. The Ministry of Finance has set limits on the extent to which the actual portfolio may deviate from the benchmark portfolio.

In 2013, the GPFG posted a return of 15.9%, measured in terms of the benchmark portfolio's currency basket. This measure of return gives the best indication of the GPFG's international purchasing power. Measured in international currency, the equity portfolio returned 26.3%, while the fixed income portfolio returned 0.1%.

The return in 2013 was 1.0 percentage point higher than the return on the benchmark indices. The equity portfolio showed an excess return of 1.28 percentage point, while the fixed income portfolio outperformed the benchmark by 0.25 percentage point.

Since 1998 the annual nominal return has been 5.70%, measured in international currency. Net of management costs and adjusted for inflation, the annual real return has been 3.65%.

For a more detailed presentation of investment management in 2013, see the *Government Pension Fund Global Annual Report* for 2013.

CHAPTER 4

PAYMENT SYSTEMS, NOTES AND COINS

PAYMENT SYSTEMS

Norway's payment systems functioned effectively in 2013. Stable payment system operations are of crucial importance to financial stability. All payments between banks and between customers of different banks are cleared and settled in these systems.

NORGES BANK'S RESPONSIBILITY AND ITS ROLE IN THE SUPERVISION AND OVERSIGHT OF NORWAY'S PAYMENT SYSTEMS

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. Norges Bank also oversees Norwegian payment systems with the aim of strengthening financial stability by promoting the robustness and efficiency of the systems. While this work is primarily aimed at minimising risk in interbank clearing and settlement systems, Norges Bank also monitors important trends in payment systems as a whole.

Norges Bank's supervision of licensed interbank systems is based on reporting requirements and supervisory meetings. Supervision and oversight of interbank systems follow international recommendations, primarily from the BIS Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). The Bank began using the new CPSS-IOSCO principles in 2013. Norges Bank requested Norwegian financial market infrastructures to conduct a self-assessment against the new principles by the end of 2013. Norges Bank's evaluation will be published in 2014.

Two interbank systems are licensed under the Payment Systems Act: the Norwegian Interbank Clearing System (NICS) and the settlement system operated by DNB Bank ASA. The settlement system operated by SpareBank1 SMN is exempt from the licensing requirement. Clearings from NICS are settled in Norges Bank for banks with settlement at the central bank. Once settlement has been carried out at Norges Bank, DNB Bank ASA and SpareBank 1 SMN perform settlement with their participant banks.

There were few disruptions in the licensed interbank systems in 2013.

Norges Bank also oversees the securities settlement system operated by Oslo Clearing. In this context, the Bank cooperates with Finanstilsynet (Financial Supervisory Authority of Norway), which supervises Verdipapirsentralen ASA (Norwegian central securities depository) and Oslo Clearing ASA. Norges Bank is also a member of the oversight group for CLS Bank (Continuous Linked Settlement), an international bank specialised in the settlement of foreign exchange transactions. The group is chaired by the US Federal Reserve.

In the *Annual Report on Payment Systems*, Norges Bank describes and discusses developments in interbank systems and retail payment systems. In Norges Bank's view, Norwegian clearing and settlement systems compare well internationally. In the *Report*, Norges Bank also provides an account of its oversight of the Bank's own settlement system and its supervision of financial infrastructure.

Although Norges Bank considers Norwegian payment services to be efficient, there is room for improvement. Payment costs can be reduced through increased electronic invoicing, for example.

In 2013 Norges Bank conducted a survey of the economic cost of payment services in Norway. The survey included costs in the financial sector and for merchants and the public. The results will be published in 2014. The survey will provide a basis for comparing cost efficiency in Norwegian payment services with other countries and with previous periods.

In December 2013 a tripartite crisis simulation exercise was conducted involving the Ministry of Finance, Finanstilsynet and Norges Bank. The purpose of the exercise was to practise managing a crisis arising from the failure of central financial infrastructure.

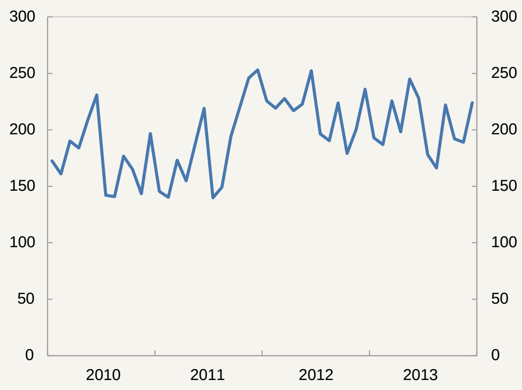
NORGES BANK'S SETTLEMENT SYSTEM

Norges Bank is the ultimate settlement bank for interbank payments in Norway. This task is related to Norges Bank's responsibility under the Norges Bank Act to promote an efficient payment system in Norway and vis-à-vis other countries, and to banks' right to hold accounts and raise loans at Norges Bank. Because the central bank issues money, central bank deposits do not involve credit or liquidity risk for banks. The interest rate on central bank deposits therefore provides a basis for interest rate formation throughout the economy.

All banks in Norway are entitled to have an account with Norges Bank. At the end of 2013, 128 banks had such an account, against 130 in 2012. Of these, 22 banks settled their transactions daily through Norges Bank's settlement system (NBO), as single payments or as net positions in clearings. The other banks used their account for payments primarily related to loans and deposits at Norges Bank. CLS Bank (Continuous Linked Settlement) has an account that is used for daily settlement of the krone leg of foreign exchange trades within the international system for settlement of such trades. Oslo Clearing ASA is a central counterparty in trades in financial instruments, and has an account with NBO for daily settlement of interbank positions. Two central banks and the Bank for International Settlements (BIS) also have accounts with NBO. Five further banks have agreements for contingency accounts that can be used if a bank needs to utilise Norges Bank as a settlement bank.

In 2013, an average of NOK 203bn per day was settled in Norges Bank's settlement system, compared with NOK 216bn in 2012. At the end of 2013, banks had sight deposits and reserves on deposit totalling NOK 37.2bn. Chart 4.1 shows turnover in Norges Bank's settlement system in recent years.

CHART 4.1 Turnover in Norges Bank's settlement system (NBO) 2010–2013. Daily average per month. In billions of NOK



Source: Norges Bank

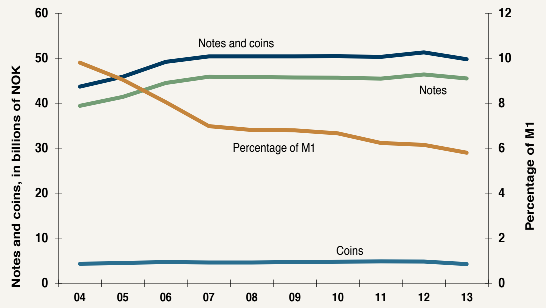
Norges Bank has contracted with EVRY ASA for the provision of ICT operating services for the settlement system. There were no material interruptions in the settlement system in 2013.

Banks pay a fee for the settlement services provided by Norges Bank, and prices are set so that the fees cover the relevant costs of providing the services. There was no change in prices in 2013.

Along with the central banks of Denmark, Iceland and Sweden, Norges Bank participates in a Nordic forum for the exchange of experiences concerning settlement systems and solutions for banks' collateral for loans from central banks.

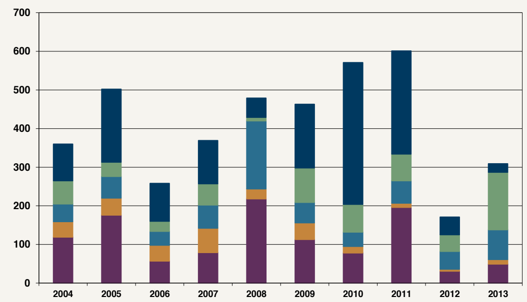
The Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) published new joint international principles for financial market infrastructures in 2012. Central banks participate in the CPSS within the collaborative framework of the Bank for International Settlements (BIS). Securities regulators take part in IOSCO. Norges Bank assessed the operation, development and administration of its own settlement system in the light of these principles in 2013.

CHART 4.2 Cash in circulation 2004-2013



Source: Norges Bank

CHART 4.3: Counterfeit Norwegian banknotes 2004-2013



Source: Norwegian National Criminal Investigation Service (Kripos)

BANKNOTES AND COINS

SLIGHT DECREASE IN CASH IN CIRCULATION

The annual average value of notes and coins in circulation increased in the period 2004-2007, and has remained stable since then, with the exception of a somewhat higher average in 2012. The annual average for 2013 was about NOK 49.8bn (see Chart 4.2), NOK 1.4bn lower than in 2012. Of this reduction, NOK 1.3bn was due to accounting entries made when Norges Bank's redemption obligation for old banknote series expired in 2012. Nevertheless, the value of notes and coins in circulation accounts for a steadily declining proportion of the value of means of payment used by the public (M1), even though the change from 2012 to 2013 was small.

The value of notes in circulation averaged NOK 45.5bn in 2013, i.e. a decrease of NOK 0.9bn on the previous year. The value of coins in circulation averaged NOK 4.3bn in 2013, a decline of NOK 0.5bn since 2012.

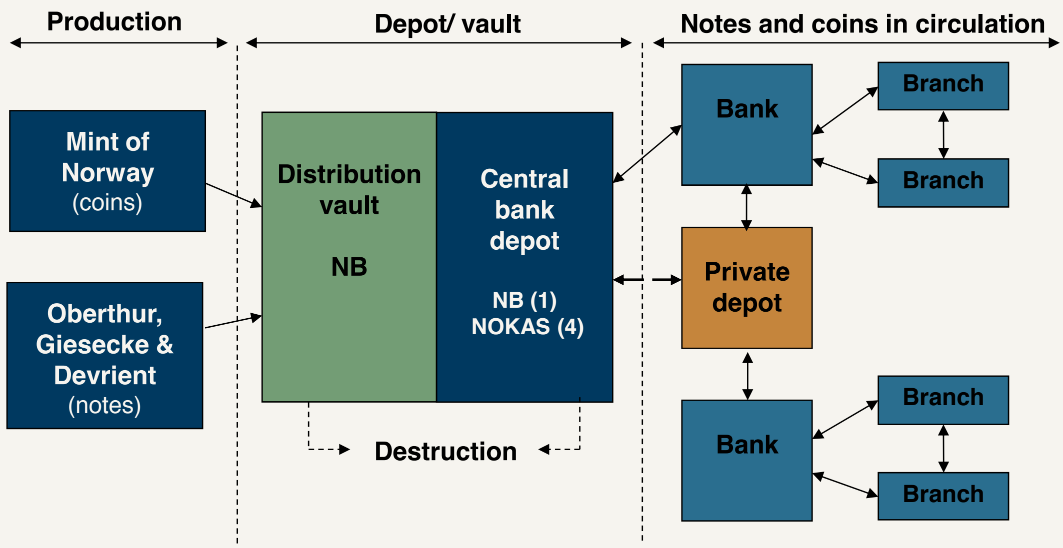
VERY LOW NUMBER OF COUNTERFEIT NORWEGIAN BANKNOTES

The number of counterfeit banknotes in Norway is low. At the beginning of the 2000s, Norges Bank upgraded the security of the smaller denominations in the banknote series. Following the upgrade, the number of counterfeit Norwegian notes seized has been very low (see Chart 4.3). In 2013, 309 notes were seized, corresponding to less than two counterfeit notes per million notes in circulation. This figure is very low compared with other countries. The quality of most counterfeits is very poor, making them easy to recognise.

ORGANISATION OF CASH DISTRIBUTION

Under the Norges Bank Act, Norges Bank is responsible for issuing notes and coins. This involves both ensuring the production of sufficient volumes to meet the general public's cash requirements and making these means of payment available. Norges Bank supplies banks with cash from five central bank depots and the banks are responsible for further distribution to the general public. The central bank is also responsible for the quality of notes and coins in circulation and facilitates the withdrawal and destruction of worn and damaged notes and coins.

CHART 4.4: The note and coin lifecycle as at 31 December 2013



One of the objectives of Norges Bank's cash handling activities is to promote the efficiency of cash distribution and of the payment system as a whole. Various measures have been implemented over time to ensure the optimal division of responsibilities and duties between participants and a clearer distinction between different types of service. Norges Bank now has a more distinct wholesaler role, as banks are responsible to a greater extent for interbank distribution of cash. An arrangement has also been introduced whereby, on certain conditions, banks receive interest compensation for cash holdings in private depots. At the end of 2013, there were a total of 13 private depots in Norway. The depots are operated by NOKAS Kontanthåndtering AS (NOKAS) and Loomis Norge AS.

The Norges Bank Act grants Norges Bank the exclusive right to issue banknotes and coins. Norges Bank must therefore function as debtor for these means of payment. Although production, destruction and distribution may be performed by others, Norges Bank must ensure that these operations are carried out in accordance with its requirements.

Norges Bank has outsourced a number of operations in the area of cash handling (see Chart 4.4). Notes and coins are produced by external suppliers. The operation of Norges Bank's central bank depots in Stavanger, Bergen, Trondheim and Tromsø has been outsourced to NOKAS, which also runs processing services associated with central bank tasks at these locations (destruction of worn-out notes, etc.). Norges Bank is responsible for the operation of the central bank depot in Oslo. The Bank also organises destruction and other control functions relating to the receipt and despatch of notes and coins.

COMMEMORATIVE COIN ISSUES

Norges Bank issues commemorative coins in gold and silver pursuant to Section 16 of the Norges Bank Act and special edition circulation coins pursuant to Section 13 of the Norges Bank Act, which is the general legal basis for issuing coins. Section 16 of the Norges Bank Act confers the power to approve the issue of gold and silver coins upon the Council of State. This power was delegated to Norges Bank from 1994 to 2011.

In 2013, Norges Bank issued a special edition circulation coin to mark the centenary of universal suffrage in Norway. The coin was issued on International Women's Day, 8 March.

A competition was held for the design of the coin's reverse. The winning motif was designed by illustrator and graphic designer Siri Dokken. The portrait of H.M. King Harald V on the obverse of the coin was designed by Ingrid Austlid Rise, designer at Mint of Norway.

WORK UNDERWAY ON A NEW SERIES OF BANKNOTES

Norwegian banknotes must constitute an efficient means of payment, and the general public must have confidence in the authenticity of the notes. The likelihood of counterfeiting can be reduced by ensuring that the security level of Norwegian notes is no lower than that of comparable countries. As several other countries, including Sweden, Denmark, England and euro area countries, are currently issuing new, more secure banknote series, the security of Norwegian banknotes must also be improved to ensure that the notes continue to be as resilient to counterfeiting as the notes of other countries. Norges Bank has therefore started work on developing a new series of banknotes, its eighth. The development of a new series of notes is complicated and demanding and will take several years.

In the course of 2013, it was decided that the current denomination breakdown of 50 – 100 – 200 – 500 – 1000 and the current main colours will be retained for the new series. The format or size of the notes will be changed: all the denominations will now be the same height, but will vary in width. The notes will be printed on cotton paper, as previously, and the Bank's official name will continue to be written in Norway's two official written languages, Bokmål and Nynorsk, i.e. Norges Bank and Noregs Bank.

Norges Bank also decided to feature «The Sea», focusing on its importance for Norway's business sector and economic prosperity, as the theme for the new series. The theme will be reflected on both the obverse and reverse face of the notes. The work to decide on a theme started with a collaborative effort involving 10 experts within the fields of history, art history, political science, folklore, heraldry, the performing arts and media. The Norwegian Maritime Museum has also contributed to the process.

As one of the first central banks to do so, Norges Bank established a Facebook page to seek the public's view on the new banknote series, with positive results. Other national and international interest groups and parties have also provided input to the process.

CHAPTER 5

INTERNATIONAL COOPERATION

Norges Bank participates in international cooperation through several channels, such as the Bank's active participation in financing schemes and agreements with the International Monetary Fund (IMF) and its shares in the Bank for International Settlements (BIS). The Bank has extensive contact with central banks in other countries and with international organisations.

INCREASED QUOTAS AND LOAN AGREEMENTS WITH THE IMF

The main source of funding for the IMF's lending activities is quota subscriptions paid by member countries. The IMF can, as needed, supplement its quota resources by borrowing through standing borrowing arrangements known as "New Arrangements to Borrow" (NAB), which has 38 participant countries, including Norway. In the event of further funding needs, the IMF can also enter into supplementary bilateral loan agreements with individual member countries.

In the period following the financial crisis, which started in 2008, the IMF has substantially strengthened its lending capacity. In 2010, member countries agreed to double the IMF's quota resources. Since member countries must ratify the increase in quotas and the US has not yet done so, the majority required to implement the change has not yet been reached.

The standing borrowing arrangement (NAB) has been expanded tenfold. The volume of the arrangement will be reduced by an amount corresponding to the increase in quotas when the increase becomes effective. The Ministry of Finance acts as contracting party in the NAB, while Norges Bank administers Norway's participation and provides foreign exchange reserves under Section 25 of the Norges Bank Act. At 31 December 2013, the IMF had drawn SDR 503m under this agreement.

The IMF currently has bilateral loan agreements with member countries. A total of 38 countries have pledged USD 461bn in loans to the IMF. Norway's loan agreement is in the form of a drawing arrangement of SDR 6bn, or just over NOK 56bn (exchange rate at 30 December 2013). At 31 December 2013, the IMF had not drawn on this loan. The agreement enables the IMF to fund loans with terms of up to ten years. The loan is to be drawn only if resources from the quotas and the NAB fall below a given threshold.

In June 2010, the Ministry of Finance entered into an agreement with the IMF to pledge up to SDR 300m in loan resources to the IMF's borrowing facilities for low-income countries. Pursuant to Section 25 of the Norges Bank Act, the Ministry of Finance requested that Norges Bank meet Norway's commitments under the agreement by making funds available through transfers of foreign exchange reserves.

Norges Bank's potential credit exposure to the IMF is therefore considerable. However, the risk associated with loans to the IMF is low, among other reasons because of the conditionality in the IMF's adjustment and stabilisation programmes for borrowers. In addition, IMF claims have precedence over claims from other creditors. The IMF has never realised a loss on loans under its general lending programmes. Norway has no credit exposure to third countries in connection with loans, since all claims are against the IMF.

LOAN AGREEMENT WITH SEÐLABANKI ÍSLANDS

On 19 November 2008, the IMF authorised a loan to Iceland of USD 2bn under a two-year stand-by arrangement, which expired in 2011. In addition, loan agreements between Iceland and the other Nordic countries were signed in July 2009. The Ministry of Finance approved a EUR 480m loan from Norges Bank to the Icelandic central bank and provided a government guarantee for the loan. The Icelandic government has guaranteed repayment of the loan to Norges Bank. Seðlabanki

Íslands made an early repayment of EUR 281m in 2012. The remaining loan balance at 31 December 2013 was EUR 199m.

REGULAR CONTACT AND COOPERATION WITH OTHER CENTRAL BANKS AND INTERNATIONAL ORGANISATIONS

Norges Bank has shares in the Bank for International Settlements (BIS), whose task is to foster cooperation between central banks. In addition to providing banking services to central banks, the BIS is also a research body and discussion forum for its member banks. The Governor of Norges Bank regularly attends meetings of the BIS.

Pursuant to Section 25 of the Norges Bank Act, Norges Bank shall administer Norway's financial rights and meet the commitments ensuing from membership of the IMF. Norges Bank has been tasked by the Ministry of Finance to be responsible for day-to-day IMF work in Norway. Norway's position on matters to be brought before the IMF Executive Board is decided by the Ministry of Finance on the advice of Norges Bank. A chapter of the revised budget now contains an account of important matters and events relating to IMF activities, with emphasis on the past 12–18 months.

The highest decision-making body of the IMF is the Board of Governors. In 2013, Norway was represented by Governor of Norges Bank Øystein Olsen, with Secretary General of the Ministry of Finance Svein Gjedrem as his alternate. The Board normally meets once a year at the Annual Meeting of the IMF. Apart from this meeting, voting by the Board of Governors takes place by ballot. An Executive Board consisting of 24 Executive Directors is responsible for day-to-day business. The five Nordic and three Baltic countries comprise a single constituency with a joint representative on the Board. The post of executive director is rotated among the Nordic and Baltic countries. Norway holds this position for the period 2013-2015.

The countries in the Nordic-Baltic Constituency (NBC) coordinate their views to arrive at a consensus position, which the board member representing the Constituency then presents to the IMF Executive Board. As Executive Director, Norway is responsible for the daily coordination of the views of the NBC on matters to be brought before the IMF Executive Board. The Nordic-Baltic Monetary and Financial Committee (NBMFC) guides the work of the NBC. The Norwegian members are the Secretary General of the Ministry of Finance and the Deputy Governor of Norges Bank. The other countries are represented at a comparable level. The NBMFC normally meets twice a year.

The International Monetary and Financial Committee (IMFC) has a key function as an advisory body to the Executive Board of the IMF. The IMFC meets twice a year. The Committee provides policy guidelines for the activities of the IMF. The IMFC's members are ministers or central bank governors who represent either a country or a multi-country constituency. The Swedish finance minister represented the Nordic-Baltic Constituency at the IMFC meeting in April 2013, while the Lithuanian finance minister represented the Constituency in October 2013.

An important part of the activities of the IMF involves monitoring economic developments in member countries, with particular emphasis on macroeconomic conditions and financial stability. Bilateral surveillance is mainly conducted through Article IV consultations, which take place annually for most countries. The report from the Article IV consultation with Norway in 2013 was discussed by the Executive Board of the IMF on 30 August 2013. The report and the conclusions of the Executive Board's discussions were published on 5 September 2013.

The IMF also wrote a regional report on the four largest Nordic countries in 2013. The report focused in particular on the challenges related to the strong bonds between the financial sectors in these countries. The report was published on 5 September 2013.

The IMF has for many years conducted comprehensive assessments of the financial sector in member countries called Financial Sector Assessment Programs (FSAP). An FSAP was conducted for Norway in 2005. Since 2010, FSAP assessments every five years have been mandatory for 25 countries with global systemically important financial sectors and voluntary for other member countries. In December 2013, the IMF reviewed the criteria that determine the classification of countries with systemically important financial sectors. As a result of the review, the financial sectors of Denmark, Finland, Norway and Poland were assessed as systemically important. Sweden was in the original group. Thus, the IMF will conduct FSAP assessments in all four of the largest Nordic countries every five years.

In connection with the IMF's assessment of Norway's financial sector as systemically important in a global context, the IMF will now conduct Article IV consultations with Norway annually. Previously, consultations with Norway have taken place every two years, while in the intervening years, the IMF has conducted a simplified consultation and no written report is submitted to the Executive Board of the IMF.

Norges Bank cooperates extensively with the other Nordic central banks. The annual meeting of Nordic central banks in 2013 was organised by the Icelandic central bank. Staff from various central bank departments meet at regular intervals to discuss issues relating to economic analysis, monetary policy, financial stability, payment systems, legal matters concerning central banks, human resource policy, etc. Norges Bank also has regular contact with the European Central Bank (ECB) and other central banks in EU member states.

With regard to banknotes, Norges Bank has close contact with the Eurosystem and other central banks. The Bank also participates to a considerable extent internationally in organisations such as the European Banknote Conference (EBC) and the Central Bank Counterfeit Deterrence Group (CBCDG). With more than 20 central banks as members, the EBC aims to improve the security and quality of banknotes and of all the stages of production and supply of banknotes. Norges Bank serves as the secretary of the EBC and participates in a group tasked with reporting on and proposing conference topics. The CBCDG is an international collaboration of central banks whose aim is to develop systems to prevent the photocopying, scanning and image processing of banknotes to reduce the risk of counterfeiting. Norges Bank will chair the Executive Committee in the period 2013-2017.

Following the most recent financial crisis, the EU strengthened its monitoring of potential threats to financial stability by establishing a new system for supervision of the financial sector, the European System of Financial Supervision, (ESFS). Three separate supervisory authorities, for microprudential supervision of banks, securities markets and insurance and occupational pensions, and the European Systemic Risk Board (ESRB) were established. The regulations establishing the ESFS have not been incorporated into the EEA Agreement. The microprudential supervisory authorities have the power to take decisions that are binding on national supervisory authorities or that can apply directly to private agents.

Both the Constitution of

Norway and the two-pillar structure of the EEA Agreement place restrictions on the incorporation of such regulations into the EEA Agreement. The EFTA countries Norway, Iceland and Liechtenstein are negotiating with the European Commission to establish an agreement on the form of their participation in the new supervisory structure and how they will adapt to decisions taken by the new EU agencies.

Norway is an informal observer in the ESFS by virtue of Finanstilsynet's status as Norwegian observer in the microprudential supervisory agencies. Norges Bank has also taken part in European Banking Authority (EBA) meetings. The Bank has also participated in EBA working groups on liquidity rules in the European Commission's proposal for a new regulatory framework for the European banking sector (CRD IV/CRR) and on crisis resolution tools.

As regards macroprudential oversight, Norges Bank and Finanstilsynet were invited in 2012 to take part as observers at the meetings of the Advisory Technical Committee (ATC), a subgroup operating under the ESRB that provides advice and assistance on issues within the ESRB's remit. The Bank has taken part in meetings held by the ATC and by several subgroups of the ATC in 2013. An ATC subgroup is drawing up guidelines for setting the countercyclical capital buffer, a task assigned to the ESRB in CRD IV. Norges Bank prepared such guidelines for Norway early in 2013 and has therefore been a particularly active participant in this work in the ATC.

The Governor of Norges Bank attends meetings of the Financial Stability Board Regional Consultative Group for Europe, along with the Director General of Finanstilsynet and the Secretary General of the Ministry of Finance. Norges Bank takes part in a number of meetings with the other Nordic and the Baltic countries to discuss macroprudential oversight and regulation and issues related to financial infrastructure. Even though Norway is not represented on the Basel Committee, Norges Bank participates in the work of a subcommittee, the Research Task Force.

Norges Bank has established an arrangement with the ECB, the Bank of England and some other central banks that affords employees the opportunity to work at these institutions for periods of up to 12 months.

TECHNICAL ASSISTANCE TO THE CENTRAL BANKS OF MALAWI AND ZAMBIA

For many years, Norges Bank has provided technical assistance to central banks in developing countries. To ensure the effectiveness and outcomes of this kind of assistance, Norges Bank assumed responsibility for the IMF's technical assistance to the Reserve Bank of Malawi in 2006. Norges Bank's assistance was formally administered by the IMF, but funded by the Norwegian Ministry of Foreign Affairs. Project work was carried out by an on-site representative and by various experts on short-term assignments. A broad range of internal and external central bank activities were covered. The project was concluded in 2012. The cooperation with the Reserve Bank of Malawi is documented in Norges Bank's Occasional Papers No. 40, "Central Bank Modernization".

In 2013, Norges Bank undertook to provide experts for a limited follow-up project in Malawi consisting of two two-week visits a year by experts in the fields of financial stability and payment services over a period of two years. Through an agreement concluded in December 2013, the Norwegian Ministry of Foreign Affairs will provide funding, enabling the project to start in 2014.

In 2011, a similar technical assistance agreement was signed with the Bank of Zambia. This programme is also administered by the IMF and funded by the Norwegian Ministry of Foreign Affairs. Norges Bank places 1.5 FTEs per year at the disposal of the Bank of Zambia. Of this, 1 FTE is for an on-site adviser and 0.5 FTE is used for experts on short-term assignments. Special Adviser Gunnvald Grønvik holds the post of on-site adviser. Phase I of Norges Bank's technical assistance to the Bank of Zambia was concluded in 2012, and after an evaluation of the project, it was decided to extend the project to the end of August 2015. The project will then have run for a total of four years.

In 2012 a total of nine short-term visits, all of two weeks' duration and two of them involving two experts were completed. The visits covered a broad range of the Bank of Zambia's external and internal central bank tasks, including monetary policy, financial stability, payment services, cash handling and organisational development.

CHAPTER 6

OTHER ACTIVITIES

COMMUNICATIONS

Under the Norges Bank Act, Norges Bank is obliged to inform the public about the monetary, credit and foreign exchange situation and about monetary policy. Transparency and communication are essential in enabling the Bank to execute its core tasks in a sound manner. Good communication is a key instrument for anchoring inflation expectations among economic agents and vital to the effectiveness of monetary policy.

Norges Bank's communication must be correct, predictable, open and responsible. The Bank fulfils this obligation through active communication in the form of press conferences, speeches and lectures, the Bank's website, publications and meetings with different groups in various forums.

PRESS CONFERENCES

Media coverage can be a decisive factor in ensuring that the Bank's communication reaches its intended target groups. Media relations are therefore a priority. The press conferences held in connection with interest rate decisions and the presentation of the Bank's reports are an important channel for communicating the Bank's work and the assessments of the Executive Board. All press conferences are streamed live on the Bank's website. Norges Bank held a total of 10 press conferences in 2013. In conjunction with the press conferences, the governor and deputy governor are available for individual media interviews.

One or two press seminars are held each year to enhance journalists' understanding of Norges Bank's operations and improve the quality of media coverage. Two media seminars were held in 2013, one in May in connection with the publication of the *Annual Report on Payment Systems* and one in December relating to the *Financial Stability Report*.

SPEECHES AND LECTURES

Speeches and lectures by the executive management of Norges Bank are important channels for informing the public about the Bank's operations. The Bank has three aims in this context: to reach a wide audience, to present the Bank's core activities, and to ensure that a high proportion of the lectures are given outside Oslo. In 2013, Norges Bank's executive management gave a total of 34 speeches and lectures, of which 3 were given abroad, 12 in Norway but outside Oslo, and 19 in Oslo. Audiences included academics, students and school pupils, economics experts, political representatives, business sector representatives, interest organisations, the social partners, journalists, diplomats and others. Topics included monetary policy, financial stability, the management of the Government Pension Fund Global and issues of general economic and public interest.

The Governor's annual address, "Economic perspectives", given at Norges Bank, was attended by a large number of academics, politicians and business leaders. The Deputy Governor's speech at the Norwegian Academy of Science and Letters, "«On institutions – Fundamentals of confidence and trust", attracted a broad-based academic audience for debate and discussion. Other important speeches included the Governor and Deputy Governor's speeches to Norges Bank's regional network in the various regions and the Governor's annual hearing before the Storting's Standing Committee on Finance and Economic Affairs. Governor Olsen also spoke at the BIS in Basel and gave a guest lecture at Harvard University, while Deputy Governor Qvigstad gave a speech at Sveriges Riksbank and lectures for upper secondary school pupils. The *Monetary Policy Report* was also presented, as in previous years, to the financial sector and market participants in London after publication. In addition, Norges Bank employees spoke regularly on topics related to the Bank's core areas at various specialist institutions. Director Birger Vikøren, for example, gave a speech at "Valutaseminaret", an annual seminar hosted by the Association of Norwegian Economists in Oslo.

NORGES BANK'S WEBSITE AND SOCIAL MEDIA

Norges Bank's website is the Bank's primary channel of communication, enabling the Bank to provide open and easily accessible information. The website contains news and information on the Bank's activities, as well as background material relating to the Bank's analyses and decisions, in the form of statistics and data series.

The number of visitors to the website is stable, although an increasing number of visitors access the website via mobile units.

Norges Bank makes active use of social media channels such as Twitter, YouTube, Flickr and LinkedIn. In 2013, Facebook was included to increase public awareness of the new banknote series. The Facebook page «Ny seddelserie fra Norges Bank» [New banknote series from Norges Bank] has over 5000 followers and the response has been very positive. Using these channels allows the Bank to reach a greater number and a wider range of target groups than through traditional channels.

PUBLICATIONS

Norges Bank issued the following publications in 2013 (in Norwegian and English unless otherwise specified):

- Economic Commentaries (9)
- Financial Stability Report (1)
- Monetary Policy Report with financial stability assessment (4)
- Annual Report on Payment Systems
- Norges Bank Papers (2)
- Norges Bank's Annual Report
- Norges Bank's Survey of Bank Lending (quarterly)
- Quarterly report, money market portfolio (2013 Q1. As from Q2 included in quarterly report on the foreign exchange reserves)
- Norges Bank's pengemarkedsundersøkelse [Norges Bank's money market report] (annual as from 2013, Norwegian only)
- Regional network report (quarterly, English version includes national summary only)
- Årsrapport om Norges Banks oppgjørssystem [Annual report on Norges Bank's settlement system] (Norwegian only)

APPENDIX

GOVERNING BODIES, MANAGEMENT AND ORGANISATION

EXECUTIVE BOARD

Øystein Olsen, Chair
Appointed Governor of Norges Bank
1 January 2011 for a term of up to six years.

Jan F. Qvigstad, Deputy Chair
Appointed Deputy Governor of Norges Bank
1 April 2008 for a term of up to six years.

Liselott Kilaas
Appointed 1 January 2004–31 December 2007.
Reappointed 1 January 2008–31 December 2011 and 1 January 2012–31 December 2015.

Egil Matsen
Appointed 1 January 2012–31 December 2015.

Hilde Myrberg
Appointed 1 January 2014–31 December 2017

Kjetil Storesletten
Appointed 1 January 2014–31 December 2017

Alternates

Espen R. Moen
Appointed 1 January 2012–31 December 2015

Hege Sjo
Appointed 1 January 2014–31 December 2017

Employee representatives

Jan Erik Martinsen
Appointed 1 January 2001–31 December 2014
Petter Nordal (Alternate)

Gøril Bjerkhol Havro
Appointed 1 January 2011–31 December 2014
Berit Moen (Alternate)

INTERNAL AUDIT

Ingunn Valvatne, Head of Internal Audit

SUPERVISORY COUNCIL

Reidar Sandal, 2010–2013, 2014–2017, Chair
Alternate: **Tore Nordtun**, 2014–2017

André Støylen, 2012–2015, Deputy Chair
Alternate: **Lars Tvete**, 2012–2015

Frank Sve, 2006–2013, 2014–2017
Alternate: **Tone T. Johansen**, 2014–2017

Eva Karin Gråberg, 2004–2011, 2012–2015
Alternate: **Rita Lekang**, 2012–2015

Runbjørg Bremset Hansen, 2004–2011, 2012–2015
Alternate: **Camilla Bakken Øvald**, 2012–2015

Tormod Andreassen, 2008–2011, 2012–2015
Alternate: **Beate Bø Nilsen**, 2012–2015

Morten Lund, 2010–2011, 2012–2015
Alternate: **Torunn Hovde Kaasa**, 2012–2015

Synnøve Søndergaard, 2010–2013, 2014–2017
Alternate: **Hilde Brørby Fivelsdal**, 2014–2017

Randi Øverland, 2012–2015
Alternate: **Anne Grethe Tevik**, 2012–2015

Vidar Bjørnstad, 2012–2015
Alternate: **Hans Kolstad**, 2012–2015

Ingebrigt S. Sørfonn, 2012–2015
Alternate: **Solveig Ege Tengesdal**, 2012–2015

Paul Birger Torgnes, 2014–2017
Alternate: **Arne Stapnes**, 2014–2017

Toril Hovdenak, 2014–2017
Alternate: **Hans Aasnes**, 2014–2017

Peter Meidell, 2014–2017
Alternate: **Brage Baklien**, 2014–2017

Iver Nordseth, 2014–2017
Alternate: **Hanne Nora Nilssen**, 2014–2017

OFFICE OF THE SUPERVISORY COUNCIL

Svenn Erik Forsstrøm, Director

CENTRAL BANKING OPERATIONS

Governor Øystein Olsen
Deputy Governor Jan F. Qvigstad

Financial Stability
Amund Holmsen, Executive Director

Markets and Banking Services
Kristin Gulbrandsen, Executive Director

Monetary Policy
Birger Vikøren, Executive Director

Corporate and Shared Services
Jannecke Ebbesen, Executive Director

General Secretariat
Jon Nicolaisen, Executive Director

Director of Communications and External Relations
Hilde Singsaas

General Counsel
Marius Ryel

NORGES BANK INVESTMENT MANAGEMENT

Chief Executive Officer Yngve Slyngstad
Deputy Chief Executive Officer Trond Grande

Administration
Trond Grande, Chief of Staff

Investment, allocation and fixed income
Yngve Slyngstad, Chief Investment Officer Allocation

Investment, equities
Petter Johnsen, Chief Investment Officer Equities

Investment, real estate
Karsten Kallevig, Chief Investment Officer Real Estate

Operations
Age Bakker, Chief Operating Officer

Risk Management
Jan Thomsen, Chief Risk Officer

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