NORGES BANK
INVESTMENT MANAGEMENT

2013
GOVERNMENT PENSION FUND GLOBAL
ANNUAL REPORT

OUR MISSION IS TO SAFEGUARD
AND BUILD FINANCIAL WEALTH FOR
FUTURE GENERATIONS

CONTENT

Translation from Norwegian. For information only

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Holdings | Voting records | Composition of benchmark indices |
GIPS-report | Significant external suppliers | Monthly returns | External mangers

HIGHLIGHTS

2013 IN FIGURES

THE GOVERNMENT PENSION FUND GLOBAL RETURNED 15.9 PERCENT, OR 692 BILLION KRONER.

15.9 %

692 Bn. KR

26.3 %

EQUITY INVESTMENTS

0.1 %

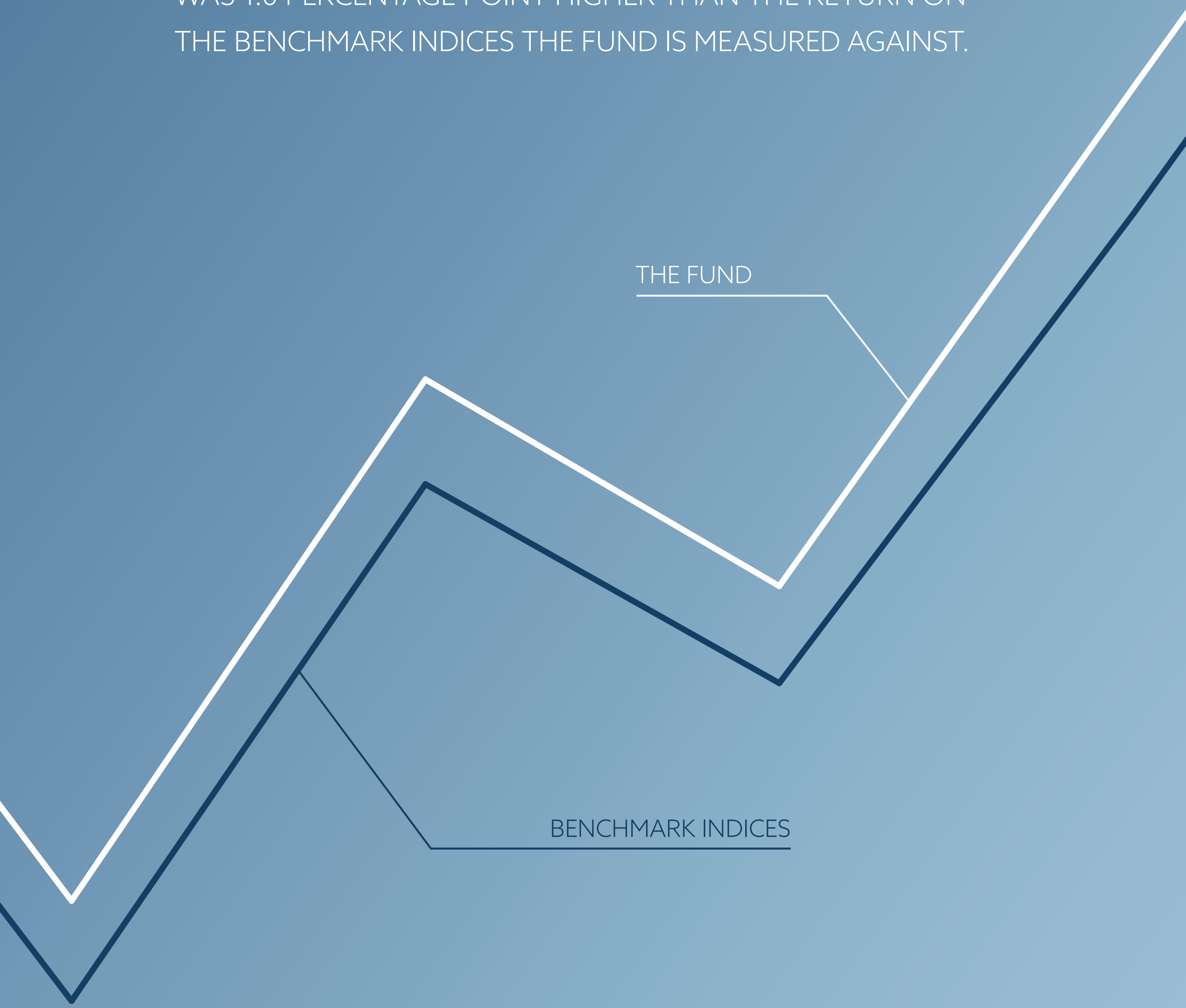
FIXED-INCOME INVESTMENTS

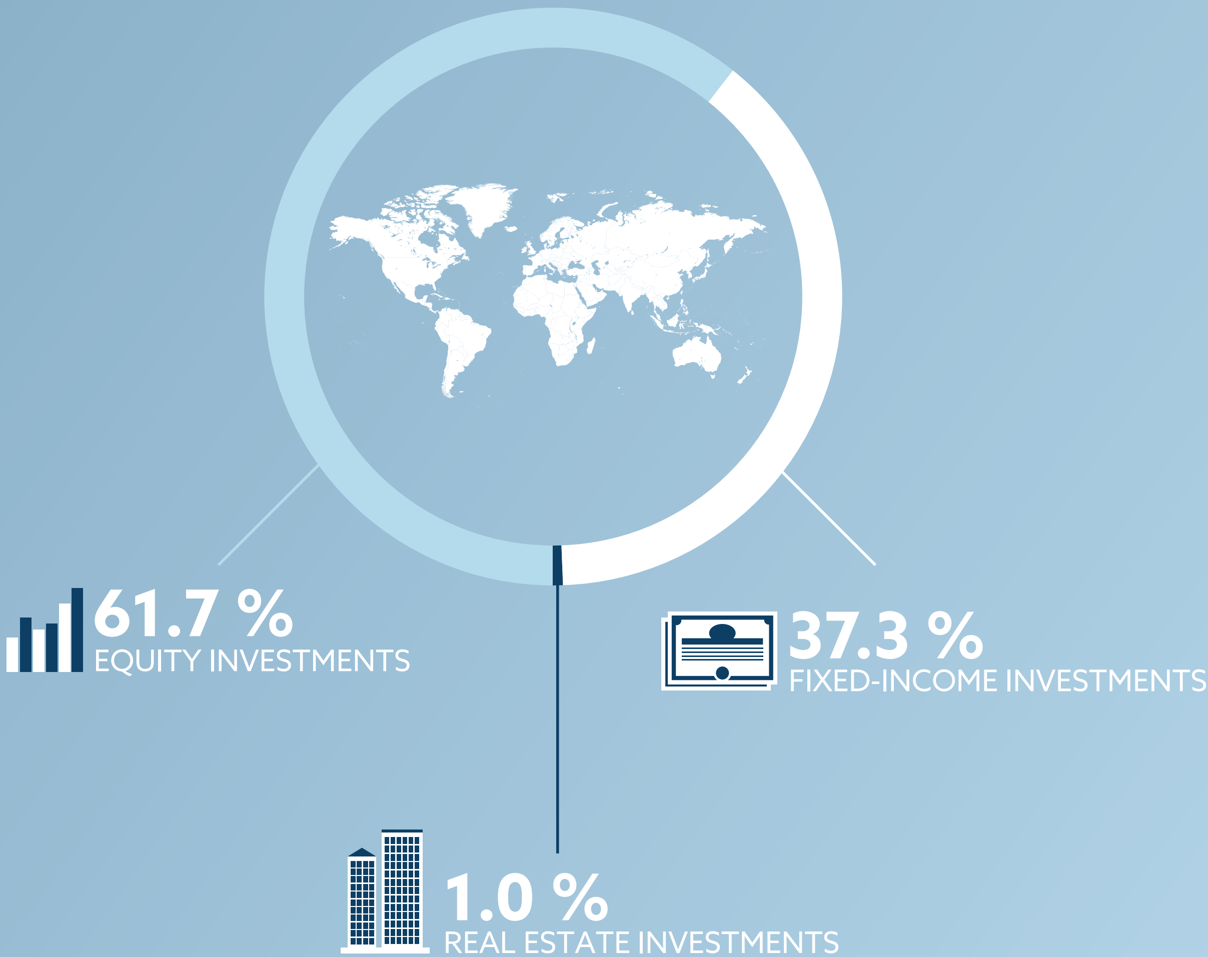
11.8 %

REAL ESTATE INVESTMENTS

EQUITY INVESTMENTS RETURNED 26.3 PERCENT, WHILE FIXED-INCOME INVESTMENTS RETURNED 0.1 PERCENT. INVESTMENTS IN REAL ESTATE RETURNED 11.8 PERCENT.

THE RETURN ON EQUITY AND FIXED-INCOME INVESTMENTS WAS 1.0 PERCENTAGE POINT HIGHER THAN THE RETURN ON THE BENCHMARK INDICES THE FUND IS MEASURED AGAINST.



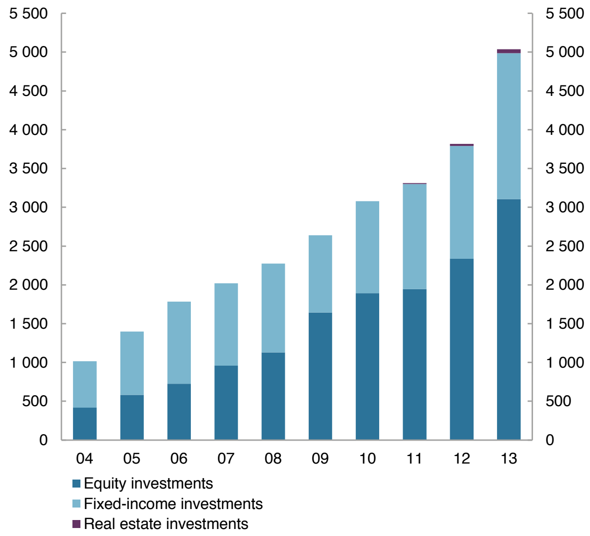


THE FUND'S ASSET ALLOCATION AT THE END OF THE YEAR WAS 61.7 PERCENT EQUITIES, 37.3 PERCENT FIXED INCOME AND 1.0 PERCENT REAL ESTATE.

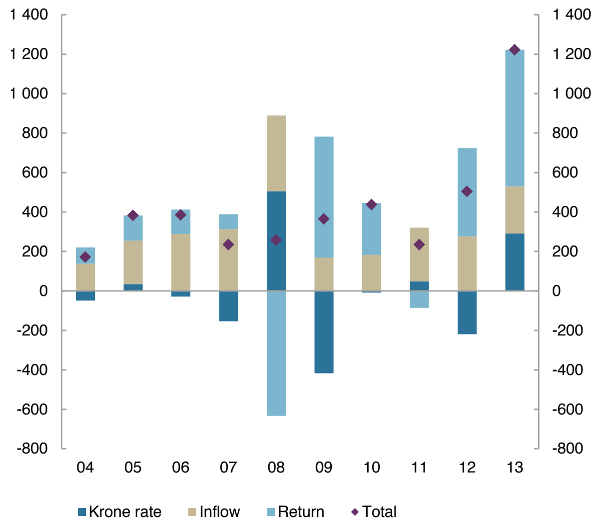
THE FUND'S MARKET VALUE WAS 5,038 BILLION KRONER AT THE END OF 2013, UP FROM 3,816 BILLION KRONER A YEAR EARLIER.

2013	**5 038 000 000 000 KR**
2012	**3 816 000 000 000 KR**
2011	**3 312 000 000 000 KR**

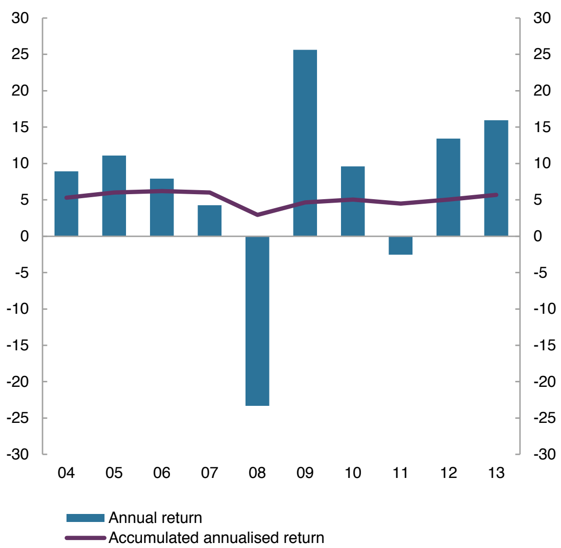
The fund's market value. Billions of kroner.



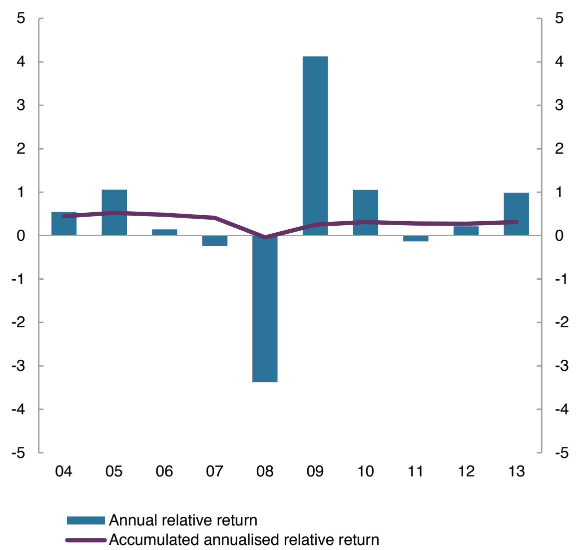
Changes in the fund's market value. Billions of kroner



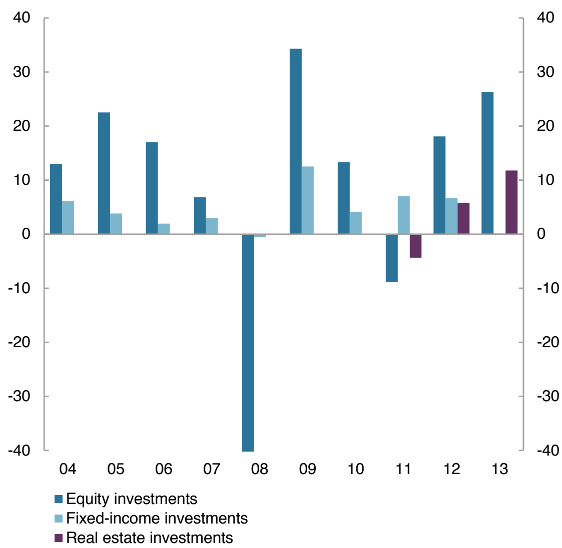
The fund's annual return and accumulated annualised return. Percent



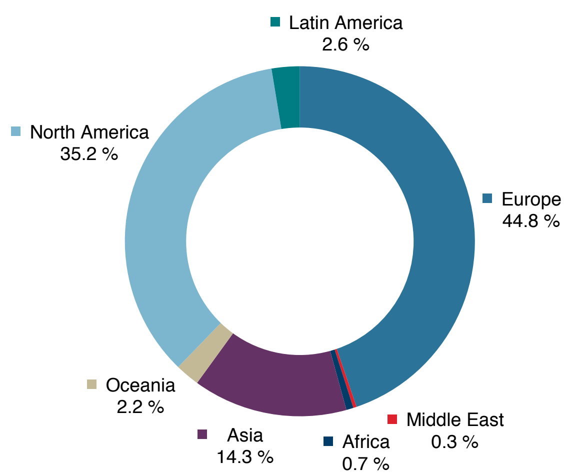
The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



Annual returns for equity, fixed-income and real estate investments. Percent



The fund's investments sorted by region as of 31 December 2013. Percent



ØYSTEIN OLSEN, CHAIRMAN OF THE EXECUTIVE BOARD

A GOOD YEAR

Our objective is to deliver the highest possible long-term return with moderate risk. 2013 was a good year for the fund.

The Government Pension Fund Global turns oil revenue into financial wealth that will benefit both current and future generations of Norwegians. Norges Bank's mission in the management of the fund is therefore to safeguard and build wealth for future generations. Investing in global economic output will never be risk-free, however, and we may see substantial fluctuations in the fund's value in the future.

The fund passed the 5 trillion kroner mark for the first time in 2013, which is almost a million kroner for every Norwegian. The fund has grown more quickly than anticipated when the first transfer of capital was made in May 1996. We invest in line with our mandate to deliver the highest possible return with moderate risk.

We continued to diversify our investments across more markets, countries and currencies in 2013 to give the fund broader exposure to the global economy.

The Bank also developed further its reporting and openness about the management of the fund.

The fund is an active owner and a responsible investor. Our ownership activities reflect the fund's long-term investment horizon. Active ownership protects shareholders' rights and provides a basis for profitable commercial activity. We strive continuously to improve our ownership work, and in 2013 it was strengthened further by setting up an advisory board, which will provide important support for our long-term ownership activities.

The fund passed the 5 trillion kroner mark for the first time in 2013, which is almost a million kroner for every Norwegian.

The fund returned 15.9 percent in 2013 due to strong growth in the stock market. This is the second-best return in the fund's history.

Oslo, 12 February 2014

ØYSTEIN OLSEN
Chairman of the Executive Board

YNGVE SLYNGSTAD, CEO OF NORGES BANK INVESTMENT MANAGEMENT

STRONG EQUITY MARKETS BROUGHT HIGH RETURNS

The fund returned 15.9 percent in 2013, due mainly to strong equity markets. This is the second-best return in the fund's history, and there were positive returns in all of the fund's asset classes.

The year's results were driven by our equity investments, which returned 26.3 percent. Despite various sources of uncertainty in the global economy, especially in emerging markets, world stock markets made broad gains in 2013. Interest rates increased in all main markets, and our fixed-income investments returned 0.1 percent. Investments in real estate still make up only a small part of the fund, but are set to grow considerably in the coming years. We made our first property purchase in the US during the year, and our real estate investments returned 11.8 percent in 2013. The overall return on the fund was 1.0 percentage point higher than on the benchmark indices it is measured against.

The fund's equity allocation was 61.2 percent at the beginning of the year. Strong stock market returns then pushed the equity allocation above 64 percent, and we sold shares for 150 billion kroner in the fourth quarter. Although we made purchases for half this amount at the beginning of the year, 2013 was still the first year in the fund's history when we have been a net seller of shares. By the end of the year, the equity allocation was back to 61.7 percent.

The fund's market value grew by more than 1,200 billion kroner during the year to 5,038 billion kroner. The return for the year was 692 billion kroner, and new inflows of 239 billion kroner were transferred from the government. A weaker krone increased the value of the fund in krone terms, but this has no bearing on the fund's international purchasing power. The fund has received 3,302 billion kroner in petroleum revenue from the government since its inception, and the cumulative return has been 1,799 billion kroner, or just over a third of the fund's value.

> The cumulative return has been 1,799 billion kroner, or just over a third of the fund's value.

Norges Bank Investment Management is a growing international investment organisation. We ended the year with 370 employees of 28 nationalities at offices in five countries. We have a clear mandate and an unambiguous investment focus. We are tasked with safeguarding considerable wealth for future generations, and we have strengthened our organisation and our work on responsible and long-term investment management with this in mind.

Oslo, 12 February 2014

YNGVE SLYNGSTAD
CEO of Norges Bank Investment Management

RESULTS FOR 2013

SECOND-BEST RETURN IN THE FUND'S HISTORY

Growth in global stock markets brought a return of 15.9 percent on the Government Pension Fund Global, the highest since 2009 and the second-best in its history.

Equity investments returned 26.3 percent, fixed-income investments 0.1 percent and real estate investments 11.8 percent.

Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for equities and bonds set by the Ministry of Finance on the basis of indices from FTSE Group and Barclays Capital, respectively. The fund's equity and fixed-income investments outperformed the benchmarks by 1.0 percentage point in 2013.

CUMULATIVE RETURN OF 1,799 BILLION KRONER

The Norwegian government first transferred capital to the fund in May 1996. By the end of 2013, the fund had received a total of 3,302 billion kroner and amassed a cumulative return of 1,799 billion kroner.

Norges Bank Investment Management was set up on 1 January 1998 to manage the fund. Between then and the end of 2013, the fund generated a gross annual return of 5.7 percent. After management costs and inflation, the annual return was 3.6 percent.

MARKET VALUE PASSES 5 TRILLION KRONER

The fund's market value rose 1,222 billion kroner to 5,038 billion kroner in 2013. The market value is affected by investment returns, capital inflows and exchange rates. The fund returned 692 billion kroner in 2013 and received 239 billion kroner from the government. The krone weakened against several of the currencies in which the fund invests, and in isolation this increased its market value by 291 billion kroner.

The fund's asset allocation was 61.7 percent equities, 37.3 percent fixed income and 1.0 percent real estate at the end of the year.

RETURNS MEASURED IN THE FUND'S CURRENCY BASKET

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. The fund's currency basket consisted of 34 currencies at the end of 2013. Unless otherwise stated in the text, results are measured in the fund's currency basket.

15.9 %

692 Bn. KR

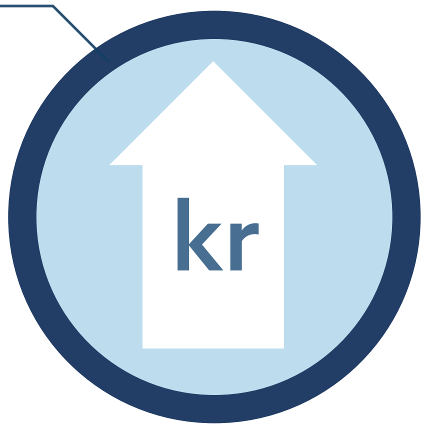


Table 1-1 Returns as of 31 December 2013

	2013	2012	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Returns in international currency						
Return on equity investments (percent)	26.28	18.06	7.41	7.64	0.89	8.25
Return on fixed-income investments (percent)	0.10	6.68	0.13	0.32	-1.40	1.06
Return on real estate investments (percent)	11.79	5.77	3.67	4.09	3.94	-0.34
Return on fund (percent)	15.95	13.42	4.66	4.99	0.06	5.45
Return on equity and fixed-income investments (percent)	15.97	13.45	4.67	5.00	0.03	5.49
Return on benchmark equity and fixed-income indices (percent)	14.98	13.24	4.55	4.87	-0.28	5.16
Relative return on equity and fixed-income investments (percentage points)	0.99	0.21	0.12	0.13	0.31	0.32
Relative return on equity investments (percentage points)	1.28	0.52	0.15	0.27	0.34	0.32
Relative return on fixed-income investments (percentage points)	0.25	-0.29	-0.02	-0.25	0.29	0.22
Management costs (percentage points)	0.07	0.06	0.02	0.02	0.02	0.01
Return on fund after management costs (percent)	15.88	13.35	4.65	4.97	0.04	5.43
Returns in kroner (percent)						
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

Table 1-2 Historical key figures as of 31 December 2013. Annualised data, measured in the fund's currency basket

	Last 12 months	Last 3 years	Last 5 years	Last 10 years	Since 01.01.1998
Return on fund (percent)	15.95	8.62	12.03	6.30	5.70
Return on equity and fixed-income investments (percent)	15.97	8.64	12.04	6.31	5.70
Return on benchmark equity and fixed-income indices (percent)	14.98	8.31	10.88	6.07	5.39
Relative return on equity and fixed-income investments (percentage points)	0.99	0.33	1.16	0.24	0.31
Standard deviation (percent)	6.25	7.24	9.00	8.53	7.67
Tracking error for equity and fixed-income investments (percentage points)	0.38	0.37	0.68	0.90	0.75
Information ratio (IR)* for equity and fixed-income investments	2.62	0.90	1.70	0.27	0.42
Return on fund (percent)	15.95	8.62	12.03	6.30	5.70
Annual price inflation (percent)	1.39	2.07	2.00	2.14	1.89
Annual management costs (percent)	0.07	0.07	0.09	0.10	0.09
Annual net real return on fund (percent)	14.29	6.35	9.74	3.98	3.65

* The information ratio (IR) is a measure of risk-adjusted return. It is calculated as the ratio of relative return to the relative market risk that the fund has been exposed to. The IR indicates how much relative return has been achieved per unit of risk.

"The fund's equity and fixed-income investments outperformed the benchmarks by 1.0 percentage point in 2013.

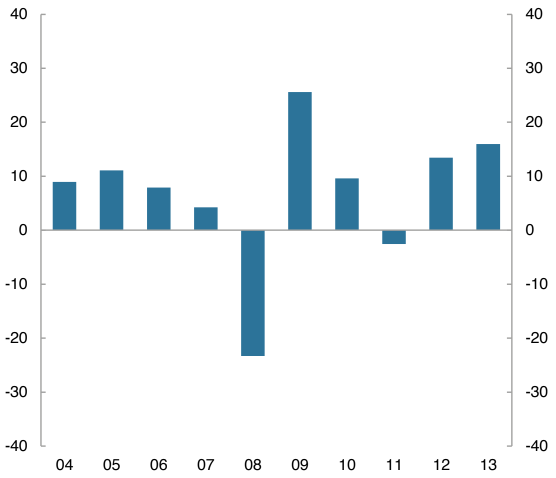
Table 1-3 Contributions from equity and fixed-income management to the fund's relative return in 2013. Percentage points

	Total	Attributed to external management
Equity investments	0.88	0.26
Fixed-income investments	0.11	0.01
Total	**0.99**	**0.27**

Table 1-4 The fund's return in 2013 in different currencies. Percent

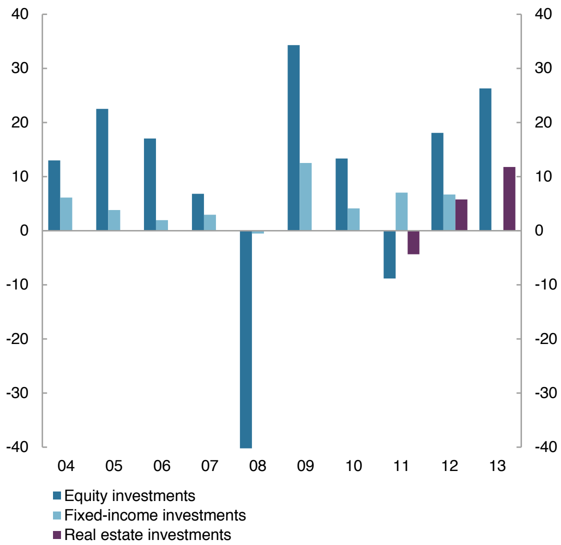
	USD	EUR	GBP
Return	14.77	9.81	12.63

Chart 1-1 The fund's annual return. Percent



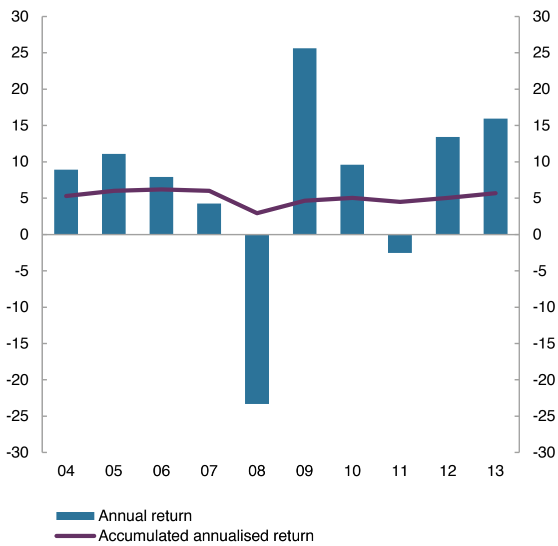
Source: Norges Bank Investment Management

Chart 1-2 Annual returns for equity, fixed-income and real estate investments. Percent



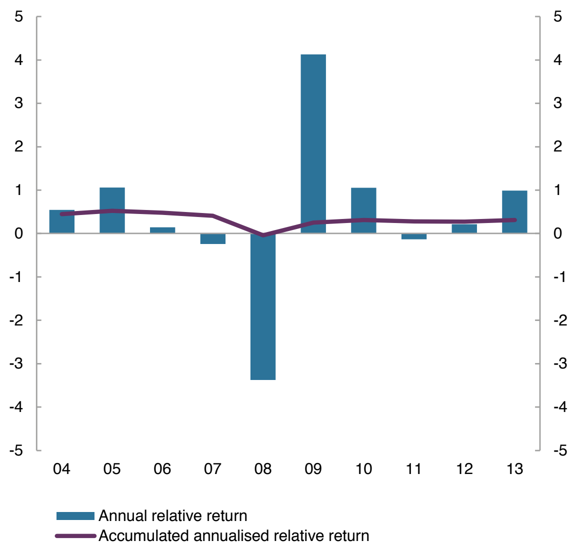
Source: Norges Bank Investment Management

Chart 1-3 The fund's annual return and accumulated annualised return. Percent



Source: Norges Bank Investment Management

Chart 1-4 The fund's annual relative return and accumulated annualised relative return, excluding real estate investments. Percentage points



Source: Norges Bank Investment Management

Table 1-5 Key figures as of 31 December 2013

	2013	2012	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Market value (billions of kroner)*						
Market value of equity investments	3,107	2,336	3,107	2,998	2,785	2,609
Market value of fixed-income investments	1,879	1,455	1,879	1,674	1,571	1,536
Market value of real estate investments	52	25	52	42	40	37
Market value of fund	5,038	3,816	5,038	4,714	4,397	4,182
Inflow of new capital*	239	276	62	58	58	60
Return on fund	692	447	227	228	17	219
Changes due to fluctutations in krone	291	-220	35	31	139	86
Total change in fund	1,222	504	323	318	215	366
Management costs (percent)						
Estimated transition costs**	0,01	0,03	0,00	0,00	0,00	0,00
Annualised management costs	0,07	0,06	0,07	0,06	0,07	0,06
Changes in value since first capital inflow in 1996 (billions of kroner)						
Gross inflow of new capital	3,302	3,060	3,302	3,239	3,180	3,121
Management costs***	24	21	24	23	22	21
Inflow of new capital after management costs	3,278	3,039	3,278	3,216	3,158	3,099
Return on fund	1,799	1,107	1,799	1,572	1,344	1,327
Changes due to fluctuations in krone	-39	-331	-39	-74	-105	-244
Market value of fund	5,038	3,816	5,038	4,714	4,397	4,182
Return after management costs	1,775	1,087	1,775	1,549	1,322	1,305

* The fund's market value shown in this table does not take into account the management fee to NBIM from the Ministry of Finance. The market value therefore differs somewhat from the Balance sheet and the Statement of changes in owner's capital in the financial-reporting section. The inflows in this table differ somewhat from inflows in the financial accounts (see Statement of cash flows and Statement of changes in owner's capital) due to differences in the treatment of management fees and unsettled inflows (see Statement of cash flows).

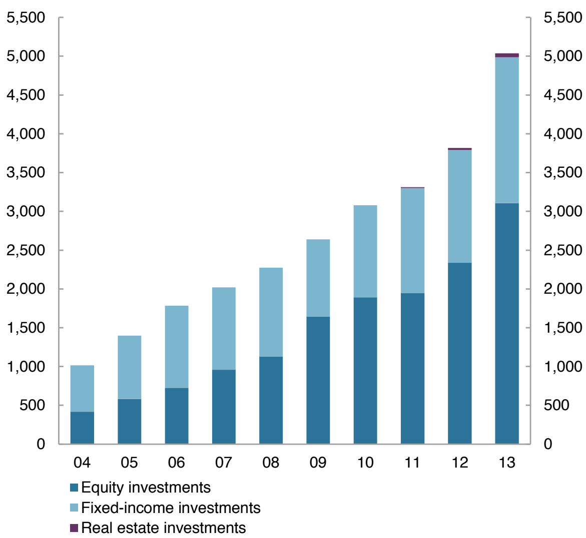
** Estimated transition costs of new capital inflows. These do not include costs due to strategic changes in the fund and costs from implementing benchmark index changes, for instance when companies, issuers and bonds are added to or excluded from the benchmark indices for equities and fixed income.

*** Management costs at subsidiaries, see Table 3.2 in the financial-reporting section, are not included in the management fee. Management costs at subsidiaries have been deducted from the fund's return before management fees.

Table 1-6 Accumulated returns since first capital inflow in 1996. Billions of kroner

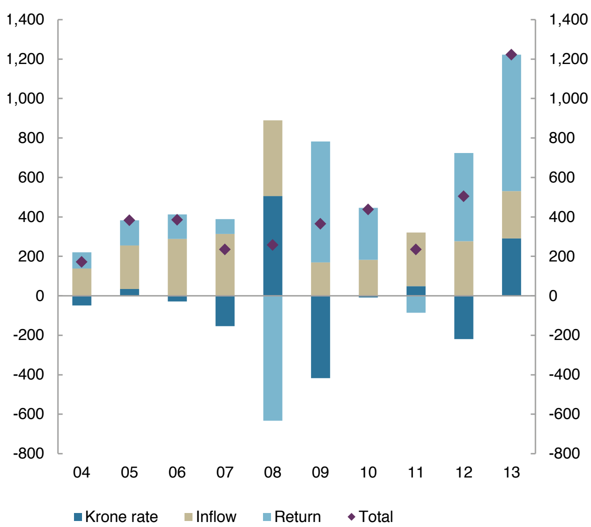
	2013	2012	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Return on equity investments	1,242	579	1,242	1,021	805	777
Return on fixed-income investments	551	528	551	547	537	549
Return on real estate investments	5	0	5	3	2	0
Total return	**1,799**	**1,107**	**1,799**	**1,572**	**1,344**	**1,327**

Chart 1-5 The fund's market value. Billions of kroner

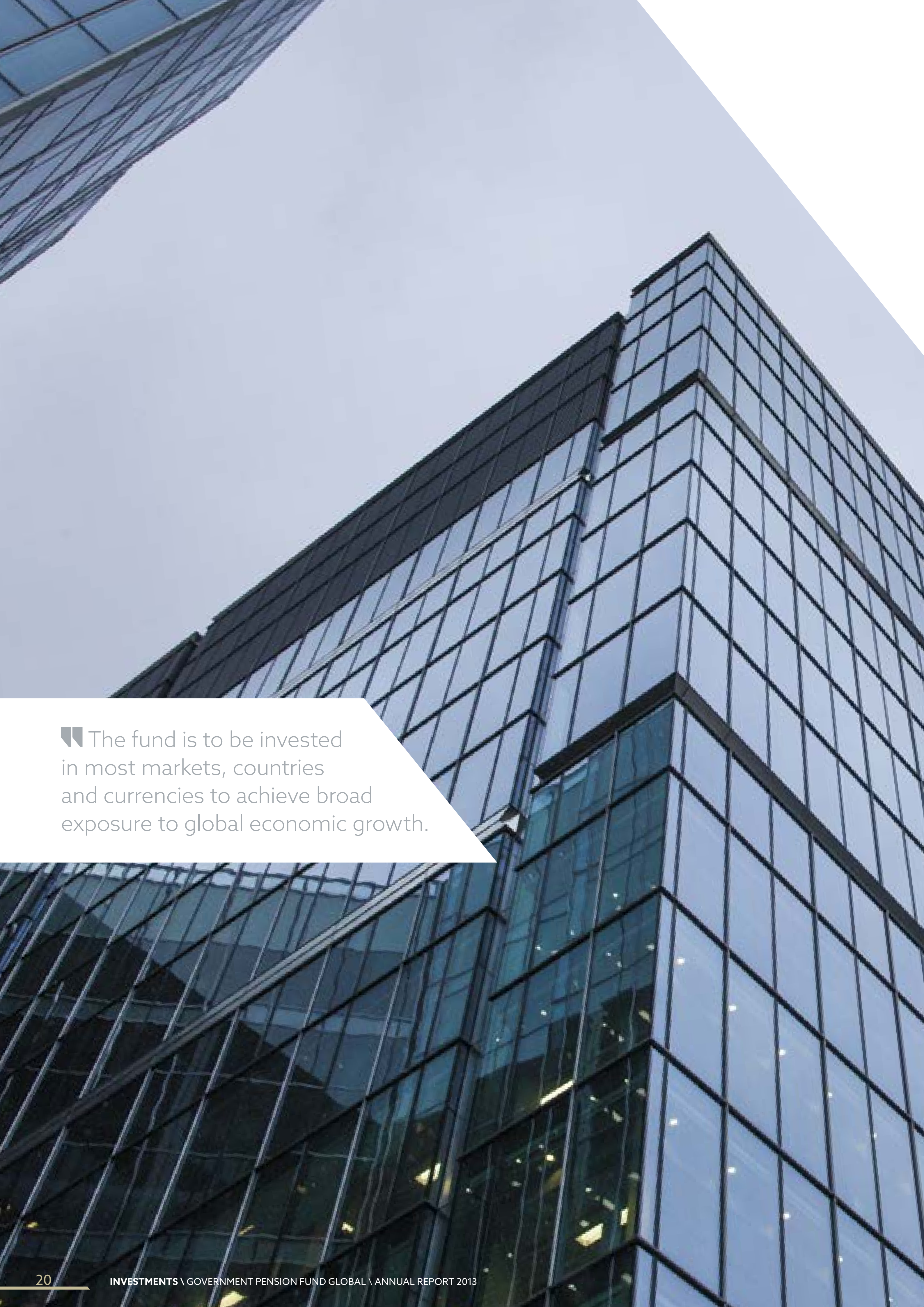


Source: Norges Bank Investment Management

Chart 1-6 Changes in the fund's market value. Billions of kroner



Source: Norges Bank Investment Management



> The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

OUR MISSION

The Government Pension Fund Global was set up to support saving for future government spending and underpin long-term considerations in the use of Norway's oil revenue. The Norwegian Parliament has established the framework for the fund in the Government Pension Fund Act.

The Ministry of Finance has formal responsibility for the fund's management and has laid down general guidelines in the Mandate for the Management of the Government Pension Fund Global. Norges Bank has been tasked with the management of the fund, and its Executive Board has delegated the operational management of the fund to Norges Bank Investment Management.

The mandate from the Ministry of Finance requires that the fund is invested widely outside Norway with a target asset allocation of 60 percent equities, 35-40 percent fixed income and up to 5 percent real estate. We aim to deliver the highest possible return with moderate risk by investment strategies within and across the given asset classes and through efficient management. We are an active owner, and our investment decisions are to take account of how we view companies' long-term financial, social and environmental risks.

Within the bounds of our mandate, we seek to safeguard the fund's international purchasing power through a long-term real return in excess of growth in the global economy, estimated at 4 percent. The fund is to be invested in most markets, countries and currencies to achieve broad exposure to global economic growth.

GLOBAL INVESTMENTS

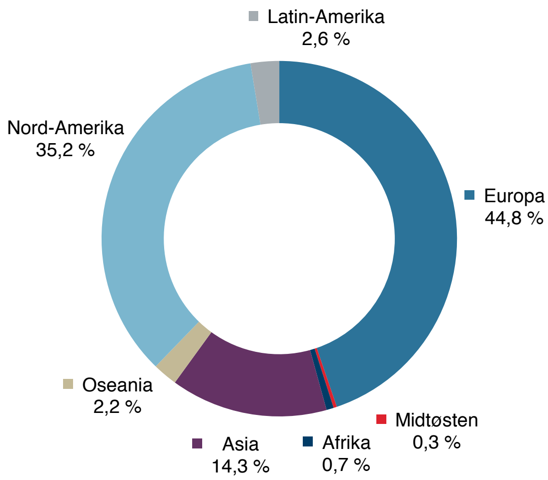
INTO NEW MARKETS

The fund is invested widely in most markets outside Norway. We entered ten new countries in 2013.

The fund's investments were spread across 82 countries at the end of the year, up from 72 a year earlier. The number of currencies in which the fund was invested increased to 44. Of the fund's capital inflows of 239 billion kroner in 2013, 62.2 percent were invested in equities, 29.9 percent in fixed income and 7.9 percent in real estate. Around 7.9 percent of new inflows were invested in emerging markets.

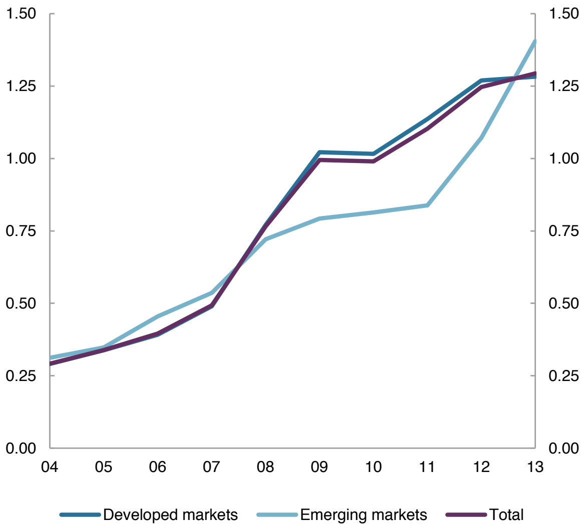
At the end of the year, Europe accounted for 45.2 percent of the fund's investments, down from 48.0 percent a year earlier. 32.8 percent was invested in North America, up from 32.2 percent in 2012. 14.8 percent was invested in Asia, up from 12.9 percent.

Chart 3-1 The fund's investments sorted by region as of 31 December 2013. Percent



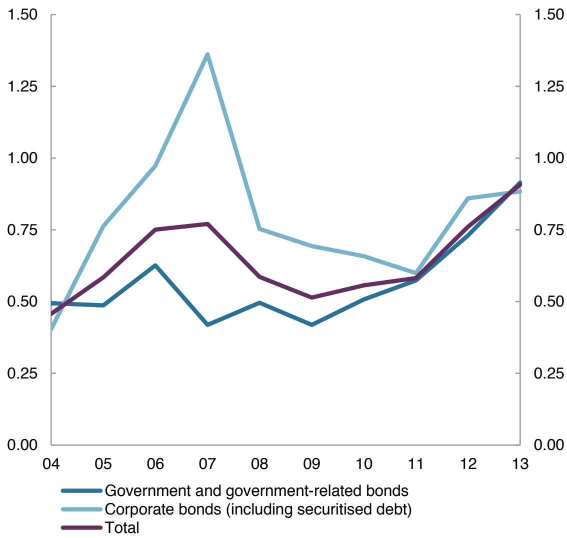
Source: Norges Bank Investment Management

Chart 3-2 The fund's holdings in equity markets. Percent of FTSE Global All Cap Index's market value



Source: FTSE, Norges Bank Investment Management

Chart 3-3 The fund's holdings in fixed-income markets. Percent of the market value of bond indices compiled by Barclays Capital



Source: Barclays Capital, Norges Bank Investment Management

Table 3-1 The fund's ten largest country holdings as of 31 December 2013. Percent

Country	Total	Equity	Fixed-income
US	29.8	18.2	11.6
UK	11.9	9.3	2.6
Germany	7.6	4.3	3.4
Japan	7.2	4.3	2.9
France	5.7	4.1	1.6
Switzerland	4.5	3.8	0.7
Canada	3.0	1.4	1.6
Spain	2.9	1.2	1.7
The Netherlands	2.5	1.2	1.3
Sweden	2.5	1.7	0.8

Table 3-2 The fund's ten largest currency holdings as of 31 December 2013. Percent

Country	Total	Equity	Fixed-income
USD	33.5	19.2	14.3
EUR	24.3	13.9	10.4
GBP	10.9	8.9	2.0
JPY	7.1	4.3	2.8
CHF	4.2	3.7	0.5
CAD	2.6	1.3	1.3
SEK	2.2	1.7	0.5
HKD	2.1	2.0	0.1
AUD	2.0	1.2	0.8
KRW	1.6	1.0	0.6

COLOMBIA

- Accounted for 0.1 percent of the fund's investments at the end of 2013.
- The fund held shares in 15 companies and bonds from 2 issuers.

HUNGARY

- Accounted for 0.1 percent of the fund's investments at the end of 2013.
- The fund held shares in 8 companies and bonds from 2 issuers.

THE PHILIPPINES

- Accounted for 0.1 percent of the fund's investments at the end of 2013.
- The fund held shares in 50 companies and bonds from 1 issuer.

GLOBAL INVESTMENTS

GLOBAL INVESTMENTS, FOR ILLUSTRATION ONLY

EUROPE

1 919 COMPANIES
1 388 BONDS FROM **423** ISSUERS
7 REAL ESTATE PORTFOLIOS

MIDDLE EAST

110 COMPANIES
30 BONDS FROM **9** ISSUERS

AFRICA

176 COMPANIES
20 BONDS FROM **2** ISSUERS

ASIA

3 153 COMPANIES
456 BONDS FROM **62** ISSUERS

OCEANIA

294 COMPANIES
117 BONDS FROM **31** ISSUERS

NORTH AMERICA

2 223 COMPANIES
1 543 BONDS FROM **476** ISSUERS
3 REAL ESTATE PORTFOLIOS

LATIN AMERICA

338 COMPANIES
154 BONDS FROM **42** ISSUERS

INTERNATIONAL ORGANISATIONS

95 BONDS FROM **15** ISSUERS

EQUITY INVESTMENTS

STRONG GAINS IN DEVELOPED MARKETS

The fund's equity investments returned 26.3 percent in 2013 after the biggest rise in global stock markets for four years.

STRONGEST PERFORMANCE IN NORTH AMERICA

The best-performing region in 2013 was North America. Investments there returned 33.9 percent and accounted for 31.7 percent of the fund's equity investments at the end of the year. The US was the fund's single largest market. The main reason for the buoyant market was the Federal Reserve's continued provision of liquidity to the economy. Corporate earnings increased, due partly to lower borrowing costs.

European equities returned 28.8 percent in 2013. The recovery in the European economy and investors' confidence in the stock market contributed to the gains. European companies accounted for 48.0 percent of the fund's equity investments at the end of the year. The UK was the fund's second-largest single market, accounting for 15.1 percent of its equity investments.

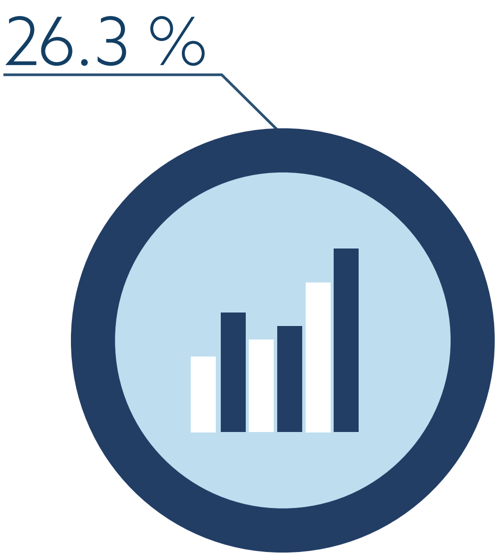
Japanese equities returned 29.6 percent. The Bank of Japan provided the market with liquidity during the year, which weakened the yen and led to higher exports and a stock market increase. Japanese shares accounted for 7.0 percent of the fund's equity investments and were its third-largest single market at the end of the year.

Chinese equities returned 17.4 percent. Several factors impacted positively on the market, and the decision to lift the ban on new stock market launches boosted financial stocks. The fund's total quota was increased in 2013 and stood at 1.5 billion dollars at the end of the year. Chinese stocks accounted for 2.5 percent of the fund's equity investments and was its single largest emerging market at the end of the year, ahead of Taiwan at 1.4 percent and Brazil at 1.2 percent.

Emerging markets returned 1.1 percent in 2013. Emerging markets had a weak performance in a turbulent first half of the year, but had positive returns in the second half. There were major variations between emerging markets. Countries with large current account deficits, such as Brazil, India and South Africa, saw capital moving out of the country. Markets with current account surpluses, such as China, put in a positive performance. Emerging markets accounted for 9.7 percent of the fund's equities at the end of the year.

STRONGEST RETURNS IN TELECOMMUNICATIONS

There were gains in all equity sectors in 2013. Telecoms were the fund's best-performing sector with a return of 37.5 percent, after a number of large transactions in the market during the year. Investments in healthcare returned 35.0 percent, boosted by new patents. Consumer services returned 34.8 percent, due partly to higher advertising revenue at media companies.



REBALANCING TRIGGERS SHARE SALES

A public rule was introduced in October 2012 for how far the strategic equity allocation in the fund's benchmark index set by the Ministry of Finance may deviate from 60 percent before it must be returned to the target level. The limit was set at 4 percentage points. Strong growth in stock markets pushed the equity allocation in the fund's benchmark index above 64 percent at the end of the third quarter, and so it was returned to 60 percent with effect from the last trading day in October. This was the first time that rules-based rebalancing of the equity allocation in the fund's benchmark index has been triggered. The adjustment of the actual portfolio will take place over a longer period, but the fourth quarter of 2013 was still the first in the fund's history when we sold more shares than we bought, and this was despite significant inflows of new capital to the fund. By the end of the year, the equity allocation of the fund was back at 61.7 percent.

Basic materials performed worst with a return of 5.1 percent. Market expectations of weaker economic growth in China led to reduced demand for commodities, which affected prices for stocks in this sector.

> Kuwait, Oman, Tunisia, Vietnam, Slovakia and Pakistan were added to the list of new marketplaces in 2013.

INDIVIDUAL STOCKS

UK telecom company Vodafone contributed the most to the return on equity investments in 2013, followed by US asset manager BlackRock and Swiss drugmaker Roche. The worst-performing investment was UK mining company Anglo-American, followed by Brazilian miner Vale and Australian miner BHP Billiton.

The largest investment in any one company was in Swiss nutrition company Nestlé. The fund's 2.7 percent stake had a market value of 39 billion kroner at the end of the year. The fund's top ten equity holdings otherwise included three oil and gas producers, two financial institutions, two pharmaceutical companies, a telecom company and an IT company.

The largest percentage holding in any one company was a 9.4 percent stake in Irish packaging producer Smurfit Kappa Group, worth more than 3.2 billion kroner at the end of the year. The fund may hold up to 10 percent of the voting shares in a company.

The largest offering in which the fund participated was at Lloyds Banking Group, where it bought shares for 48.8 million pounds, or 458 million kroner. This was followed by offerings at Deutsche Bank and Suntory Beverage & Food, in which the fund bought shares for 15.9 million euros and 1,860 million Japanese yen, equivalent to 120 million kroner and 115 million kroner, respectively.

SHARES IN MORE THAN 8,000 COMPANIES WORLDWIDE

The fund was invested in 8,213 companies at the end of 2013, up from 7,427 a year earlier. It had stakes of more than 2 percent in 1,088 companies, and more than 5 percent in 45 companies. The number of countries approved as marketplaces for trading in equities rose from 52 to 58 with the addition of Kuwait, Oman, Tunisia, Vietnam, Slovakia and Pakistan.

The fund's average holding in the world's listed companies, measured as its share of the FTSE Global All Cap stock index, was 1.3 percent at the end of 2013, up from 1.2 percent a year earlier. Holdings were highest in Europe at 2.5 percent, unchanged from the end of 2012. Holdings in emerging markets averaged 1.4 percent, up from 1.1 percent, while holdings in developed markets were unchanged at 1.3 percent.

Table 4-1 Return on the fund's equity investments

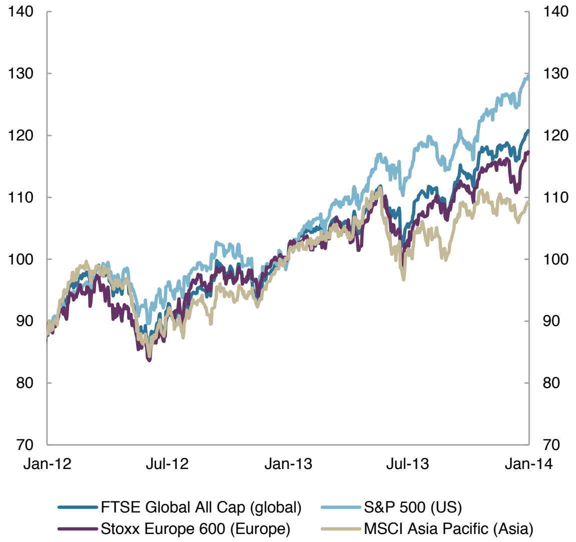
Year	Return (percent)
1999	34.81
2000	-5.82
2001	-14.60
2002	-24.39
2003	22.84
2004	13.00
2005	22.49
2006	17.04
2007	6.82
2008	-40.71
2009	34.27
2010	13.34
2011	-8.84
2012	18.06
2013	26.28

Table 4-2 Return on the fund's equity investments in 2013. By sector. Percent

Sector	Return in international currency	Share of equity investments*
Financials	27.1	23.8
Industrials	29.4	14.4
Consumer goods	26.1	14.0
Consumer services	34.8	10.2
Healthcare	35.0	8.7
Oil and gas	16.1	8.4
Technology	30.6	7.5
Basic materials	5.1	6.4
Telecommunications	37.5	3.9
Utilities	16.4	3.5

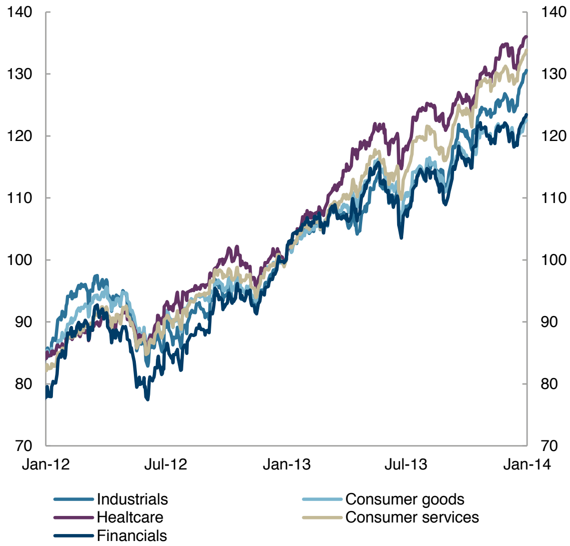
*Does not sum up to 100 because cash and derivatives are not included.

Chart 4-1 Price developments in regional and global equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed 31 Dec 2012 = 100



Source: Bloomberg

Chart 4-2 Price moves in stock sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed 31 Dec 2012 = 100



Source: FTSE

Table 4-3 The fund's largest equity holdings as of 31 December 2013

Company	Country	Holdings in millions of kroner
Nestlé SA	Switzerland	39,268
Royal Dutch Shell Plc	UK	28,957
Novartis AG	Switzerland	26,078
HSBC Holdings Plc	UK	24,968
Vodafone Group Plc	UK	24,613
Roche Holding AG	Switzerland	24,183
BlackRock Inc	US	22,717
BG Group Plc	UK	22,142
Apple Inc	US	21,075
BP Plc	UK	20,150

Table 4-4 The fund's largest company holdings by percent as of 31 December 2013

Company	Country	Interest
Smurfit Kappa Group Plc	Ireland	9.4
Eurocommercial Properties NV	Netherlands	9.1
Great Portland Estates Plc	UK	8.9
Telecity Group Plc	UK	8.7
Monitise Plc	UK	8.5
Stora Enso OYJ	Finland	8.2
Byggmax Group AB	Sweden	8.0
CNinsure Inc	Cayman Islands	7.8
China Water Affairs Group Ltd	Hong Kong	7.8
UPM-Kymmene OYJ	Finland	7.8

SMURFIT KAPPA GROUP

Smurfit Kappa is an Irish packaging producer with about 41,000 employees in 32 countries. Customers include the food, electronics and healthcare industries. The company reported sales of 8.0 billion euros in 2013.

NESTLÉ

Nestlé is a Swiss nutrition, health and wellness company. It has about 330,000 employees and 461 factories in 83 countries. The company reported sales of 92.1 billion Swiss francs in 2013.

FIXED-INCOME INVESTMENTS

HIGHER INTEREST RATES SPELL LOW RETURNS

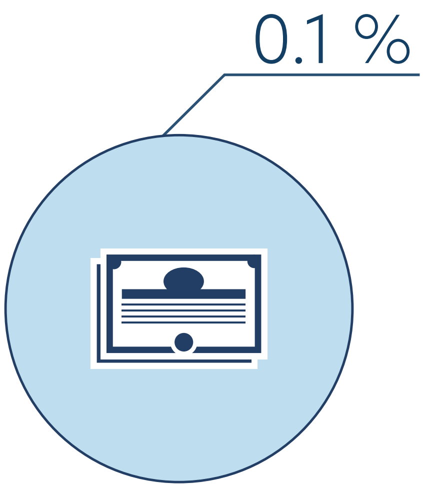
The fund's fixed-income investments returned 0.1 percent. The low return was due mainly to rising global interest rates.

NEGATIVE RETURN ON GOVERNMENT BONDS
The fund's government bond holdings returned -2.3 percent in 2013 and accounted for 62.8 percent of fixed-income investments at the end of the year. US Treasuries returned -2.1 percent and made up 22.8 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. Euro-denominated government bonds returned 6.9 percent and accounted for 13.1 percent of fixed-income investments, while Japanese government bonds returned -15.5 percent and made up 7.3 percent of fixed-income holdings. The main reason for the negative return was that the fund has investments in markets where interest rates rose.

Returns on bonds issued in the private sector were generally positive. The best-performing segment was securitised debt, which consists mainly of covered bonds and returned 7.7 percent. This was due primarily to currency movements, as these instruments were mostly denominated in euros. Securitised debt accounted for 10.5 percent of the fund's fixed-income investments at the end of the year. Corporate bonds returned 2.1 percent and accounted for 13.1 percent of fixed-income investments at the end of the year.

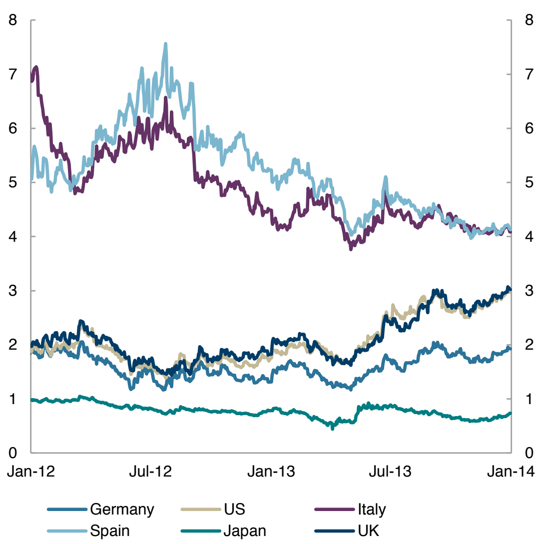
The weakest-performing sector was inflation-linked bonds, which returned -3.0 percent and accounted for 1.6 percent of fixed-income investments. This poor performance was due to rising interest rates, a smaller spread to nominal bonds and the fund's currency mix.

The fund also held bonds from government-related institutions such as the European Investment Bank, Kreditanstalt für Wiederaufbau and FMS Wertmanagement. These returned 1.9 percent and accounted for 12.0 percent of the fund's fixed-income investments at the end of the year.



FIXED-INCOME INVESTMENTS

Chart 5-1 10-year government bond yields. Percent



Source: Bloomberg

MORE FIXED-INCOME INVESTMENTS IN EMERGING MARKETS

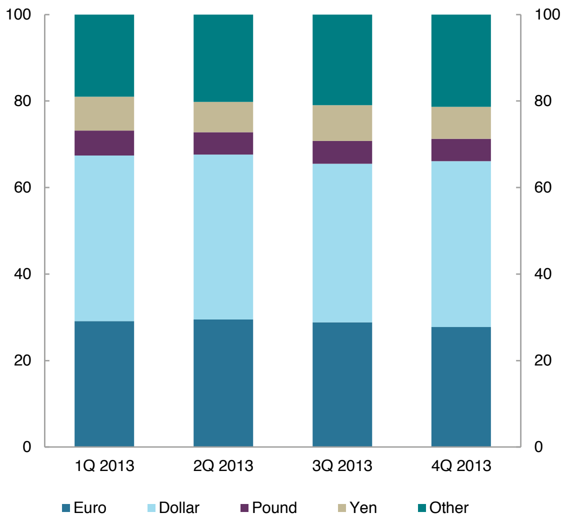
The fund increased investments in government debt in emerging market currencies in 2013. Bonds denominated in dollars, euros, pounds and yen accounted for 78.8 percent of fixed-income investments at the end of the year, against 81.4 percent a year earlier, while fixed-income investments in emerging markets increased from 10.1 percent to 12.3 percent in 2013. The fund entered the local government bond markets in Colombia, the Philippines and Hungary for the first time. Fixed-income investments were spread across 31 currencies at the end of the year and consisted of 3,803 securities from 1,060 issuers, against 4,047 securities from 1,196 issuers in 30 currencies a year earlier.

> At the end of 2013 12.3 percent of fixed-income investments were in emerging markets, up from 10.1 percent at the beginning of the year.

The largest increases were in holdings of government bonds from the US, Japan and Germany, while the largest decreases were in government bonds from France and Austria and corporate bonds from Spanish pension fund Caja de Ahorros y Pensiones de Barcelona. The three largest investments in new bond issues other than government debt, were in bonds from the European Investment Bank (EIB) and the temporary and permanent support mechanisms for euro area member states, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM).

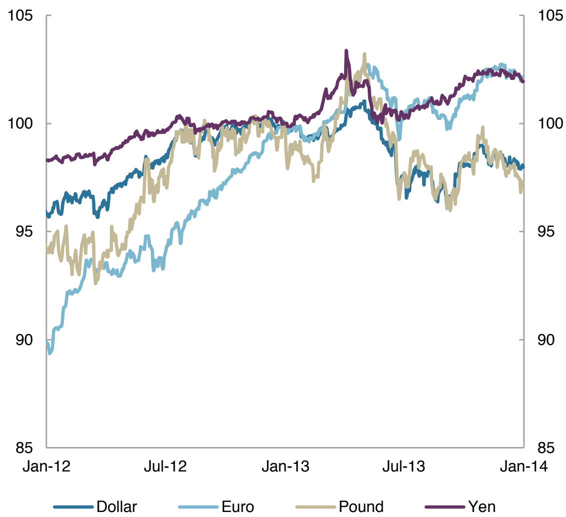
The largest holding of bonds from a single issuer was of US Treasuries, followed by Japanese and German government debt.

Chart 5-2 Currency composition of the fund's fixed-income investments. Percent



Source: Norges Bank Investment Management

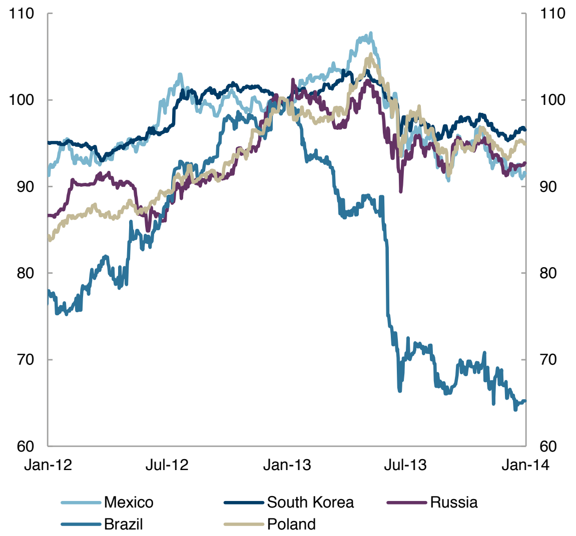
Chart 5-3 Price developments for bonds issued in dollars, euros, pounds and yen in the Barclays Global Aggregate Index, measured in local currencies. Indexed 31 Dec 2012 = 100



Source: Barclays Capital

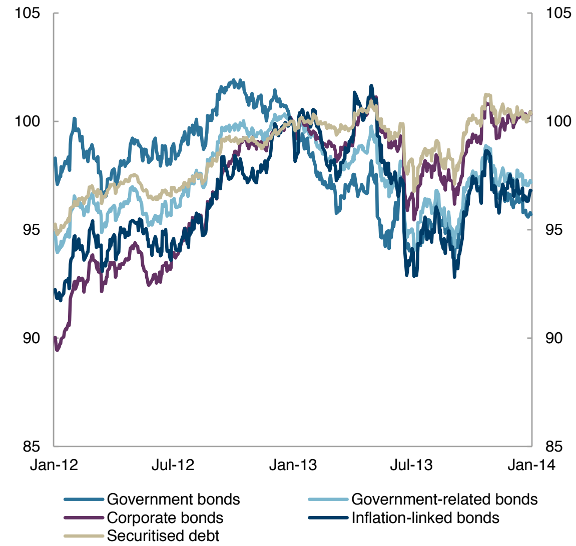
Fixed-income investments were spread across 31 currencies at the end of the year.

Chart 5-4 Price developments for 10-year government bonds issued in emerging market currencies. Indexed 31 Dec 2012 = 100



Source: Bloomberg

Chart 5-5 Price developments in fixed-income sectors in the Barclays Global Aggregate Index, measured in US dollars. Indexed 31 Dec 2012 =100



Source: Barclays Capital

Table 5-1 Return on the fund's fixed-income investments

Year	Return (percent)
1999	-0.99
2000	8.41
2001	5.04
2002	9.90
2003	5.26
2004	6.10
2005	3.82
2006	1.93
2007	2.96
2008	-0.54
2009	12.49
2010	4.11
2011	7.03
2012	6.68
2013	0.10

Table 5-2 Return on the fund's fixed-income investments. By sector. Percent

Sector	Return in international currency	Share of fixed-income investments*
Government bonds*	-2.3	62.8
Government-related bonds*	1.9	12.0
Inflation-linked bonds*	-3.0	1.6
Corporate bonds	2.1	13.1
Securitised debt	7.7	10.5

* Governments may issue different types of bonds, and the fund's investments in these bonds are grouped accordingly. Bonds issued by a country's government in the country's own currency are categorised as government bonds. Bonds issued by a country's government in another country's currency are grouped with government-related bonds. Inflation-linked bonds issued by governments are grouped with inflation-linked bonds.

Table 5-3 The fund's largest bond holdings as of 31 December 2013

Issuer	Country	Holdings in millions of kroner
United States of America	US	437,306
Japanese government	Japan	139,475
Federal Republic of Germany	Germany	97,534
UK government	UK	58,852
Mexican government	Mexico	36,001
Government of the Netherlands	The Netherlands	35,844
Italian Republic	Italy	35,336
Kreditanstalt für Wiederaufbau	Germany	31,742
French Republic	France	31,370
South Korean government	South Korea	31,162

REAL ESTATE INVESTMENTS

INTO THE US MARKET

The share of the fund in private real estate investments rose to 1.0 percent at the end of 2013. The fund moved into the US market and added new properties in Europe.

The fund's real estate investments returned 11.8 percent in 2013. The return on these investments depends on rental income, changes in the value of properties and debt, movements in exchange rates and transaction costs for real estate purchases. Measured in local currency, rental income contributed 4.6 percent of the return, changes in the value of properties and debt 3.8 percent and currency fluctuations 3.8 percent. Transaction costs for real estate purchases contributed -0.4 percent.

GRADUAL BUILD-UP OF THE REAL ESTATE PORTFOLIO

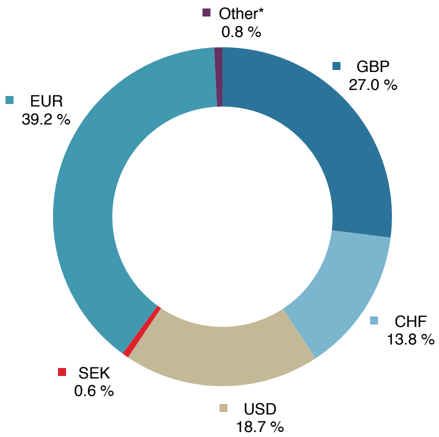
Investments in real estate accounted for 1.0 percent of the fund at the end of 2013, up from 0.7 percent a year earlier. Investments are to increase gradually to as much as 5 percent of the value of the fund. New investments will primarly be in well-developed markets and in office and retail properties.

The mandate to invest in real estate was broadened from 1 January 2013 to include countries outside Europe. A first property investment in the US was made in the first quarter, followed by further purchases there in the fourth quarter. Significant investments were also made in Europe during the year.

Table 6-1 Return on the fund's real estate investments in 2013. Percent

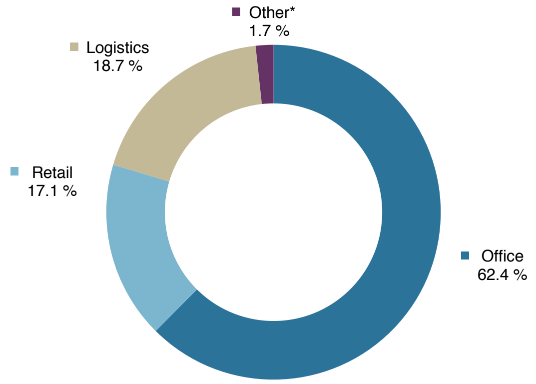
	Return
Net rental income	4.6
Net change in value of properties and debt	3.8
Transaction costs for property purchases	-0.4
Foreign exchange adjustments	3.8
Overall return	**11.8**

Chart 6-1 The fund's real estate investments by currency per 31 December 2013. Percent



* Net unallocated balance sheet items
Source: Norges Bank Investment Management

Chart 6-2 The fund's real estate investments by sector as of 31 December 2013. Percent



* Includes other sectors and net unallocated balance sheet items
Source: Norges Bank Investment Management

MAIN PROPERTY INVESTMENTS IN 2013

50 percent of two buildings in Germany for 388 million euros, completed in the first quarter.

49.9 percent of five properties in New York, Washington and Boston for 600 million dollars, completed in the first quarter.

50 percent of a portfolio of 195 logistics properties in 11 European countries for 1.0 billion euros, completed in the first quarter.

50 percent of 11 logistics properties in the UK for 56 million pounds, completed in the third quarter.

45 percent of an office building in New York for 684 million dollars, completed in the fourth quarter.

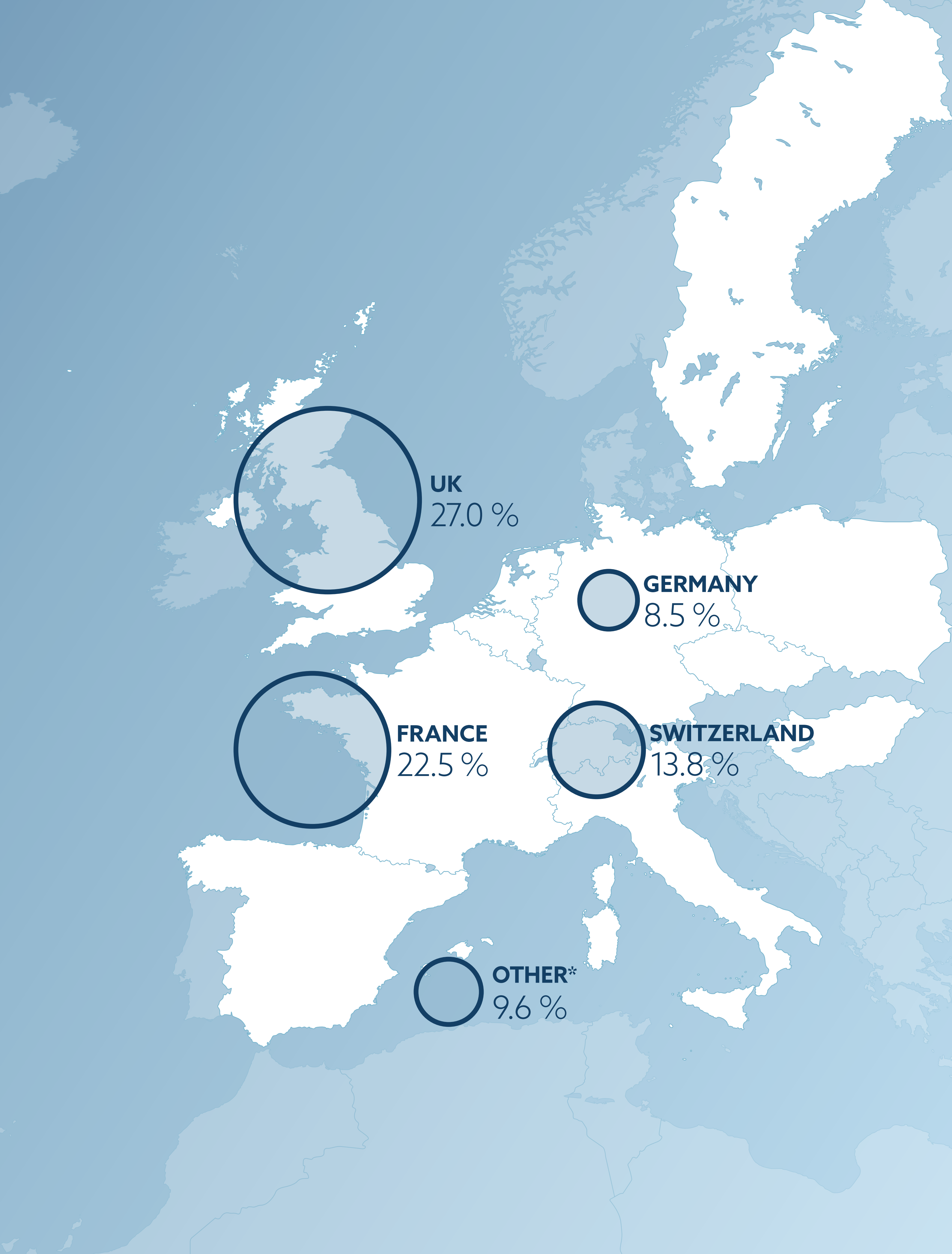
47.5 percent of an office building in Boston for 238 million dollars, completed in the fourth quarter.

25 percent of a building in the Regent Street portfolio in London for 98 million pounds, completed in the fourth quarter.

50 percent of an office building in Munich for 82 million euros, completed in the fourth quarter .

REAL ESTATE INVESTMENTS

SHARE OF MARKET VALUE



* Other countries and net unallocated balance sheet items.

THE FUND'S RELATIVE RETURN

GOOD RELATIVE RETURN

The fund's overall return was 1.0 percentage point higher than the return on its benchmark indices, set by the Ministry of Finance.

Returns on the fund's equity and fixed-income investments are compared with returns on global benchmark indices for equities and bonds set by the Ministry of Finance on the basis of indices from FTSE Group and Barclays Capital.

We have constructed internal reference portfolios for equities and bonds. These portfolios take into account the fund's characteristics and objective in order to achieve the best possible trade-off over time between expected risks and returns.

THE FUND'S RELATIVE RETURN

The fund held shares in 8,213 listed companies at the end of 2013. These investments are measured against the FTSE Global All Cap index, which consisted of 7,104 listed companies.

The fund held 3,803 bonds from 1,060 issuers at the end of the year. These investments are measured against a benchmark index from Barclays Capital based on its Global Treasury GDP Weighted by Country, Global Inflation Linked and Global Aggregate indices, which consisted of 10,227 bonds from 1,456 issuers.

The overall return on the fund's equity and fixed-income investments was 1.0 percentage point higher than the return on these benchmark indices in 2013.

The fund's equity investments outperformed the benchmark by 1.3 percentage points. Financials and consumer goods were the sectors that made the greatest contribution to this excess return, while investments in healthcare made the most negative contribution. Of the countries the fund is invested in, US and German stocks contributed most to the excess return, while investments in Spain and Canada made the most negative contribution.

The fund's fixed-income investments outperformed the benchmark by 0.2 percentage point. A higher weight of euro-denominated covered bonds and the lower duration of the fund's bond investments relative to the benchmark made a positive contribution. This shorter duration meant that, in general, the fund was less sensitive to rising interest rates than the benchmark index. A higher weight of government bonds from emerging markets relative to the benchmark made a negative contribution.

THE FUND'S INTERNAL REFERENCE PORTFOLIOS

The reference portfolio for equities consisted of shares in 7,191 companies at the end of 2013 and returned 25.0 percent, which is in line with the return on the benchmark index from FTSE Group.

The reference portfolio for bonds contained 11,859 bonds at the end of the year and returned -0.7 percent, which was 0.6 percentage point below the return on the benchmark index from Barclays Capital. The difference was due mainly to the reference portfolio having a higher weight of government bonds from emerging markets than the Ministry of Finance's benchmark index. The higher exposure to emerging markets is part of our long-term strategy.

Table 7-1 Relative return on the fund's investments. Prosentage points

Year	Equity investments	Fixed-income investments
1999	3.49	0.01
2000	0.49	0.07
2001	0.06	0.08
2002	0.07	0.49
2003	0.51	0.48
2004	0.79	0.37
2005	2.16	0.36
2006	-0.09	0.25
2007	1.15	-1.29
2008	-1.15	-6.60
2009	1.86	7.36
2010	0.73	1.53
2011	-0.48	0.52
2012	0.52	-0.29
2013	1.28	0.25

ADJUSTMENTS TO THE REFERENCE PORTFOLIOS

Stock and bond indices are designed to represent the market opportunities available to the average investor. The fund's characteristics, such as its size and long-term approach, makes us different to the average investor. We have therefore constructed internal reference portfolios for equities and bonds that better suit the fund's characteristics.

By adjusting the internal reference portfolios, we seek to achieve the best possible trade-off over time between expected risk and returns. In 2013 we made several adjustments to the internal reference portfolios both for equities and bonds.

ACTIVE OWNERSHIP

RESPONSIBLE INVESTMENT

Norges Bank Investment Management's active ownership helps safeguard the long-term value of the fund. 2013 saw more than 2,300 meetings between representatives of the fund and companies' management, and we voted at more than 9,500 shareholder meetings.

We aim to safeguard the fund's long-term value. A good long-term return is believed to depend on sustainable economic, environmental and social development and well-functioning, legitimate and efficient markets. We are an active owner, and our investment decisions take account of how we view companies' long-term financial, social and environmental risks.

We evaluate countries, markets and companies in our investment analyses, which include risk assessments of environmental, social and governance (ESG) issues. We have made a long-term commitment in our defined strategic focus areas, where we aim to reduce the risk associated with corporate governance, market efficiency, violations of children's rights, climate change and scarce water resources.

Our tools for active ownership are dialogue with companies, investors, regulators and other standard setters, voting at shareholder meetings and filing shareholder proposals.

Some of these tools, such as working with standard setters, have effects on all or large parts of the fund's portfolio, while others, such as contact with individual companies, are more specific. The companies in which the fund has the largest holdings are given priority, because these companies have the greatest impact on the fund's risks and returns.

We supported the development of international standards in 2013, for example by submitting recommendations to the International Integrated Reporting Council (IIRC). Integrated corporate reporting helps improve the quality of the information provided to investors, especially on ESG issues.

CORPORATE GOVERNANCE ADVISORY BOARD ESTABLISHED

A Corporate Governance Advisory Board was set up in 2013 to strengthen our long-term ownership work. It will provide input on board nomination practices at the fund's listed companies, serve as an advisory body for ownership work, and give regular feedback on the fund's ownership activities relative to global standards.

We voted at 9,583 shareholder meetings in 2013. With effect from the third quarter, our voting instructions have been published on our website the next business day. We considered and voted on 239 shareholder proposals on environmental and social issues during the year in line with our principles for long-term active ownership.

Voting is the most important formal opportunity for investors to express their views, hold boards accountable and influence companies.

> A total of 2,304 meetings were held between representatives of the fund and companies' management in 2013.

We filed shareholder proposals at four US companies to give shareholders proxy access (the right to nominate directors on company ballots). These proposals were filed to draw attention to board accountability and shareholder rights in line with our focus areas for corporate governance. Around a third of shareholders voted in favour of these proposals at three of the companies, while the proposal at the fourth company was withdrawn when the company decided to extend shareholders' rights in this way before the shareholder meeting.

A total of 2,304 meetings were held between representatives of the fund and companies' management in 2013. At these meetings, we addressed the companies' plans, strategies and financial position, including ESG issues.

We also held 77 meetings with the chairmen of companies in which the fund has large stakes. These meetings covered a wide range of ownership issues, centring on the board's role in establishing and developing effective corporate governance systems.

In the first quarter, we exercised our right to nominate a representative on Volvo AB's Election Committee. This is the first time the fund has exercised its right to sit on a company's nomination committee and is in line with our long-term aim of closer contact with companies' boards in order to safeguard the fund's assets. Norges Bank Investment Management's CEO Yngve Slyngstad represented the fund on the committee.

PORTFOLIO ADJUSTMENTS

We continued to adjust the portfolio in 2013 to reflect the potential impact of environmental and social risks on the fund's return. These adjustments were based on sector and company analyses designed to identify business models that are considered less sustainable and profitable in the longer term.

We performed a risk assessment during the year of sectors with high exposure to environmental risks and divested from 27 mining companies as a result of this work.

We also mapped how companies in high-risk sectors complied with our expectations. These surveys were based on publicly available information from the companies. The most extensive survey covered climate risk. When it comes to children's rights, the main conclusion in 2013 was that there had been a general increase in disclosure in all relevant sectors, especially in garment production. The results for water management were more mixed, and generally little was reported on the degree to which strategies and plans for water management had been introduced. With regard to climate risk, the number of companies reporting to the CDP has increased rapidly over the past three years.

We contacted 295 companies in 2013 to encourage them to improve their reporting in these areas and set an example for other players in their industries.

ENVIRONMENTAL INVESTMENTS

We have awarded mandates for environmental investments to both internal and external managers since 2009, with a focus on renewable energy and on water and waste management. These investments totalled 31.4 billion kroner and were spread across 166 companies at the end of the year. Our environmental investments are an integral part of the fund's mandate and investment strategy, are based on company analysis and are subject to the same return requirements as the fund's other investments.

The fund's environmental mandates returned 41 percent in 2013. The annual return on these mandates averaged 2.7 percent in the period 2010-2013. Environmental investments performed poorly after their start-up in 2009, but improved in 2013.

The largest investments under the environmental mandates at the end of 2013 were in Pentair, Johnson Controls, Danaher Corp, Enel Green Power and Clean Harbors.

CHILDREN'S RIGHTS

NBIM continued to support the implementation of UNICEF's Children's Rights and Business Principles as a member of a working group tasked with advising UNICEF on how companies can apply them. The principles were launched in March 2012 by UNICEF, the UN Global Compact and Save the Children.

We expect companies to safeguard children's rights in their operations and supply chains. Companies must demonstrate that they have adequate systems in place to manage the risk of violations of children's rights.

CLIMATE RISK

With effect from 2013, we have used data from the CDP directly in our surveys of reporting in our strategic focus areas. We also support the CDP and its role in standardising and enhancing global reporting on climate risk.

We expect companies to develop strategies for managing risks related to climate change and report on what they are doing to reduce the risk of climate change impacting negatively on their profitability.

WATER MANAGEMENT

We continued to work on the CDP Water programme in 2013, which aims to improve reporting on water resources. We want to see better information that can give investors a picture of water-related risk for companies in high-risk sectors and improve coverage of emerging markets. We have been a main sponsor of the initiative since 2009.

A survey of senior managers and experts from industry, authorities and NGOs conducted by the World Economic Forum during the year revealed that a water-related global crisis is considered to be among the most likely global threats. Limited supplies of fresh water can present a long-term financial risk for companies with business models that are sensitive to the availability of fresh water.

Table 8-1 Voting at shareholder meetings

		2013			2012	
Meetings/Regions	Total	Voted	Voted %	Total	Voted	Voted %
Africa	241	167	69.3 %	145	82	56.6 %
Asia	4,114	4,099	99.6 %	5,094	5,058	99.3 %
Europe	1,989	1 950	98.0 %	1,939	1,837	94.7 %
Latin America	504	498	98.8 %	404	403	99.8 %
Middle East	214	212	99.1 %	130	130	100.0 %
North America	2,314	2,310	99.8 %	2,398	2,395	99.9 %
Oceania	347	347	100.0 %	327	326	99.7 %
Total	**9,723**	**9,583**	**98.6 %**	**10,437**	**10,231**	**98.6 %**

INVESTMENT RISK

EXPECTED FLUCTUATIONS IN FUND VALUE

The value of the fund may fluctuate considerably from year to year. We use a variety of measures and analyses to obtain the broadest possible picture of the fund's market risk.

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates and credit risk premiums. As no single measure or analysis can fully capture the fund's market risk, we use a variety of measures and analyses – including expected volatility, factor exposures, concentration analysis and liquidity risk – to obtain the broadest possible picture of the fund's market risk.

The fund's expected absolute volatility is calculated using the statistical measure standard deviation and uses a three-year price history to estimate how much the annual return on the fund's equity and fixed-income investments can normally be expected to fluctuate. Expected absolute volatility was 9.3 percent at the end of the year, or about 470 billion kroner, compared with 8.6 percent a year earlier. Simulations of the fund's investments at the end of 2013 using a 10-year pricing history reveal, however, that in a sharply falling market the fund could lose around 25 percent of its value over the course of a year.

The Ministry of Finance and Norges Bank's Executive Board have set limits for deviation from the benchmark indices in the management of the fund's equity and fixed-income investments. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark indices. The fund should aim for an expected relative volatility of no more than 1 percentage point. The actual figure was 0.6 percentage point at the end of 2013, compared with 0.5 percentage point a year earlier and a peak of 0.8 percentage point during the year.

LARGEST RELATIVE EXPOSURES

The fund is positioned differently to its benchmark indices along several dimensions, including currencies, sectors, countries, regions, individual stocks and individual bond issuers. At the end of the year, the stocks in the fund's equity portfolio were somewhat more volatile than the average. It also contained a higher weight of European stocks and a lower weight of US stocks than the bench-

mark. The fixed-income portfolio featured a higher weight of emerging markets, such as Brazil and Russia, and a correspondingly lower weight of yen and dollars than the benchmark. The fixed-income portfolio also had a lower duration than the benchmark. A lower duration means that, in general, the fund is less sensitive to changes in rates than the benchmark index.

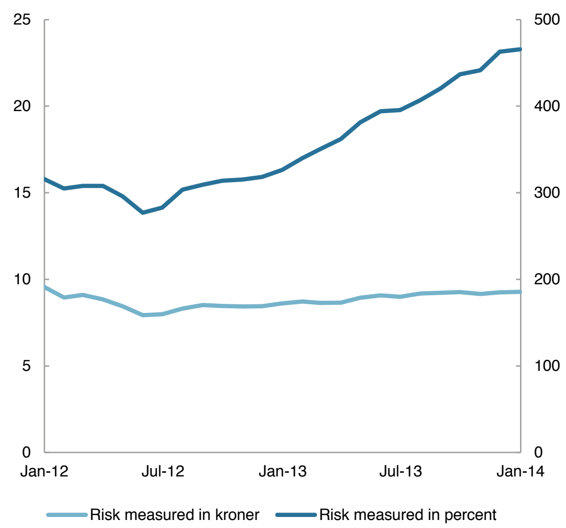
Expected annual absolute volatility was 9.3 percent at the end of the year.

FACTOR EXPOSURES

We measure the fund's exposure to various systematic risk factors, including small companies, value stocks and credit. These are common characteristics which securities have to varying degrees over time and which contribute to both the risk and the return on investments. There are different ways of measuring exposure to these risk factors. One of the most widely used is to compare variation in the fund's relative return with variation in the return on these factors. Such an analysis of factor exposures in 2013 indicates, among other things, that the fund's equity investments were somewhat more exposed than the benchmark to small companies during the year, and somewhat more exposed than the benchmark to general stock market developments. The analysis shows that around 20 percent of the variation in the relative return on the fund's equity investments could be explained by exposure to value stocks, small companies and emerging markets. In addition, about 30 percent of the variation in the relative return on the fund's fixed-income investments could be explained by movements in credit premiums and term premiums. The results of such statistical analyses are uncertain, and we also use several other approaches to analyse the fund's factor exposures.

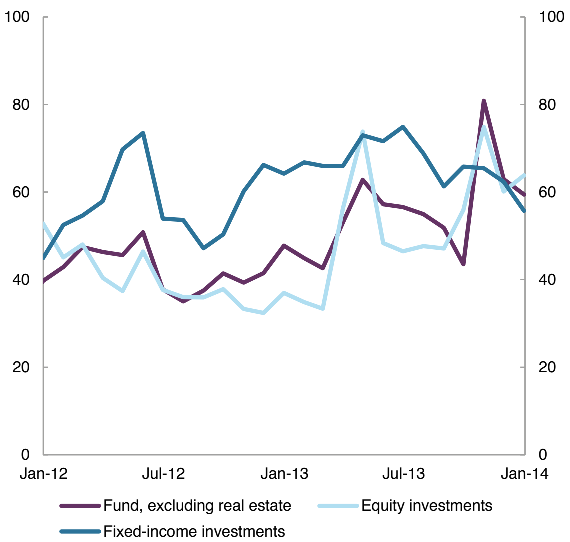
For more information on the fund's investment risk, see note 13 to the financial reporting.

Chart 9-1 Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)



Source: Norges Bank Invetsment Management

Chart 9-2 Expected relative volatility of the fund, excluding real estate. Basic points



Source: Norges Bank Invetment Management

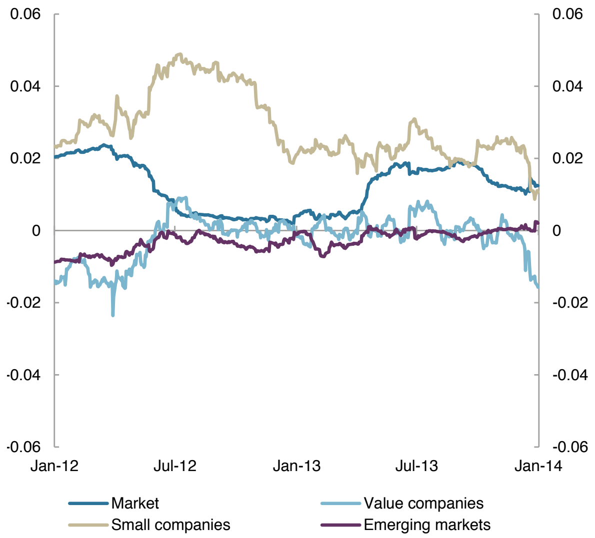
Table 9-1 Key figures for the fund's risk and exposure. Percent

		31.12.2013
	Limits set by the Ministry of Finance	
Exposure	Equities 50–70 % of fund's market value	61.8
	Real estate 0–5 % of fund's market value	1.0
Market risk	1 percentage point expected tracking error for equity and fixed-income investments	0.6
Credit risk	Maximum 5 % of fixed-income investments may be rated below BBB-	0.6
Maximum ownership	Maximum 10 % of voting shares in a listed company	9.4

Table 9-2 The fund's fixed-income investments as of 31 December 2013 based on credit ratings. Percentage of bond holdings

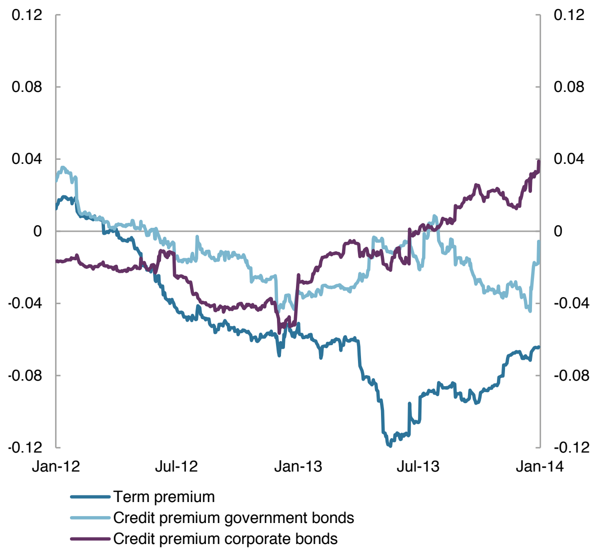
	AAA	AA	A	BBB	Lower rating	Total
Government bonds	35.0	15.8	3.8	8.0	0.1	62.8
Government-related bonds	5.6	4.5	0.6	1.1	0.1	12.0
Inflation-linked bonds	0.9	0.1	0.0	0.7	-	1.6
Corporate bonds	0.0	1.2	5.8	5.8	0.3	13.1
Securitised debt	6.7	0.6	1.4	1.6	0.1	10.4
Total bonds	**48.3**	**22.3**	**11.6**	**17.2**	**0.6**	**100.0**

Chart 9-3 Factor exposures of the fund's equity investments. Coefficients



Source: Norges Bank Invetsment Management

Chart 9-4 Factor exposures of the fund's fixed-income investments. Coefficients



Source: Norges Bank Invetsment Management

370 EMPLOYEES
28 NATIONS

239 OSLO

63 LONDON

42 NEW YORK

16 SINGAPORE

10 SHANGHAI

ORGANISATION

INCREASED INVESTMENT EXPERTISE

Norges Bank Investment Management expanded its workforce by 34 people in 2013. Most were hired at our offices outside Norway to increase proximity to the markets we invest in.

We are working systematically to build an international investment organisation that can safeguard the value of the fund for future generations. We offer a result-oriented and fast-paced working environment and demand high standards of accuracy and quality.

2013 saw an active drive to recruit equity, fixed-income and real estate investment managers and analysts to our overseas offices. Proximity to the markets we invest in gives us better access to investment opportunities and ensures that we can follow up the fund's investments around the clock.

We hired portfolio managers and analysts in all asset classes, both to implement the strategy of diversifying investments across more markets and to continue the expansion of real estate investments. More than a third of our employees are directly involved in investment decisions.

The number of permanent employees increased by 34 in 2013. At the end of the year, we had 370 employees from 28 nations, including 17 on our trainee programme. 35 percent of the workforce was based at our offices in London, New York, Singapore and Shanghai, against 29 percent a year earlier. Our employees have the global outlook and experience needed to manage a fund that invests worldwide.

The Norwegian Finance Initiative (NFI) promotes financial research and education in key areas for the fund's long-term management. We awarded the second doctoral grant and the second prize for a master's dissertation through the NFI in 2013, and a summer school for students interested in a doctorate in financial economics was held for the first time. In addition, we had our annual external research conference in August with international speakers from the likes of Harvard University, Imperial College Business School and the London School of Economics.

LOW INTERNAL MANAGEMENT COSTS

We aim to maximise the fund's long-term return after costs. We maintain a high level of cost awareness in the organisation and realise economies of scale where possible. We attach importance to upholding high standards of quality in the fund's management and ensuring good risk management and control.

Norges Bank receives an annual fee from the Ministry of Finance to cover the costs of managing the fund. These costs increased to 2.9 billion kroner in 2013 from 2.2 billion kroner in 2012. The rise was due primarily to higher fees to external managers as a result of a strong investment return, and to higher custody costs as a result of the increase in assets under management. The growth in the workforce also brought higher salary and staff costs. The increase in systems and analysis costs can be seen in the light of the expansion of the organisation. Management costs increased to 6.6 basis points of assets under management in 2013 from 6.2 basis points in 2012. Excluding performance-based fees to external managers, costs fell to 5.0 basis points from 5.3 basis points.

REMUNERATION SYSTEM

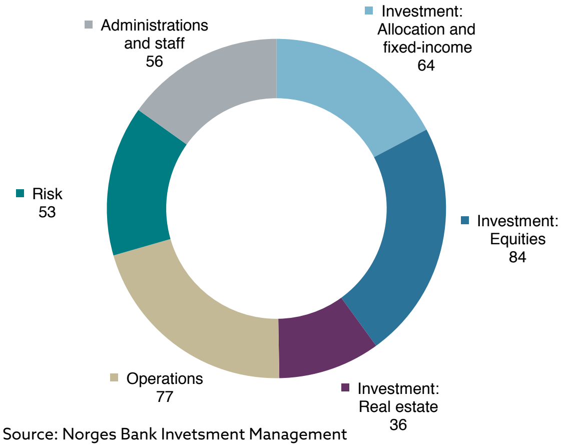
Norges Bank's Executive Board establishes the principles for the remuneration system at Norges Bank Investment Management. In addition to a fixed salary, those working directly on investment decisions and various other employees are also entitled to performance-based pay.

Performance-based pay is calculated on the basis of the performance of the fund, group and individual measured against set targets, and is paid over a number of years. Half is paid the year after it is accrued, while half is held back and paid over the following three years. The amount held back is adjusted in line with the return on the fund.

A total of 169 employees were entitled to performance-based pay in 2013. Their fixed salaries totalled 179 million kroner, while the upper limit for performance-based pay was 211 million kroner. On average, employees eligible for performance-based pay accrued 74 percent of the limit for 2013 based on multi-year performance. For 2013 in isolation, the average amount accrued was 82 percent of the upper limit.

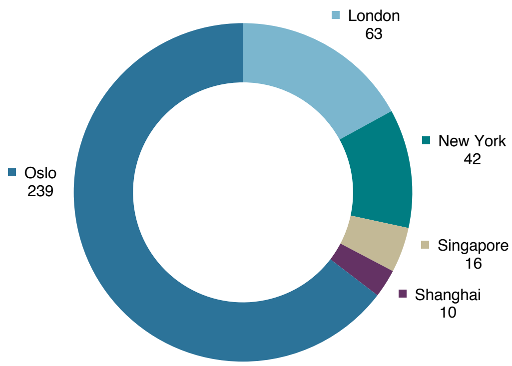
Norges Bank Investment Management's senior management receive only a fixed salary. The CEO's salary and pay bands for other senior managers are set by Norges Bank's Executive Board. The CEO's salary totalled 5.9 million kroner in 2013. Besides senior management and employees in receipt of performance-based pay, Norges Bank Investment Management had 192 permanent employees working in risk management, control, operations and support at the end of 2013. Their fixed salaries totalled 162 million kroner.

Chart 10-1 Number of employees by area as of 31 December 2013



Source: Norges Bank Invetsment Management

Firgur 10-2 Number of employees by location as of 31 December 2013



Source: Norges Bank Invetsment Management

OPERATIONAL RISK MANAGEMENT

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. The Executive Board has decided there must be less than a 20 percent probability that operational risk factors will result in gross losses of 750 million kroner or more over a 12-month period, referred to as the Executive Board's risk tolerance. Operational risk exposure was below this limit throughout 2013.

We work systematically to identify unwanted events and constantly improve processes to prevent such incidents. Reporting and following up on these incidents are an important part of efforts to improve operations and internal controls.

UNWANTED EVENTS IN 2013

We registered 193 unwanted incidents in 2013, down marginally from 2012. Most of these had no financial consequences, either because they were discovered early enough or because they had potential reputational consequences. Eight of these events were considered significant, but none were considered critical. The estimated total financial impact of the events in 2013 was a loss of 26.1 million kroner.

Three of the events were related to the transition to a new supplier of IT infrastructure. These led to minor indirect losses in the form of resources for corrective action.

Four of the events involved other external suppliers. Three of these did not have any financial consequences. In the fourth case, the fund was unable to participate in a buyback because our right to take part was contingent on voting at a previous shareholder meeting. This resulted in an indirect loss of 17.9 million kroner.

One event concerned a complaint procedure conducted by Norway's national contact point for the OECD Guidelines for Multinational Enterprises. The complaint concerned alleged breaches of the guidelines by the Bank's investment in a particular company. Four NGOs claimed in their complaint to the national contact point that the OECD guidelines had not been applied because the Bank

Table 10-1 Compensation to senior management in 2013

Position	Name	Paid salary	Value of other benefits	Pension benefit earned	Employee loan
Chief Executive Officer	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	-
Chief Investment Officer, Equities	Petter Johnsen	5,748 000	63,136	574,800	-
Chief Investment Officer, Real Estate	Karsten Kallevig	4,073,061	45,220	272,135	-
Chief Treasurer	Jessica Irschick*	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	-

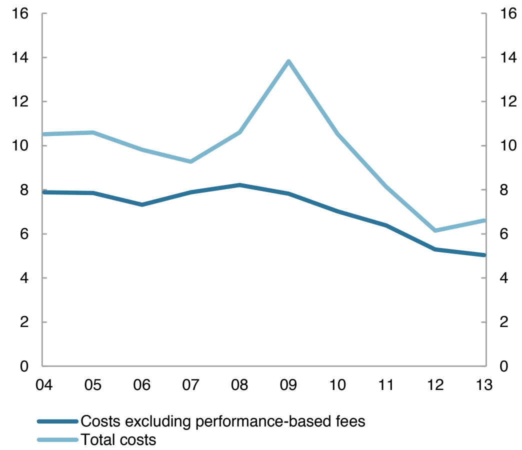
* Employed to 30.04.2013

had not done enough to prevent or limit alleged breaches of human rights in connection with its holding in a South Korean company. As a minority shareholder in the company, Norges Bank argued that the guidelines did not apply to the bank, and that the complaint should have been rejected by the national contact point.

COMPLIANCE WITH GUIDELINES

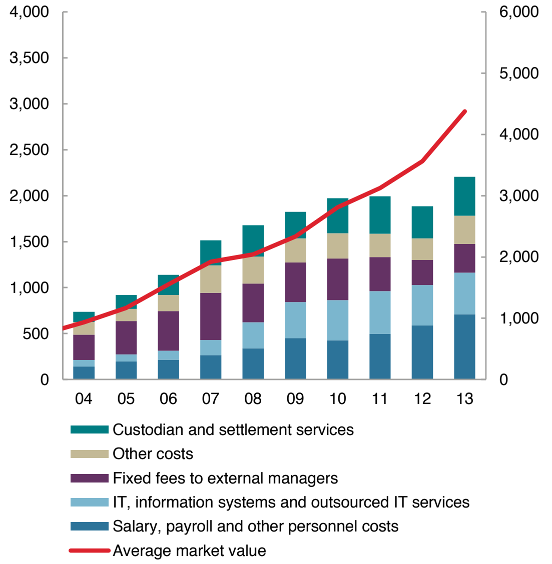
The Ministry of Finance has set guidelines for the fund's management. No significant breaches of these guidelines were registered in 2013, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Chart 10-3 Management costs as a share of assets under management. Basic points



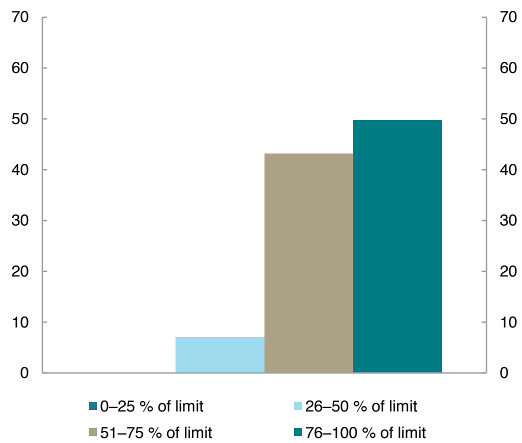
Source: Norges Bank Investment Management

Chart 10-4 Development of individual cost components. Costs (millions of kroner, left-hand axis) and market value (billions of kroner, right-hand axis)



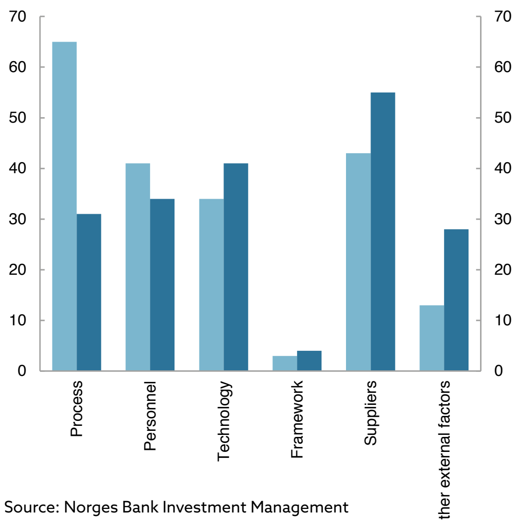
Source: Norges Bank Investment Management

Chart 10-5 Performance-based pay relative to upper limit in 2013. Percentage of workforce



Source: Norges Bank Investment Management

Chart 10-6 Unwanted events at NBIM sorted by cause. Percent



Source: Norges Bank Investment Management

FINANCIAL REPORTING

Norges Bank's annual financial statements, which include the financial reporting for the investment portfolio of the Government Pension Fund Global, were approved by the Executive Board 12 February 2014 and will be adopted by Norges Bank's Supervisory Council on 27 February 2014. The financial reporting for the Government Pension Fund Global and an excerpt from Norges Bank's accounting policies and significant estimates and critical judgements are presented in the following pages.

INCOME STATEMENT

Amounts in NOK million	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 million	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 million	Note	31.12.2013	31.12.2012
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 million, 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 million	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 2.2 billion was used to pay the 2012 accrued management fee to Norges Bank and NOK 239.0 billion was transferred into the investment portfolio. Comparative amounts for 2012 are NOK 2.5 billion and NOK 276.4 billion, 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.

NOTES TO THE FINANCIAL REPORTING

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.

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 adopted by the EU, but sets certain specific requirements for the presentation of the Government Pension Fund Global and subsidiaries. The regulation requires Norges Bank's financial statements to include the financial reporting for the investment portfolio of the Government Pension Fund Global, which shall be prepared in accordance with IFRS. Consolidated financial statements are prepared for the Government Pension Fund Global in accordance with IFRS as adopted by the EU.

Norges Bank prepares annual financial statements with a closing date of 31 December. In addition, Norges Bank prepares interim financial statements, which solely comprise the quarterly financial reporting for the Government Pension Fund Global, with closing dates of 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 will be adopted by the Supervisory Council on 27 February 2014.

2. NORGES BANK AND THE GOVERNMENT PENSION FUND GLOBAL

The Government Pension Fund Global 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 the investment management. The Government Pension Fund Global 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 Government Pension Fund Global 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 Government Pension Fund Global. The Executive Board has delegated day-to-day asset management to the Bank's asset management area, Norges Bank Investment Management.

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 a further defined 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 Government Pension Fund Global.

Norges Bank is not exposed to financial risk from its management of the Government Pension Fund Global. 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 Government Pension Fund Global 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 chosen as measurement at fair value is in accordance with the business model of the Government Pension Fund Global. 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 chosen 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 Government Pension Fund Global 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.

IFRS 7 *Financial Instruments – Disclosures*

Norges Bank implemented amendments 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 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 measurement at 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*. The liquidity presentation format is used for the financial statements.

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. Major classes of cash receipts and cash payments are presented separately. Specific categories of cash flows, primarily arising from the purchase and sale of financial instruments, are shown on a net basis when appropriate. All investment activity and management fee for the Government Pension Fund Global are defined as operating activities. Cash and cash equivalents comprise *Deposits in banks* and *Short-term borrowing*.

Cash transfers to the Government Pension Fund Global, in the form of an inflow from the Norwegian government, are classified as a financing activity in the statement of cash flows of the Government Pension Fund Global.

4.3 Statements of changes in owner's capital

The Government Pension Fund Global presents changes in owner's capital. The statements have been prepared in accordance with IAS 1 *Presentation of Financial Statements*.

Owner's capital for the Government Pension Fund Global comprises contributed capital in the form of inflows from the Norwegian government and retained earnings in the form of total comprehensive income.

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 currencies are translated into Norwegian kroner 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 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 fixed-income instruments is recognised when the interest is earned.

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 Jointly controlled entities and associates real estate*. See 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 agent's 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 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.

Operating expenses in subsidiaries and jointly controlled entities (see section 4.12) are expensed as occurred.

Interest expense is calculated 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 provided by some of the large brokers. For investments within the real estate asset class, direct transaction costs will 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 – gains/losses from equities and units*, *Net income/expense – gains/losses from financial derivatives* and *Net income/expenses – gains/losses from bonds and other fixed-income instruments,* depending on which type of security is invested in, or as *Net income/expenses – gains/losses from Financial assets real estate*. For investment property directly attributable transaction costs are recognised in the balance sheet as part of the cost at initial recognition.

The management fee comprises the Ministry of Finance's reimbursement of Norges Bank's expenses connected with the management of the Government Pension Fund Global, which is recognised in the income statement of the Government Pension Fund Global as an expense, and recognised as revenue in the Norges Bank income statement. The 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.

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 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)

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.

<u>Financial assets or liabilities held for trading</u>

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.

<u>Financial assets and liabilities designated as at fair value through profit or loss (fair value option)</u>

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.

<u>Earned and accrued interest</u>

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

<u>Financial assets</u>

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 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 18 495 million 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.

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 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, associates and jointly controlled assets

Through subsidiaries established as part of the management of the Government Pension Fund Global, 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 per cent 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 Government Pension Fund Global.

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 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 Government Pension Fund Global.

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. Intra-group 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 Government Pension Fund Global 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.

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 Government Pension Fund Global is an investment entity under IFRS 10, as the requirements to qualify are met. The most significant requirements are that the Government Pension Fund Global 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 11 will not have consequences for the Government Pension Fund Global, 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 expected to be consistent with the classification measured at fair value under IFRS 9 as at 31 December 2013.

The effective date of IFRS 9 has been deferred by the IASB until the IFRS 9 project in its totality is approaching completion. Norges Bank expects to apply the standard after the EU has endorsed this. 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 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 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 Government Pension Fund Global or other areas of Norges Bank. Norges Bank expects to apply IFRS 12 as from 1 January 2014. As the Government Pension Fund Global 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 Government Pension Fund Global in accordance with the accounting policies in note 1 Accounting policies, 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 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 exist of investment property and debt measured at fair value. See above for significant estimates related to investment properties.

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.

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 Government Pension Fund Global 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 Government Pension Fund Global 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 given by the Ministry of Finance (see further information in 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 Government Pension Fund Global, 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 where the Government Pension Fund Global has an ownership share is significant, an assessment is made relating to the degree of control that exists. This assessment is necessary to establish 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 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 million	Interest	Dividends	Net income/ expense	Realised gains/ losses**	Unrealised gains/ losses	Total
			2013			
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 million	Interest	Dividends	Net income/ expense	Realised gains/ losses**	Unrealised gains/ losses	Total
			2012			
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.

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

	2013					
Amounts in NOK million	**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	

	2012					
Amounts in NOK million	**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

Beløp i millioner kroner	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 01.01.2013	-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 31.12.2013	-142	-201	-343	18	18	-325

Beløp i millioner kroner	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 01.01.2012	-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 31.12.2012	-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.

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 2 266 million for 2013. This comprises NOK 2 205 million in Norges Bank operating expenses excluding performance-based fees and NOK 61 million 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 2 950 million for 2013, and comprises NOK 2 889 million in total Norges Bank operating expenses related to the management of the Government Pension Fund Global and NOK 61 million 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 million	2013	2013 Basis points	2012	2012 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 million	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 Banks 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 61 million 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.

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

Table 6.1 Specification equities and units

Amounts in NOK million	31.12.2013 Fair value including dividends	31.12.2013 Accrued dividends	31.12.2012 Fair value including dividends	31.12.2012 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 million	31.12.2013 Nominal value*	31.12.2013 Fair value incl. accrued interest	31.12.2013 Accrued interest	31.12.2012 Nominal value*	31.12.2012 Fair value incl. accrued interest	31.12.2012 Accrued 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.

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 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 note 8 Collateral and offsetting.

Table 7.1 Transferred financial assets

	31.12.2013		31.12.2012	
	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**

NOTE 8 COLLATERAL AND OFFSETTING

COLLATERAL

Within the Government Pension Fund Global, Norges Bank is engaging 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, note 7 Transferred financial assets and note 9 Financial derivatives. For details on monitoring counterparty risk in connection with collateral, see 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 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

	31.12.2013		31.12.2012	
Amounts in NOK million	**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 31.12.2013 and 31.12.2012 no securities are sold or pledged.

Table 8.2 Securities lent or posted as collateral

Amounts in NOK million	31.12.2013 Carrying amount	31.12.2013 Fair Value	31.12.2012 Carrying amount	31.12.2012 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 million	31.12.2013 Received	31.12.2013 Posted	31.12.2012 Received	31.12.2012 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 53 399 million, of which unsettled trades made up NOK 5 643 million.

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 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 million, 31.12.2013	Amounts subject to enforceable master netting agreements					Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
Description	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**		
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 million, 31.12.2013	Amounts subject to enforceable master netting agreements					Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Description	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**		
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 million, 31.12.2012	Amounts subject to enforceable master netting agreements					Unsettled trades and assets not subject to enforceable netting agreements	Gross financial assets as recognised in the balance sheet
Description	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**		
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 million, 31.12.2012	Amounts subject to enforceable master netting agreements					Unsettled trades and liabilities not subject to enforceable netting agreements	Gross financial liabilities as recognised in the balance sheet
Description	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**		
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

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

	Fair value					
	31.12.2013			31.12.2012		
Amounts in NOK million	**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

	Exposure							
	31.12.2013		Average 2013		31.12.2012		Average 2012	
Amounts in NOK million	**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.

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 million	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 million	31.12.2013	31.12.2012
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

	2013			
Amounts in NOK million	**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**

	2012			
Amounts in NOK million	**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 1 401 million for 2013. This included expensed transaction costs of NOK 138 million. Recognised fair value changes for newly acquired properties equals transaction costs related to each property. In addition, a gain of NOK 336 million was recognised related to the fair value measurement of liabilities in jointly controlled entities and associates.

For additional information on fair value measurement, see note 2 Significant estimates and critical accounting judgements and 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

	2013			
Amounts in NOK million	**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 31.12.2013	7 426	32 261	11 267	50 954

	2012			
Amounts in NOK million	**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 31.12.2012	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 22 757 million were made in 2013, compared to NOK 11 705 million in 2012. Of this total, new investments amounted to NOK 22 460 million and comprises Financial assets real estate of NOK 969 million and *Jointly controlled entities and associates* of NOK 21 491 million. The investments were made in United Kingdom, Germany, France and United States, and a European portfolio of logistics properties. In addition, fair value changes of properties and liabilities of NOK 1 737 million 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 United States. An agreement was signed in the first quarter 2014 to acquire another office building in the United States. The transactions were completed and recognised in the first quarter 2014.

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

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 million	31.12.2013	31.12.2012
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 million	31.12.2013	31.12.2012
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.

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 percent) 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 percent) of the holdings in bonds are also valued using observable quoted prices from active markets and only 0.08 percent 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 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

	Level 1		Level 2		Level 3		Total	
Amounts in NOK million	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
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 percent 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 million	01.01. 2013	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	31.12. 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 million	01.01. 2012	Net gains/ losses	Purchas-es	Sales	Settle-ments	Trans-ferred from Level 1 or 2	Trans-ferred to Level 1 or 2	Foreign exchange gains and losses	31.12. 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 25 604 million to NOK 54 278 million during 2013. The decrease in Level 3 bonds of NOK 3 431 million 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 22 757 million.

SENSITIVITY FOR LEVEL 3 HOLDINGS

Table 12.3 Additional specification Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 31.12.2013	Sensitivities 31.12.2013		Specification of Level 3 holdings 31.12.2012	Sensitivities 31.12.2012	
		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 25 604 million in 2013, to a year-end exposure of NOK 54 278 million. This is primarily due to the increase in the size of the real estate portfolio during 2013. Downwards valuation risk has increased with NOK 1 330 million to NOK 3 632 million 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 3 481 million compared to NOK 2 375 million 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 560 million lower value in the event of unfavourable changes, and a NOK 175 million 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 percent 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 614 million 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 points, and future market rents by -2 percent will result in a decrease of the real estate portfolio's value with approximately 5.6 percent or NOK 2 830 million. In a favourable scenario, a similar change in the discount rate of -0.2 percentage points and an increase in future market rents of 2 percent will increase the real estate portfolio's value with 6.1 percent or NOK 3 093 million.

NOTE 13 RISK

GOVERNMENT PENSION FUND GLOBAL INVESTMENT MANDATE

See 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

	Market value in percent by country and currency				Market value in percent by asset class		Assets minus liabilities excluding management fee	
Asset class	**Market**	**31.12.2013**	**Market**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
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

	Market value in percent by country and currency				Market value in percent by asset class		Assets minus liabilities excluding management fee	
Asset class	Market	31.12.2013	Market	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
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

Within the Government Pension Fund Global there are 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 million	Market value 31.12.2013
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 million	Market value 31.12.2012
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 million, 31.12.2013	Sector	Bonds	Equities	Total
Nestle 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 million, 31.12.2012*	Sector	Bonds	Equities	Total
HSBC Holdings PLC	Financials	3 190	27 272	30 462
Nestle 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 31.12.2012 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 31.12.2013	Percent 31.12.2012
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							
	31.12.2013	Min 2013	Max 2013	Average 2013	31.12.2012	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							
	31.12.2013	Min 2013	Max 2013	Average 2013	31.12.2012	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 percent. This means that for the portfolio yearly value fluctuations of approximately NOK 470 billion can be expected. Correspondingly, measured risk at year-end 2012 was 8.6 percent and value fluctuations of approximately NOK 330 billion 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 percent, 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 United States 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 United States 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 million, 31.12.2013	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 million, 31.12.2012	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 Eurozone 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 United States the year delivered stronger growth but there is a risk that the country would not pay interest and principal on government debts 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 percent of the bond portfolio compared with 9.9 percent 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 percent of the bond portfolio at year-end 2013 from 15.4 percent of the bond portfolio at year-end 2012.
At year-end 2013 holdings of defaulted bonds stood at NOK 11.8 billion, up from NOK 7.4 billion 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

31.12.2013	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**

31.12.2012	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 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 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 million, 31.12.2013	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 million, 31.12.2012*	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 187 million) and swaps (NOK -422 million). See also 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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
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 percent 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.

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
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

Company	Business address	Ownership share and voting rights in percent	Recognised from
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
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 percent are subsidiaries. Companies with ownership share and voting rights of 50 percent are jointly controlled entities. Companies with ownership share and voting rights of less than 50 percent are associates.

To the Supervisory Council of Norges Bank

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial reporting for the investment portfolio of the Government Pension Fund Global included in Norges Bank's annual financial statements. Subsidiaries of Norges Bank that exclusively constitutes investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprise the balance sheet as at December 31, 2013, the income statement, the statement of comprehensive income, the statement of changes in owner's capital, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial reporting
Management is responsible for the preparation and fair presentation of the financial reporting in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial reporting that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial reporting 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 reporting is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reporting. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial reporting, 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 reporting 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, if any, made by management, as well as evaluating the overall presentation of the financial reporting.

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 reporting gives a true and fair view of the financial position for the investment portfolio of the Government Pension Fund Global as at December 31, 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Oslo, 12 February 2014
Deloitte AS

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

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